Standard Chartered

March 26, 2018

To,
The General Manager,
Department of Corporate Services,
BSE Limited,
P. J. Towers, Dalal Street,
Mumbai - 400 001

SUB: STANDARD CHARTERED PLC (THE "COMPANY")

Dear Sir/Madam,

In terms of Regulation 71(1) of SEBI LODR Regulations, we have dispatched copies of annual report 2017 along with the letter to shareholders.

The copy of such document has been certified per your requirement

The same is also simultaneously sent to the Indian Depository Receipt holders (at the same time as posted to the UK and HK registered shareholders)

Yours sincerely,
For **Standard Chartered PLC**

Authorised Signatory

Standard Chartered PLC
1 Basinghall Avenue
London EC2V 5DD
www.sc.com
Tel +44 (0)20 7885 8888
Registered Office at 1 Basinghall Avenue London EC2V 5DD
Registered England 966425

26 March 2018

Dear Indian Depository Receipt ("**IDR**") holder,

Please find enclosed the notice of the Annual General Meeting of Standard Chartered PLC (the "**Company**"), to be held on 9 May 2018 at 3.30 pm India time (11.00 am London time / 6.00 pm Hong Kong time) at, Etc. venues, 200 Aldersgate, St Paul's, London, EC1A 4HD (the "**AGM**"). A voting instruction form is also enclosed. Please see voting instructions and other details below.

Final Dividend 2017

You will note that the dividend was announced on 27 February 2018 and will be paid on 17 May 2018 to those IDR holders whose names appear on the IDR register as at the close of business on 9 March 2018 (the "**Record Date**").

The table below outlines the key dates for the final dividend payment:

Annual Results and Dividend Announcement	27 February 2018
Ex-Dividend Date	8 March 2018
Record Date	9 March 2018
Dispatch of the Annual Report	26 March 2018
IDR holder deadline to submit voting instruction form	19 April 2018
INR cash dividend and US$/INR exchange rate published	25 April 2018
AGM	9 May 2018
Payment date of dividend	17 May 2018

The final dividend to be paid is 11 cents per ordinary share (**please note that ten IDRs represent one ordinary share**). The Indian Rupee conversion will be made on 25 April 2018 and will be displayed on our website http://investors.sc.com/en/dividend.cfm

As part of the IDR service fee (as disclosed in the IDR prospectus available on the SEBI website www.sebi.gov.in) **US$ 0.0120 per ordinary share will be deducted from the dividend payable to you**. This fee will be deducted before conversion into Indian Rupees and therefore the Indian Rupee dividend amount displayed on our website on 25 April 2018 will be the net amount to be paid to the IDR holders, on a per ordinary share basis (**please note that ten IDRs represent one ordinary share**). You will receive a dividend proportionate to the number of ordinary shares represented by the IDRs you held on the Record Date.

Voting instructions

The IDR holders have voting rights on a corporate action relating to the Company as set out in the enclosed notice for the AGM. You must be on the register of IDR holders on 9 March 2018 in order to be entitled to instruct our registrar, Karvy Computershare Private Limited ("**Registrar**") as to the exercise of your voting rights. You may either: (i) instruct the Registrar how to vote the ordinary shares of US$0.50 each of the Company ("**Shares**") represented by your IDRs at the AGM (in which case the Chairman of the AGM will be appointed to vote in respect of the Shares represented by your IDRs); or (ii) appoint yourself or a third party (who need not be an IDR holder or shareholder) as proxy to attend and vote in person at the AGM. You must provide your voting instructions to the Registrar as per the form annexed by 19 April 2018.

These instructions will be processed by the Registrar and the final voting position will be provided to the Depository on 20 April 2018. The Depository will then submit the same to Bank of New York Mellon ("**Custodian**") who shall appoint the relevant persons as proxies in respect of the deposited Shares. Where you have instructed the Registrar how to vote deposited Shares, the proxies so appointed by the Custodian will vote in accordance with the instructions provided by you in the voting instruction form on or before 25 April 2018. The same will be consolidated and the final position will be provided by the Custodian to the registrar in UK. Where you have instructed the Registrar to appoint yourself or a third party as proxy to attend and vote in person at the AGM, that person must attend and vote at the AGM. If they do not, the votes attached to the deposited Shares represented by your IDRs will not be cast.

Standard Chartered Bank
Securities Services
Crescenzo,Floor 3,C-38/39, G Block,
Bandra Kurla Complex,Bandra (East)
Mumbai 400 051,India

Incorporated in England with limited liability by Royal Charter 1853 Reference Number ZC18
The Principal Office of the Company is situated in the U.K.

The Company will call a poll on all resolutions at the AGM. A shareholder is required to hold four Shares in order to register one vote on a poll and every ten IDRs represents one Share. Therefore, for every 40 IDRs that you held on the Record Date, you have the right to one vote. If you held less than 40 IDRs on the Record Date, you will not have a right to vote.

Please note that in the event you choose not to instruct the Registrar or submit your voting instruction form to the Registrar by 19 April 2018, the votes attached to the deposited Shares represented by your IDRs will not be cast.

Taxation of dividends

The following statement is for guidance only and is not a complete analysis or listing of all potential tax consequences under the current tax laws presently in force in India. It is not exhaustive and is not intended to be a substitute for professional advice. IDR holders should consult their tax advisors with respect to the tax implications.

Dividends received by resident IDR holders (other than mutual funds) are likely to be subject to tax in India and therefore should be included on the return of income for the year ending 31 March 2018 (dividends on IDRs are not subject to dividend distribution tax and accordingly the exemption under section 10(34) of the Indian Income Tax Act, 1961 will not be available).

Dividends received by non-resident IDR holders ought not be taxable in India as the dividends will first be paid into an overseas account of the depository.

Documents by Hard-Copy/ Email

In accordance with the option selected an IDR holder in response to the letter (titled *Electronic communications and strategic report*) issued by the Company to the IDR holders on November 15, 2017, or absence of response to such letter, the Company has:

(A). used e-mail address of such IDR holder for all shareholder documentation/communications, including providing details of the website address at which the Annual Report and the Strategic Report of the Company would be hosted; OR

(B). sent the Annual Report and the Strategic Report, in hard copy, to such IDR holder; OR

(C). sent the hard copy of Strategic Report instead of the Annual Report, along with a link to the website on which the Annual Report would be available, to such IDR holder.

Please note that under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, IDR holders are permitted to receive documentation by email rather than in hard copy. If an IDR holder signs up to this service they will **not** automatically receive a hard copy of the annual report, half year report, or other shareholder documentation, you will instead be sent an email notification that the documentation is available to view on our website address.

If you would like to sign-up to this service please send an email to the Registrar at einward.ris@karvy.com stating your full name, postal address, email address, and current holding of the IDRs. The Registrar will send you an email confirming that you have been registered. If you wish to receive hard copy of the documents once you have registered then please email the Registrar and instruct it to cancel your email registration.

Yours sincerely,

Vikas Tandon

Vikas Tandon
Standard Chartered Bank, India

Standard Chartered Bank
Securities Services
Crescenzo,Floor 3,C-38/39, G Block,
Bandra Kurla Complex,Bandra (East)
Mumbai 400 051,India

Incorporated in England with limited liability by Royal Charter 1853 Reference Number ZC18
The Principal Office of the Company is situated in the U.K.

Standard Chartered

Driving commerce and prosperity through our unique diversity

Notice of Annual General Meeting 2018

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should consult a stockbroker, solicitor, accountant or other appropriate independent professional adviser.

If you have sold or otherwise transferred all of your shares, please pass this document together with any accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer, so that they can pass these documents on to the person who now holds the shares. If you are not sure what to do, please contact an appropriate independent professional adviser. If you have sold or transferred some, but not all, of your shares you should contact the person who arranged the sale or transfer without delay for advice on what action you should take.

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

Notice of the Annual General Meeting of Standard Chartered PLC to be held at etc.venues, 200 Aldersgate, St Paul's, London, EC1A 4HD on Wednesday 9 May 2018 at 11:00am London time (6:00pm Hong Kong time) is set out on pages 4 to 15 of this document.

26 March 2018

STANDARD CHARTERED PLC

LSE Stock Code: STAN.LN
HKSE Stock Code: 02888
BSE/NSE Stock Code: STAN.IN

Letter from the Chairman

To ordinary shareholders and, for information only, preference shareholders and information rights holders

26 March 2018

Dear Shareholder

I am pleased to invite you to our 2018 Annual General Meeting (AGM), which we are holding on Wednesday 9 May 2018 at 11.00am UK time (6.00pm Hong Kong time) at etc.venues, 200 Aldersgate, St Paul's, London EC1A 4HD. Details of the resolutions being voted on at the meeting are set out from page 4.

The AGM is the Board's opportunity to present a review of the Company's performance, update shareholders on the execution of the Group's strategy and listen to and respond to shareholders' questions.

Dividend

Shareholders are being asked to approve a final dividend of 11 US cents per ordinary share for the year ended 31 December 2017. For more details please see resolution 2 on page 4 of this document.

Board changes

This year, as in previous years, all Board directors will stand for (re)election at this year's AGM. The Board has continued to evolve since last year's AGM. In July 2017, Kurt Campbell stepped down from the Board after four years, to focus more time on his other business interests and in November 2017 Ngozi Okonjo-Iweala joined the Board as an independent non-executive director. Ngozi is an internationally renowned economist, having spent 25 years working in various positions at the World Bank, and a prominent African leader, she twice served as Finance Minister in Nigeria, Africa's largest economy and one of our largest African markets.

In February this year, Christine Hodgson was appointed Senior Independent Director in addition to her role as Chair of the Remuneration Committee. She took over the role from Naguib Kheraj who remains as Deputy Chairman and Chair of the Audit Committee.

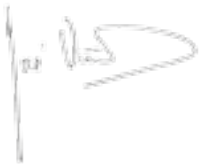
Voting arrangements

Voting at the AGM will be conducted by way of a poll. If you are not able to attend the AGM but would like to vote on the resolutions, you are able to vote electronically at investorcentre.co.uk/eproxy. Instructions can be found on pages 20 and 21 of this document. Alternatively, you can complete the proxy form (or voting instruction form for ShareCare members) sent to you with this document and return it to our registrar. All proxy forms, including voting instruction forms for ShareCare members, must be received by 11.00am UK time on 4 May 2018, or 6.00pm Hong Kong time on 4 May 2018.

Explanatory notes on all the business to be considered at this year's AGM appear on pages 4 to 14 of this document. The Board considers that all the resolutions to be put to the AGM are in the best interests of the Company and its shareholders as a whole. The Board recommends all shareholders vote in favour of all the resolutions, as the directors intend to do in respect of their own shares (with the exception of resolution 20, as in accordance with Rule 7.19(6) of the Hong Kong Listing Rules, the executive directors and their respective associates will abstain from voting in favour of resolution 20 for the reasons set out on page 10 of this document).

Lunch will be served after the AGM, and the directors and I very much hope you will be able to join us.

Yours sincerely



José Viñals
Group Chairman

Directors standing for election

Dr Ngozi Okonjo-Iweala
Non-executive Director
Resolution 4

Directors standing for re-election

Om Bhatt
Non-executive Director
Resolution 5

Dr Louis Cheung
Non-executive Director
Resolution 6

David Conner
Non-executive Director
Resolution 7

Dr Byron Grote
Non-executive Director
Resolution 8

Andy Halford
Group Chief Financial Officer
Resolution 9

Dr Han Seung-soo, KBE
Non-executive Director
Resolution 10

Christine Hodgson
Non-executive Director
Resolution 11

Gay Huey Evans, OBE
Non-executive Director
Resolution 12

Naguib Kheraj
Non-executive Director
Resolution 13

José Viñals
Group Chairman
Resolution 14

Jasmine Whitbread
Non-executive Director
Resolution 15

Bill Winters, CBE
Group Chief Executive
Resolution 16

Notice of Annual General Meeting 2018 and Explanatory Notes

This year's Annual General Meeting (AGM) will be held at etc.venues, 200 Aldersgate, St Paul's, London, EC1A 4HD on Wednesday 9 May 2018 at 11:00am UK time (6:00pm Hong Kong time). You will be asked to consider and, if thought fit, to pass the resolutions below.

Resolutions 1 to 22 (inclusive) are proposed as ordinary resolutions, which must each receive more than 50% of the votes cast in order to be passed. Resolutions 23 to 28 (inclusive) are proposed as special resolutions, which must each receive at least 75% of the votes cast in order to be passed.

Please note that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of votes 'for' or 'against' a resolution.

Resolution Summary:

Resolutions	Category	Page number
1-3	Accounts, Dividend and Remuneration	4
4-16	Director's election / re-election	5-8
17-18	Re-appointment of Auditors / Auditor fees	8
19	Political Donations	8-9
20-25	Share Allotment Authorities	9-13
26-27	Purchase of own ordinary shares or preference shares	13-14
28	Notice of General Meetings	14

Ordinary Resolutions

Accounts, Dividend and Remuneration

Resolutions 1-3 asks that shareholders receive the Company's annual report and accounts, approve the payment of a final dividend and approve the Directors' Remuneration Report

1. **To receive the Company's annual report and accounts for the financial year ended 31 December 2017 together with the reports of the directors and auditors.**

   The directors are required under the Companies Act 2006 to present, for each financial year, copies of the Company's annual report and accounts to shareholders at a general meeting.

2. **To declare a final dividend of 11 US cents per ordinary share for the year ended 31 December 2017.**

   Final dividends must be approved by shareholders but cannot be more than the amount recommended by directors. If the AGM approves resolution 2, the final dividend of 11 US cents per ordinary share will be paid in either sterling, Hong Kong dollars or US dollars on 17 May 2018 to shareholders on the UK register of members at the close of business in the UK (10.00pm UK time) on 9 March 2018, and to shareholders on the Hong Kong branch register of members at the opening of business in Hong Kong (9.00am Hong Kong time) on 9 March 2018. The final dividend will be paid in Indian rupees on 17 May 2018 to Indian Depository Receipt holders on the Indian register of Indian Depository Receipt holders at the close of business in India on 9 March 2018.

   It is intended that shareholders on the UK register and Hong Kong branch register will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend arrangements will be sent to shareholders on or around 26 March 2018. Indian Depository Receipt holders will receive their dividend in Indian rupees only. Please see the separate document entitled '2017 Final Dividend' and the related 'Dividend Terms and Conditions' which are available on our website at: sc.com/en/investors/shareholder-information.

   The Stock Exchange of Hong Kong Limited (the 'Stock Exchange') granted a waiver to the Company on 7 December 2011 from compliance with Rule 13.66(2) of the Rules Governing the Listing of Securities on the Stock Exchange and Note 3 thereunder relating to record dates for the Company's final dividends.

3. **To approve the annual report on remuneration contained in the Directors' Remuneration Report for the year ended 31 December 2017 as set out on pages 83 to 106 of the annual report and accounts.**

   The Directors' Remuneration Report provided on pages 83 to 106 of the annual report sets out the pay and benefits received by each of the directors for the year ended 31 December 2017. The Company is required to seek shareholders' approval in respect of the contents of this report on an annual basis (excluding the part containing the Directors' Remuneration Policy, which does not require shareholder approval this year). The vote on the annual report on remuneration will be advisory.

Director's election/re-election

Resolutions 4-16 concern the election or re-election of the Company's Directors. All Directors are standing for election or re-election.

In accordance with the UK Corporate Governance Code 2016 (the Code) all directors will stand for election or re-election at the AGM this year. The Board is satisfied that it continues to maintain an appropriate balance of knowledge and skills and that all non-executive directors are independent in character and judgement. This follows a process of formal evaluation which confirms that each director makes an effective and valuable contribution to the Board and demonstrates commitment to the role. In line with the Code, Dr Han's re-appointment was subject to particular review and scrutiny for independence, given he has served on the Board for more than six years. Dr Han did not participate in this assessment.

Biographical details of our directors are set on pages 5 to 8 of this document.

4. **To elect Dr Ngozi Okonjo-Iweala (63), a non-executive director.**

Appointed: November 2017

Experience: Ngozi has significant geopolitical, economic, risk and development experience and expertise at a governmental and intergovernmental level.

Career: A development economist, Ngozi spent 25 years working at the World Bank in various positions. After leaving in 2003, she served as the Finance Minister of Nigeria from 2003 to 2006. She returned to the World Bank in 2007, serving as a Managing Director until 2011, when she was appointed to the role of Minister of Finance and Coordinating Minister of Economy in the Nigerian government, a position she held until, 2015. During her time in government she spearheaded Nigeria's successful program to obtain debt relief and is credited with developing reforms that helped improve governmental transparency to stabilise and grow the Nigerian economy. Ngozi graduated with an A.B. magna cum laude in Economics from Harvard University and a Masters and PhD in Regional Economics and Development from Massachusetts Institute of Technology.

External Appointments: Ngozi holds a number of prestigious international advisory positions including Lazard and the Asian Infrastructure Investment Bank. She is Chair of GAVI, the Global Alliance for Vaccines and Immunisations. In addition, she holds advisory panel and chair positions at a range of global institutions, including charitable foundations, non-governmental organisations and inter-governmental organisations. Ngozi is a member of the G20 Eminent Persons Group reviewing Global Financial Governance and is an ambassador of the Open Government Partnership.

Committees: Member of the Brand, Values and Conduct Committee.

5. **To re-elect Om Bhatt (67*), a non-executive director.**

Appointed: January 2013

Experience: Om has extensive commercial and retail banking experience, financial services and leadership acumen, with deep knowledge and experience of India, one of our largest markets.

Career: Om had a career spanning 38 years with the State Bank of India (SBI), India's largest commercial bank, where he held a number of roles beginning with the lead bank department, which pioneered financial inclusion. He led the project team that pioneered SBI's technology initiative in the 1990s, undertook assignments at SBI's Washington and London offices and held general management roles between 2004 and 2006, becoming managing director of SBI in 2006, culminating in his appointment as chairman of the State Bank Group until he stepped down in 2011. Om was chairman of the Indian Banks' Association and was previously an independent non-executive director of Oil and Natural Gas Corporation. Om has a degree in Science and a post-graduate degree in English Literature.

External Appointments: Om is an independent non-executive director of Hindustan Unilever Ltd, Tata Consultancy Services, Tata Steel Ltd, Tata Motors and Chairman of Greenko Energy Holdings.

Committees: Member of Board Risk Committee and Brand, Values and Conduct Committee.

*At date of AGM

6. **To re-elect Dr Louis Cheung (54), a non-executive director.**

Appointed: January 2013.

Experience: Louis has a wide breadth of knowledge and experience of financial services, particularly in a Greater China context.

Career: Louis was a global partner of McKinsey & Company and a leader in its Asia Pacific financial institutions practice prior to joining Ping An Insurance Group in 2000. Louis worked in several senior roles at Ping An, including chief financial officer, before becoming group president in 2003 and executive director from 2006 to 2011. Louis holds a BA and a PhD in Engineering from Corpus Christi College, Cambridge and was a post-doctoral research fellow at Cambridge.

External Appointments: Louis is managing partner of Boyu Capital Advisory Co, a China-focused private equity investment firm, independent non-executive director of Fubon Financial Holding Company, and a Fellow and council member of the Hong Kong Management Association.

Committees: Member of Remuneration Committee.

7. **To re-elect David Conner (69), a non-executive director.**

Appointed: January 2016.

Experience: David has significant global and corporate, investment and retail banking experience, strong risk management credentials and an in-depth knowledge of Asian markets.

Career: David spent his career in the financial services industry, living and working across Asia for 37 years, for both Citibank and OCBC Bank. He joined Citibank in 1976 as a management trainee and went on to hold a number of senior management Asian-based roles, including chief executive officer of Citibank India and managing director and marketing manager at Citibank Japan, before leaving Citibank in 2002. David joined OCBC Bank in Singapore as chief executive officer and director in 2002. He implemented a strategy of growth and led the bank through a period of significant turbulence. David stepped down as chief executive officer in 2012 but remained as a non-executive director on the Board of OCBC Bank, before leaving the group in 2014. David holds a BA from Washington University in St Louis and a MBA from Columbia University.

External Appointments: David is a non-executive director of GasLog Ltd.

Committees: Chair of Board Risk Committee and member of Audit Committee, Governance and Nomination Committee, Board Financial Crime Risk Committee. David is also a member of the Combined US Operations Risk Committee of Standard Chartered Bank.

8. **To re-elect Dr Byron Grote (70*), a non-executive director.**

Appointed: July 2014.

Experience: Byron has broad and deep commercial, financial and international experience.

Career: From 1988 to 2000, Byron worked across BP in a variety of commercial, operational and executive roles. He was appointed as chief executive of BP Chemicals and a managing director of BP plc in 2000 and had regional group-level accountability for BP's activities in Asia from 2001 to 2006. Byron was chief financial officer of BP plc from 2002 until 2011, subsequently serving as BP's executive vice president, corporate business activities, from 2012 to 2013 with responsibility for the group's integrated supply and trading activities, alternative energy, shipping and technology. Byron was a non-executive director at Unilever plc and Unilever NV until he stepped down in 2015. Byron holds a PhD in Quantitative Analysis from Cornell University.

External Appointments: Byron is a non-executive director of Anglo American plc, Tesco PLC and is deputy chairman of the supervisory board at Akzo Nobel NV. He is also a member of the European Audit Committee Leadership Network.

Committees: Member of Audit Committee and Remuneration Committee.

*At date of AGM

9. **To re-elect Andy Halford (59*), an executive director.**

Appointed: July 2014. Andy is a director of Standard Chartered Bank and Standard Chartered Holdings Limited.

Experience: Andy has a strong finance background and deep experience of managing complex international businesses across dynamic and changing markets.

Career: Andy was finance director at East Midlands Electricity plc prior to joining Vodafone in 1999 as financial director for Vodafone Limited, the UK operating company. Andy was later appointed financial director for Vodafone's Northern Europe, Middle East and Africa region, and later the chief financial officer of Verizon Wireless in the US. He was a member of the board of representatives of the Verizon Wireless Partnership. Andy was appointed chief financial officer of Vodafone Group plc in 2005, a position he held for nine years. As Group Chief Financial Officer at Standard Chartered, Andy is responsible for Finance, Corporate Treasury, Group Corporate Development, Group Investor Relations, Property and Supply Chain Management functions. He holds a bachelor degree in Industrial Economics from Nottingham University and is a Fellow of the Institute of Chartered Accountants in England and Wales.

External Appointments: Andy is a non-executive director at Marks and Spencer Group plc and a member of the Business Forum on Tax and Competitiveness.

*At date of AGM

10. **To re-elect Dr Han Seung-soo, KBE (81), a non-executive director.**

Appointed: January 2010.

Experience: Dr Han is a distinguished economist and has a strong geo-political background, with valuable knowledge of Asia and its economies.

Career: Dr Han is a former prime minister of the Republic of Korea. He has a distinguished political, diplomatic and administrative career, serving as deputy prime minister and minister of finance, foreign affairs, and industry and trade before serving as prime minister from 2008 to 2009. He also served as Korean ambassador to the United States, chief of staff to the president, president of the 56th Session of the United Nations (UN) General Assembly, special envoy of the UN Secretary-General on Climate Change, and chairman of the 2009 Organisation for Economic Cooperation and Development Ministerial Council Meeting. Dr Han received his bachelor's degree from Yonsei University in 1960. He acquired his master's from Seoul National University in 1963 and his doctorate in economics from the University of York in 1968.

External Appointments: Dr Han sits on a number of advisory boards and is currently the UN Secretary-General's special envoy for Disaster Risk Reduction and Water, special advisor to the High Level Panel on Water co-convened by the UN and World Bank, Chair of the High-Level Experts/Leaders Panel on Water and Disaster, chair of the Water Advisory Group at the Asian Development Bank and co-chair of the International Finance Forum

of China. Dr Han is non-executive director at Doosan Infracore Co Ltd and Senior Advisor with the Kim & Chang law firm in Korea.

Committees: Member of Brand, Values and Conduct Committee.

11. To re-elect Christine Hodgson (53), a non-executive director.

Appointed: September 2013 and Senior Independent Director in February 2018.

Experience: Christine has strong business leadership, finance, accounting and technology experience.

Career: Christine held a number of senior positions at Coopers & Lybrand and was corporate development director of Ronson plc before joining Capgemini in 1997, where she held a variety of roles including chief financial officer for Capgemini UK plc and chief executive officer of technology services for North West Europe. Christine was previously a trustee of MacIntyre Care and was previously a non-executive director of Ladbrokes Coral Group plc before stepping down in May 2017. Christine is a fellow of the Institute of Chartered Accountants in England and Wales and holds a first class honours degree from Loughborough University.

External Appointments: Christine is Chair of Capgemini UK plc, sits on the board of The Prince of Wales' Business in the Community and is chair of The Careers & Enterprise Company Ltd, a government-backed company established to help inspire and prepare young people for the world of work.

Committees: Chair of Remuneration Committee and member of Audit Committee, Brand, Values and Conduct Committee, Governance and Nomination Committee and Board Financial Crime Risk Committee.

12. To re-elect Gay Huey Evans, OBE (63), a non-executive director.

Appointed: April 2015.

Experience: Gay has extensive banking and financial services experience with significant commercial and UK regulatory and governance experience.

Career: Gay spent over 30 years working within the financial services industry, the international capital markets and with the financial regulator. Gay spent seven years with the Financial Services Authority from 1998 to 2005, where she was director of markets division, capital markets sector leader, with responsibility for establishing a market-facing division for the supervision of market infrastructure, oversight of market conduct and developing markets policy. From 2005 to 2008, Gay held a number of roles at Citibank, including head of governance, Citi Alternative Investments, EMEA, before joining Barclays Capital where she was vice chair of investment banking and investment management. She was previously a non-executive director at Aviva plc and the London Stock Exchange Group plc. She received an OBE for services to financial services and diversity in 2016. Gay holds a BA in Economics from Bucknell University.

External Appointments: Gay is a non-executive director of ConocoPhillips and Bank Itau BBA International plc, and is deputy chair of the Financial Reporting Council.

Committees: Chair of Board Financial Crime Risk Committee and member of Board Risk Committee.

13. To re-elect Naguib Kheraj (53), a non-executive director.

Appointed: January 2014 and Deputy Chairman in December 2016.

Experience: Naguib has significant banking and finance experience.

Career: Naguib began his career at Salomon Brothers in 1986 and went on to hold senior positions at Robert Fleming, Barclays, JP Morgan Cazenove and Lazard. Over the course of 12 years at Barclays, Naguib served as group finance director and vice-chairman and in various business leadership positions in wealth management, institutional asset management and investment banking. Naguib was also a Barclays' nominated non-executive director of Absa Group in South Africa, and of First Caribbean International Bank. He also served as chief executive officer of JP Morgan Cazenove. Naguib is a former non executive director of NHS England and served as a senior advisor to Her Majesty's Revenue and Customs and to the Financial Services Authority in the UK. Naguib holds a degree in Economics from Cambridge University.

External Appointments: Naguib is Chairman of Rothesay Life, a specialist pensions insurer, a member of the investment committee of the Wellcome Trust and a member of the Finance Committee of the Oxford University Press. Naguib spends a substantial amount of his time as a senior advisor to the Aga Khan Development Network and serves on the boards of various entities within its network.

Committees: Chair of Audit Committee and member of Board Risk Committee, Remuneration Committee, Governance and Nomination Committee and Board Financial Crime Risk Committee.

14. To re-elect José Viñals (63), Group Chairman.

Appointed: October 2016 and Group Chairman in December 2016.

Experience: José has substantive experience in the international regulatory arena and has exceptional understanding of the economic and political dynamics of our markets and of global trade and a deep and broad network of decision-makers in the jurisdictions in our footprint.

Career: José began his career as an economist and as a member of the faculty at Stanford University, before spending 25 years at the Central Bank of Spain, where he rose to be the Deputy Governor. José has held many other Board and advisory positions including Chair of Spain's Deposit Guarantee Fund, Chair of the International Relations

Committee at the European Central Bank, member of the Economic and Financial Committee of the European Union, and Chair of the Working Group on Institutional Investors at the Bank for International Settlements. José joined the International Monetary Fund (IMF) in 2009 until he stepped down in September 2016 to join Standard Chartered PLC. He was the Financial Counsellor and the Director of the Monetary and Capital Markets Department and was responsible for the oversight and direction of the IMF's monetary and financial sector work. He was the IMF's chief spokesman on financial matters, including global financial stability. During his tenure at the IMF, José was a member of the Plenary and Steering Committee of the Financial Stability Board, playing a key role in the reform of international financial regulation. José holds a Bachelor's degree in Economics from the University of Valencia; a Master's degree in Economics from the London School of Economics; and Master's and Doctoral (Ph.D.) degrees in Economics from Harvard University.

Committees: Governance and Nomination Committee.

15. To re-elect Jasmine Whitbread (54), a non-executive director.

Appointed: April 2015.

Experience: Jasmine has significant business leadership experience as well as first-hand experience of operating across our markets.

Career: Jasmine began her career in international marketing in the technology sector and joined Thomson Financial in 1994, becoming managing director of the Electronic Settlements Group. After completing the Stanford Executive Program, Jasmine set up one of Oxfam's first regional offices, managing nine country operations in West Africa, later becoming international director responsible for Oxfam's programmes worldwide. Jasmine joined Save the Children in 2005, where she was responsible for revitalising one of the UK's most established charities. In 2010, she was appointed as Save the Children's first international chief executive officer, where she led the merger of 14 separate organisations into one management line of 15,000 people across seven regions and 60 countries, while aligning the federation behind a single mission and strategy. Jasmine stepped down from Save the Children in December 2015. Jasmine has a BA in English from Bristol University, and is a graduate from the Stanford University Executive Program.

External Appointments: Jasmine is chief executive of London First and a non-executive director of BT Group plc.

Committees: Chair of Brand, Values and Conduct Committee and a member of Remuneration Committee, and Governance and Nomination Committee.

16. To re-elect Bill Winters (56), an executive director

Appointed: June 2015. Bill is a director of Standard Chartered Bank and Standard Chartered Holdings Limited.

Experience: Bill is a career banker with significant frontline global banking experience and a proven track record of leadership and financial success. He has extensive experience of working in emerging markets and a proven record in spotting and nurturing talent.

Career: Bill began his career with JP Morgan, where he went on to become one of its top five most senior executives and later co-chief executive officer at the investment bank from 2004 until he stepped down in 2009. Bill was invited to be a committee member of the Independent Commission on Banking, established in 2010 to recommend ways to improve competition and financial stability in banking. Subsequently, he served as an advisor to the Parliamentary Commission on Banking Standards and was asked by the Court of the Bank of England to complete an independent review of the bank's liquidity operations. In 2011 Bill founded Renshaw Bay, an alternative asset management firm, where he was chairman and CEO before stepping down on appointment to the Standard Chartered PLC Board. Bill was previously a non-executive director of Pension Insurance Corporation plc and RIT Capital Partners plc. He received a CBE in 2013. Bill holds a Bachelor's degree in International Relations from Colgate University and an MBA from the Wharton School at the University of Pennsylvania.

External Appointments: Bill is an independent non-executive director of Novartis International AG.

Re-appointment of Auditors

Resolutions 17-18 propose the re-appointment of the Company's auditors and the determination of their fees

17. To re-appoint KPMG LLP as auditor to the Company from the end of the AGM until the end of next year's AGM.

On the recommendation of the Audit Committee the Board proposes that KPMG LLP be re-appointed auditors of the Company and will hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company. On 9 November 2017, the Group announced its intention to appoint Ernst & Young (EY) as its statutory auditor for the year ending 31 December 2020, subject to shareholder approval at the 2020 AGM. This followed a tender process, led by the Audit Committee.

18. To authorise the Audit Committee to determine the remuneration of the Auditor.

It is proposed that the Audit Committee be authorised to determine the level of the auditor's remuneration.

Political Donations

Resolution 19 seeks authority to make political donations within limit on a precautionary basis only to avoid inadvertently breaching the legislation.

19. That in accordance with sections 366 and 367 of the Companies Act 2006, the Company and all companies that are its subsidiaries during the period for which this resolution has effect are authorised to:

(A) make donations to political parties and/or independent election candidates not exceeding £100,000 in total;

(B) make donations to political organisations other than political parties not exceeding £100,000 in total; and

(C) incur political expenditure not exceeding £100,000 in total,

(as such terms are defined in sections 363 to 365 of the Companies Act 2006) provided that the aggregate amount of any such donations and expenditure shall not exceed £100,000 during the period beginning with the date of passing this resolution and expiring at the end of next year's AGM, unless such authority has been previously renewed, revoked or varied by the Company in a general meeting and provided that the authorised sum referred to in paragraphs (A), (B) and (C) above may be comprised of one or more amounts in different currencies which, for the purposes of calculating that authorised sum, shall be converted into pounds sterling at the rate of exchange published in the London edition of the Financial Times on the day on which the relevant donation is made or the relevant expenditure is incurred or, if earlier, on the day on which the Company or its subsidiary enters into any contract or undertaking in relation to such donation or expenditure (or, if such day is not a business day, the first business day thereafter).

It is not the Group's policy to make political donations (to the best of its knowledge, the Company has not made any political donations in the year ended 31 December 2017). However, it is possible that certain routine activities undertaken by the Company and its subsidiaries might unintentionally fall within the broad scope of the provisions controlling political donations and expenditure. Any political donations or expenditure regulated by the Companies Act 2006 must be approved by shareholders at a general meeting and be disclosed in the next year's annual report and accounts. Accordingly, the directors seek shareholders' approval to renew the authority for political donations and expenditure to be made by the Company. As permitted under the Companies Act 2006, the resolution covers any political donations made or political expenditure incurred by the Company's subsidiaries. The three categories set out in the Companies Act 2006 are: political parties and independent election candidates, political organisations and political expenditure. The resolution proposes a cap of £100,000 per category subject to an aggregate cap for authorised political donations or expenditure of £100,000. The authority being sought will be effective from Wednesday 9 May 2018 until the end of next year's AGM unless previously renewed, revoked or varied by the Company in a general meeting. The Companies Act 2006 permits shareholders to grant authority for up to four years. However, the directors will seek to renew this authority at each AGM.

Share Allotment Authorities

Resolutions 20-25 are regarding the allotment of the Company's securities. The authorities can be summarised as:

- *Resolution 20 authorises the Board to allot ordinary shares for various circumstances (scrip dividends, employee share schemes and corporate actions such as rights issues) subject to specified limits and conditions;*
- *Resolution 21 authorises the Board to extend the authority from resolution 20 to include any ordinary shares repurchased by the Company under resolution 26;*
- *Resolution 22 authorises the Board to allot shares in relation to ECAT1 Securities subject to a specified limit. ECAT1 Securities automatically convert into shares in prescribed circumstances;*
- *Resolutions 23, 24 and 25 are special resolutions and authorise the Board to disapply existing shareholder pre-emption rights in certain circumstances when allotting shares or ECAT1 Securities.*

20. That the Board be authorised to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company:

(A) up to a nominal amount of US$330,063,429 (such amount to be restricted to the extent that any allotments or grants are made under paragraphs (B) or (C) so that in total no more than US$550,105,715.50 can be allotted under paragraphs (A) and (B) and no more than US$1,100,211,431 can be allotted under paragraphs (A), (B) and (C);

(B) up to a nominal amount of US$550,105,715.50 (such amount to be restricted to the extent that any allotments or grants are made under paragraphs (A) or (C) so that in total no more than US$550,105,715.50 can be allotted under paragraphs (A) and (B) and no more than US$1,100,211,431 can be allotted under paragraphs (A),(B) and (C)) in connection with:

(i) an offer or invitation:

(a) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(b) to holders of other equity securities as required by the rights of those securities or as the Board otherwise considers necessary,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

(ii) a scrip dividend scheme or similar arrangement implemented in accordance with the articles of association of the Company;

(C) comprising equity securities (as defined in section 560(1) of the Companies Act 2006) up to a nominal amount of US$1,100,211,431 (such amount to be restricted to the extent that any allotments or grants are made under paragraphs (A) or (B) so that in total no more than US$1,100,211,431 can be allotted under paragraphs (A), (B) and (C)) in connection with an offer by way of a rights issue:

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the Board otherwise considers necessary,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

(D) pursuant to the terms of any existing share scheme of the Company or any of its subsidiaries or subsidiary undertakings adopted prior to the date of this meeting.

such authorities to apply until the end of next year's AGM (or, if earlier, until the close of business on 8 August 2019) but, in each such case, during this period the Company may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended.

Under section 551 of the Companies Act 2006, the directors may only allot shares, or grant rights to subscribe for or convert any security into shares, if shareholders in a general meeting have given them authority to do so. The authority given to the directors at last year's AGM to allot ordinary shares or grant rights to subscribe for or convert any security into such shares will expire at the end of this year's AGM. Accordingly, resolution 20 seeks shareholders' approval to renew this authority.

Paragraph (A) of resolution 20 asks for a new authority to be given to allow the directors to allot shares or grant rights to subscribe for or convert any security into shares up to an aggregate nominal amount equal to US$330,063,429 (representing 660,126,858 ordinary shares of US$0.50 each), such amount to be reduced to take into account amounts allotted or granted under paragraphs (B) and (C) of resolution 20. This amount represents approximately 20 per cent of the issued ordinary share capital of US$1,650,317,147 as at 15 March 2018, the latest practicable date prior to the publication of this document. The Hong Kong Listing Rules do not permit the directors to allot, on a non pre-emptive basis, shares or rights to shares that would represent more than 20 per cent of the issued ordinary share capital as at the date on which the resolution granting them a general authority to allot is passed. Accordingly, paragraph (A) of resolution 20 restricts the authority of the directors to the 20 per cent threshold.

Paragraph (B) of resolution 20 would give the directors the authority to make allotments which exceed the 20 per cent authority under paragraph (A) of resolution 20 in connection with offers to ordinary shareholders or by way of share dividend (scrip), up to an aggregate nominal amount (when combined with any allotments made under the authority in paragraph (A)) equal to US$550,105,715.50 (representing 1,100,211,431 ordinary shares of US$0.50 each), such amount to be reduced to take into account amounts allotted or granted under paragraphs (A) and (C) of resolution 20. This amount represents approximately one-third of the issued ordinary share capital of the Company as at 15 March 2018, the latest practicable date prior to the publication of this document.

In line with guidance issued by the Investment Association, paragraph (C) of resolution 20 would give the directors authority to allot shares or grant rights to subscribe for or convert any security into shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount equal to US$1,100,211,431 (representing 2,200,422,862 ordinary shares of US$0.50 each), as reduced by the nominal amount of any shares issued under paragraphs (A) or (B) of resolution 20. This amount (before any reduction) represents approximately two-thirds of the issued ordinary share capital of the Company as at 15 March 2018, the latest practicable date prior to the publication of this document.

Under Rule 7.19(6) of the Hong Kong Listing Rules, if a proposed rights issue would increase either the number of issued shares or the market capitalisation of the Company by more than 50 per cent (on its own or when aggregated with any other rights issues or open offers announced within the previous 12 months or prior to such 12 month period where dealing in respect of the shares issued pursuant thereto commenced within such 12 month period), then the issue must ordinarily be made conditional on approval by shareholders in a general meeting by a resolution on which the executive directors and their associates must abstain from voting. However, The Stock Exchange of Hong Kong Limited has granted a waiver to the Company from strict compliance with Rule 7.19(6) of the Hong Kong Listing Rules on 6 March 2009 in order to place the Company on an equal footing with other UK listed companies. The waiver has been granted on the basis that:

1. the executive directors and their associates would abstain from voting on the relevant resolution in their capacity as shareholders; and
2. if the Company were to do a rights issue, the Company would not need to obtain shareholder approval under Rule 7.19(6) of the Hong Kong Listing Rules provided that:

(i) the market capitalisation of the Company will not increase by more than 50 per cent as a result of the proposed rights issue; and

(ii) the votes of any new directors appointed to the Board since the AGM would not have made a difference to the outcome of the relevant resolution at the AGM if they had been shareholders at the time and they had in fact abstained from voting.

Under the Hong Kong Listing Rules the directors are required to seek authority from shareholders to allot shares and grant rights to subscribe for or convert any security into shares pursuant to the Company's existing share schemes or those of its subsidiaries or subsidiary undertakings. Paragraph (D) of resolution 20 seeks such authority for schemes adopted prior to the date of the AGM.

The authorities sought in paragraphs (A), (B), (C) and (D) of resolution 20 will expire at the end of next year's AGM (or, if earlier, at the close of business on 8 August 2019).

The directors intend to use the authorities sought under resolution 20 to allot ordinary shares as share dividends instead of cash dividends and following the exercise of options and awards under the Company's share schemes. Otherwise, the authorities will also give the directors flexibility to issue shares where they believe it is in the interests of shareholders to do so.

As at the date of this document, no shares are held by the Company in treasury.

21. That the authority granted to the Board to allot shares or grant rights to subscribe for or convert securities into shares up to a nominal amount of US$330,063,429 pursuant to paragraph (A) of resolution 20 be extended by the addition of such number of ordinary shares of US$0.50 each representing the nominal amount of the Company's share capital repurchased by the Company under the authority granted pursuant to resolution 26, to the extent that such extension would not result in the authority to allot shares or grant rights to subscribe for or convert securities into shares pursuant to resolution 20 exceeding US$1,100,211,431.

As permitted by the Hong Kong Listing Rules, resolution 21 seeks to extend the directors' authority to allot shares and grant rights to subscribe for or convert any security into shares pursuant to paragraph (A) of resolution 20 to include the shares repurchased by the Company under the authority sought by resolution 26.

22. That, in addition to any authority granted pursuant to resolution 20 (if passed), the Board be authorised to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of US$330,063,429 (or 660,126,858 shares), representing approximately 20 per cent of the Company's nominal issued ordinary share capital as at 15 March 2018, in relation to any issue by the Company or any subsidiary or subsidiary undertaking of the Company (together, the "Group") of Equity Convertible Additional Tier 1 Securities ("ECAT1 Securities") that automatically convert into or are exchanged for ordinary shares in the Company in prescribed circumstances where the Board considers that such an issuance of ECAT1 Securities would be desirable in connection with, or for the purposes of complying with or maintaining compliance with the regulatory capital requirements or targets applicable to the Group from time to time, such authority to apply until the end of next year's AGM (or, if earlier, at the close of business on 8 August 2019) but so that, in the period before the authority ends, the Company may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or to convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended.

The effect of resolution 22 is to give the Board the authority to allot shares and grant rights to subscribe for or to convert any security into ordinary shares in the Company up to an aggregate nominal amount of US$330,063,429 (or 660,126,858 shares), representing approximately 20 per cent of the Company's issued ordinary share capital as at 15 March 2018 (the latest practicable date prior to publication of this document), such authority to be exercised in connection with the issue of ECAT1 Securities. Please see Appendix 1 for more information on ECAT1 Securities.

This authority is in addition to the authority proposed under resolution 20. The latter authority proposed under resolution 20 is the usual authority sought on an annual basis in line with guidance issued by the Investment Association.

The authority sought under resolution 22 is not contemplated by the guidance issued by the Investment Association. The authority sought under resolution 22 will be utilised as considered desirable to comply with or maintain compliance with regulatory capital requirements or targets applicable to the Group.

The 20 per cent limit under the authority proposed in resolution 22 is independent of any use of the authorities granted at the 2014, 2015, 2016 and 2017 AGM, which authorities each expired (to the extent unused) at the end of the following year's AGM. The total ECAT1 Securities issued by the Company to date under the previous mandates have utilised less than 20 per cent. of the issued capital in aggregate. However, given the increase in regulatory requirements and other external factors, it is currently expected that further issuance of ECAT1 Securities, if undertaken, may over time utilise more than 20 per cent. of the issued capital on an aggregate basis.

The authority sought under resolution 22 will expire at the end of next year's AGM (or, if earlier, at the close of business on 8 August 2019).

Special Resolutions

23. That if resolution 20 is passed, the Board be given power to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to such allotment or sale, such power to be limited:

(A) to the allotment of equity securities and sale of treasury shares for cash in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority granted under paragraph (C) of resolution 20, by way of a rights issue only):

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the Board otherwise considers necessary,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

(B) in the case of the authority granted under paragraph (A) of resolution 20 and/or in the case of any sale of treasury shares for cash, to the allotment (otherwise than under paragraph (A) above) of equity securities or sale of treasury shares up to a nominal amount of US$82,515,857,

such power to apply until the end of next year's AGM (or, if earlier, until the close of business on 8 August 2019) but, in each case, during this period the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the power ends and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the power had not ended.

This resolution would give the directors the authority to allot shares (or sell any shares which the Company elects to hold in treasury) for cash without first offering them to existing shareholders in proportion to their existing shareholdings. This authority would be limited to allotments or sales in connection with pre-emptive offers and offers to holders of other equity securities if required by the rights of those shares or as the Board otherwise considers necessary, or otherwise up to an aggregate nominal amount of US$82,515,857 (representing 165,031,714 ordinary shares of US$0.50 each). This aggregate nominal amount represents approximately five per cent of the issued ordinary share capital of the Company as at 15 March 2018, the latest practicable date prior to the publication of this document. In respect of this aggregate nominal amount, the directors confirm their intention to follow the provisions of the Pre-Emption Group's Statement of Principles (the 'Principles') regarding cumulative usage of authorities within a rolling three-year period where the Principles provide that usage in excess of 7.5 per cent should not take place without prior consultation with shareholders. The authorities sought pursuant to resolution 23 will expire at the end of next year's AGM (or, if earlier, at the close of business on 8 August 2019).

24. That if resolution 20 is passed, the Board be given power in addition to any power granted under resolution 23 to allot equity securities (as defined in the Companies Act 2006) for cash under the authority granted under paragraph (A) of resolution 20 and/or sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to such allotment or sale, such power to be:

(A) limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of US$82,515,857; and

(B) used only for the purposes of financing a transaction which the Board determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice or for the purposes of refinancing such a transaction within six months of its taking place,

such power to apply until the end of next year's AGM (or, if earlier, until the close of business on 8 August 2019) but, in each case, during this period the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the power ends and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the power had not ended.

This resolution is intended to give the Company flexibility to make non pre-emptive issues of ordinary shares in connection with acquisitions and other capital investments as contemplated by the Pre-Emption Group's Statement of Principles. The power under this resolution is in addition to that proposed by resolution 23 and would be limited to allotments or sales of up to an aggregate nominal amount of US$82,515,857 (representing 165,031,714 ordinary shares of US$0.50 each). This aggregate nominal amount represents an additional five per cent of the issued ordinary share capital of the Company as at 15 March 2018, the latest practicable date prior to publication of this Notice. In accordance with the Pre-Emption Group's Statement of Principles, the directors confirm that this authority will only be used in connection with an acquisition or specified capital investment that is announced contemporaneously with the issue, or that has taken place in the preceding six-month period and is disclosed in the announcement of the issue.

The authority sought pursuant to resolution 24 will expire at the end of next year's AGM (or, if earlier, at the close of business on 8 August 2019).

25. **That, in addition to the powers granted pursuant to resolutions 23 and 24 (if passed), and if resolution 22 is passed, the Board be given the power to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by resolution 22 as if section 561 of the Companies Act 2006 did not apply, such authority to apply until the end of next year's AGM (or, if earlier, until the close of business on 8 August 2019) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or to convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended.**

The effect of resolution 25 is to give the Board authority to allot ECAT1 Securities, or shares issued upon conversion or exchange of ECAT1 Securities, without first offering them to existing shareholders. This will allow the Company to manage its capital in the most efficient and economic way for the benefit of shareholders.

If passed, resolution 25 will authorise the Board to allot shares and grant rights to subscribe for or to convert any security into shares in the Company on a non pre-emptive basis up to an aggregate nominal amount of US$330,063,429 (or 660,126,858 shares), representing approximately 20 per cent of the Company's issued ordinary share capital as at 15 March 2018 (the latest practicable date prior to publication of this document), such authority to be exercised in connection with the issue of ECAT1 Securities.

Should a Trigger Event occur (please see Appendix 1 for more information on ECAT1 Securities and their Trigger Events) the ECAT1 Securities will convert into or be exchanged for shares in the Company. The Board may or may not give shareholders the opportunity to purchase the ordinary shares created on conversion or exchange of any ECAT1 Securities on a pro rata basis, where practicable and subject to applicable laws and regulations, such decision to be made on a transaction by transaction basis.

The authority sought under resolution 25 will expire at the end of next year's AGM (or, if earlier, at the close of business on 8 August 2019).

Purchase of own Ordinary Shares or Preference Shares

Resolutions 26 and 27 are special resolutions and seek authority for the Company to purchase its own ordinary shares or preference shares subject to specified limits and conditions.

26. **That the Company be authorised to make market purchases (as defined in the Companies Act 2006) of its ordinary shares of US$0.50 each provided that:**

(A) the Company does not purchase more than 330,063,429 shares under this authority;

(B) the Company does not pay less for each share (before expenses) than US$0.50 (or the equivalent in the currency in which the purchase is made, calculated by reference to a spot exchange rate for the purchase of US dollars with such other currency as displayed on the appropriate page of the Reuters screen at or around 11.00am UK time on the business day before the day the Company agrees to buy the shares); and

(C) the Company does not pay more for each share (before expenses) than the higher of (i) five per cent over the average of the middle market prices of the ordinary shares according to the Daily Official List of the London Stock Exchange for the five business days immediately before the date on which the Company agrees to buy the shares and (ii) the higher of the price of the last independent trade and the highest current independent purchase bid on the trading venue where the purchase is carried out (including when the shares are traded on different trading venues),

such authority to apply until the end of next year's AGM (or, if earlier, until the close of business on 8 August 2019) but during this period the Company may agree to purchase shares where the purchase may not be completed (fully or partly) until after the authority ends and the Company may make a purchase of ordinary shares in accordance with any such agreement as if the authority had not ended.

The effect of this resolution is to renew the authority granted to the Company to purchase its own shares up to a maximum of 330,063,429 ordinary shares until the AGM in 2019 (or, if earlier, until the close of business on 8 August 2019) at, or between, the minimum and maximum prices specified in this resolution. This is approximately 10 per cent of the Company's issued ordinary share capital as at 15 March 2018 (the latest practicable date prior to the publication of this document). No repurchases of shares will be conducted on The Stock Exchange of Hong Kong Limited.

The directors believe that it is in the best interests of the Company and all of its shareholders to have a general authority for the Company to buy back its ordinary shares in the market. The directors intend to keep under review the potential to purchase ordinary shares. Purchases will only be made if the directors consider that the purchase would be for the benefit of the Company and of its shareholders generally, taking into account relevant factors and circumstances at that time, for example the effect on earnings per share. The Companies Act 2006 permits the Company to hold any such bought back shares in treasury as an alternative to cancelling them immediately. If the Company purchases any of its ordinary shares and holds them in treasury, the Company may sell these shares (or any of them) for cash, transfer these shares (or any of them) for the purposes of or pursuant to an employee share scheme, cancel these shares (or

any of them) or continue to hold them in treasury. Holding such shares in treasury gives the Company the ability to reissue them quickly and cost effectively and provides additional flexibility in the management of the Company's capital base. No dividends will be paid on, and no voting rights will be exercised in respect of, shares held in treasury. The directors intend to decide whether to cancel shares purchased pursuant to this authority or hold them in treasury based on the interests of the Company and shareholders as a whole at the relevant time.

The total number of options to subscribe for ordinary shares outstanding at 15 March 2018, the latest practicable date prior to the publication of this document, was 71,631,165, which represented 2.17 per cent of the issued ordinary share capital at that date. If the Company were to purchase the maximum number of ordinary shares permitted under the existing authority given at the 2017 AGM and by this resolution, the options outstanding at 15 March 2018 would represent approximately 2.71 per cent of the issued ordinary share capital.

27. **That the Company be authorised to make market purchases (as defined in the Companies Act 2006) of up to 15,000 preference shares of US$5.00 each and up to 195,285,000 preference shares of £1.00 each provided that:**

    (A) the Company does not pay less for each share (before expenses) than the nominal value of the share (or the equivalent in the currency in which the purchase is made, calculated by reference to the spot exchange rate for the purchase of the currency in which the relevant share is denominated with such other currency as displayed on the appropriate page of the Reuters screen at or around 11.00am UK time on the business day before the day the Company agrees to buy the shares); and

    (B) the Company does not pay more for each share (before expenses) than 25 per cent over the average of the middle market prices of such shares according to the Daily Official List of the London Stock Exchange for the 10 business days immediately before the date on which the Company agrees to buy the shares,

    such authority to apply until the end of next year's AGM (or, if earlier, until the close of business on 8 August 2018) but during this period the Company may agree to purchase shares where the purchase may not be completed (fully or partly) until after the authority ends and the Company may make a purchase of shares in accordance with any such agreement as if the authority had not ended.

    The effect of this resolution is to renew the authority granted to the Company to purchase up to 195,285,000 sterling preference shares and up to 15,000 US dollar preference shares. No preference shares have been repurchased since the last AGM.

    Whilst it is important to have a capital base which is adequate to allow the business to grow in all areas and which appears to offer an appropriate balance between risk and profitability, it is equally important that the Company does not carry excessive amounts of capital and that it uses the most appropriate mix of capital instruments on the balance sheet. Having the authority to buy back all the issued preference shares would provide the Company with further flexibility in managing the capital base. Accordingly, the directors believe that it is in the best interests of the Company and its shareholders as a whole to have the authority sought by this resolution.

    The directors intend to keep under review the potential to buy back preference shares, taking into account other investment and funding opportunities. The authority will be exercised only if the directors believe that to do so would be in the interests of shareholders generally. As noted above, the Companies Act 2006 permits the Company to hold any such bought back shares in treasury as an alternative to cancelling them immediately. Accordingly, if the Company purchases any of its preference shares, those shares may be cancelled or held in treasury by the Company. The directors intend to make such decision at the time of purchase based on the interests of the Company and shareholders generally.

Notice of General Meetings

Resolution 28 is a special resolution that enables the Company's ability to call general meetings (other than an AGM) on 14 clear days' notice.

28. **That a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.**

    The notice period required for general meetings of the Company is 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days (AGMs are still required to be held on at least 21 clear days' notice).

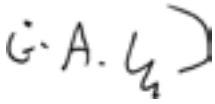
    Resolution 28 seeks such approval. The approval will be effective until the Company's next annual general meeting, when it is intended that a similar resolution will be proposed.

    Note that, in order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting. The shorter notice period would not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

    In accordance with Rule 7.19(6) of the Hong Kong Listing Rules, the executive directors and their respective associates will abstain from voting in favour of resolution 20 for the reasons set out on pages 9 to 11 of this document.

The Board considers that the resolutions in this notice of meeting are in the best interests of the Company and shareholders as a whole and recommends that all shareholders vote in favour of all the resolutions, as the directors intend to do in respect of their own shares (with the exception of resolution 20).

By order of the Board



Liz Lloyd, CBE
Group Company Secretary
Standard Chartered PLC

1 Basinghall Avenue
London EC2V 5DD

Registered in England and Wales number 966425

26 March 2018

Additional Information – Directors

Om Bhatt, Dr Louis Cheung, David Conner, Dr Byron Grote, Dr Han Seung–soo KBE, Gay Huey Evans OBE, Christine Hodgson, Dr Ngozi Okonjo Iweala, Naguib Kheraj, and Jasmine Whitbread are all independent non–executive directors and therefore do not have contracts of employment.

Andy Halford and Bill Winters each have a contract of employment with a notice period of one year. José Viñals has a contract for services. His appointment is subject to a six months' notice period to be given by either party. None of the directors standing for (re)election has any relationship with any other director, member of senior management or substantial or controlling shareholder of the Company. The biographical information in respect of each of these directors complies with the disclosure requirements as set out in the Hong Kong Listing Rules. As such, there are no other matters that need to be brought to the attention of holders of securities of the Company and no other information to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to (v) of the Hong Kong Listing Rules.

The interests in the ordinary shares of the Company of the directors standing for (re)election as at 15 March 2018, the latest practicable date for determining such information are set out on page 17.

As at 1 April 2018 the annual fee for independent non–executive directors is £100,000 with additional fees for being a member or chair of a Board Committee as set out below:

Committee	Member	Chair
Audit	£30,000	£70,000
Brand, Values and Conduct	£30,000	£60,000
Governance and Nomination	£15,000	N/A
Remuneration	£30,000	£60,000
Board Risk	£30,000	£70,000
Board Financial Crime Risk	£30,000	£60,000

Naguib Kheraj receives additional fees of £75,000 in respect of his duties as the Deputy Chairman. Christine Hodgson receives an additional fee of £40,000 in respect of her duties as Senior Independent Director. David Conner receives an additional annual fee of £20,000 as a member of the Combined US Operations Risk Committee, which is a Committee of the Court of Standard Chartered Bank.

José Viñals is the Chairman of the Company. He receives an annual fee of £1,250,000. Salary levels for executive directors are reviewed annually by the Remuneration Committee taking account of the latest available market data with increases normally effective from 1 April of the relevant year. The annual salary levels of executive directors are as follows:

	1 April 2017	1 April 2018
Bill Winters	£1,150,000	£1,150,000
Andy Halford	£850,000	£890,000

In addition, the executive directors are eligible to receive discretionary performance–related compensation as described on pages 83 to 106 of the annual report and accounts.

Directors' interests in shares and options

As at 15 March 2018, being the latest practicable date prior to the publication of this document, the directors held the following interests:

	Total interest in ordinary shares	Total interest in ordinary shares under option	Range of option exercise prices	Range of option exercise periods
José Viñals	8,500	–	–	–
Bill Winters	834,178	2,127,423	Nil	2018–2025
Om Bhatt	2,000	–	–	–
Dr Louis Cheung	2,571	–	–	–
David Conner	10,000	–	–	–
Dr Byron Grote	44,541	–	–	–
Andy Halford	467,536	1,309,876	0 – £5.776 per share	2018–2025
Dr Han Seung–soo KBE	3,474	–	–	–
Christine Hodgson	2,571	–	–	–
Gay Huey Evans, OBE	2,571	–	–	–
Dr Ngozi Okonjo-Iweala	2,000	–	–	–
Naguib Kheraj	2,571	–	–	–
Jasmine Whitbread	2,571	–	–	–

Appendix 1

Equity Convertible Additional Tier 1 Securities

The Company must meet minimum regulatory capital requirements in the jurisdictions in which it operates.

Under the EU Capital Requirements Regulation (CRR), the Company must hold a minimum amount of Tier 1 capital, defined as a percentage of its Risk Weighted Assets on a consolidated basis. To maintain an efficient capital structure that protects the interests of ordinary shareholders under prudential regulatory requirements, the Company can choose to meet part of that minimum requirement by holding up to 2.1 per cent of its Risk Weighted Assets in the form of Additional Tier 1 instruments (AT1 Securities) instead of Common Equity Tier 1 capital (CET1).

In order for securities to qualify as Tier 1 capital, the terms and conditions of the AT1 Securities must contain a "Trigger Event". A "Trigger Event" is the breach of a pre-determined capital ratio specified in the terms of the AT1 Securities which automatically results in the principal amount of the AT1 Securities either being written down or being converted into CET1, as specified in the terms of the AT1 Securities. Under the CRR, AT1 Securities must convert to equity or be written down when the issuer's CET1 ratio is below 5.125% or a higher level as the issuer may determine. The Trigger Event ratio would be determined in conjunction with the Prudential Regulation Authority (the PRA) of the UK before the issue of any AT1 Securities.

The Company will take into account various factors when deciding whether to issue AT1 Securities, including the capital position of the Company at the time, the prevailing regulatory capital requirements and its view of the likely capital requirements in the longer term. The timing and terms of issuance of AT1 Securities will be determined by the Company in consultation with the PRA.

The flexibility to issue AT1 Securities enables the Company to achieve diversification and efficiency in its capital base. Shareholder approval is being sought in resolutions 22 and 25 to authorise the issue of AT1 Securities which convert into ordinary shares on the occurrence of a Trigger Event (Equity Convertible Additional Tier 1 Securities or ECAT1 Securities) and/or shares to be issued on conversion or exchange of those ECAT1 Securities.

Why is the Company seeking a specific mandate to issue ECAT1 Securities?

The Company is seeking a specific mandate to enable it to issue ECAT1 Securities and the mandate would be used for that sole purpose (i.e. the Company could not use this specific mandate to issue new shares for any other purpose). The general mandate under resolution 20 may be used by the Company to issue new shares at any time on a non pre-emptive basis, subject to the limits under that resolution and restrictions under the UK and Hong Kong Listing Rules and Investment Association guidelines. The specific mandate for ECAT1 Securities will provide greater flexibility for the Company in allowing it to maintain a general mandate for other purposes (e.g. issuing consideration shares). By the same token, the general mandate under resolution 20 would not be used in connection with the issue of ECAT1 Securities.

The Company believes it would not be practical to obtain a specific mandate from shareholders to issue ECAT1 Securities only when the need arises, primarily due to the time it would take to prepare the relevant circular to shareholders, obtain pre-clearance for the circular from the authorities, and then print and despatch the relevant circular to shareholders convening the general meeting to seek shareholder approval. Having a pre-approved mandate will enable the Company to act on a timely basis to satisfy the capital requirements when market conditions are conducive to launching the issue.

What steps can the Company take before or on a Trigger Event?

In advance of and after a Trigger Event the Company's management can be expected to take certain actions:

(i) Recovery Planning – the Company is required by its regulators to develop and maintain a Recovery Plan to be implemented in the event that the Company's capital position comes under pressure. Should the Company's capital ratios fall, the Company is likely to be required to implement those planned recovery actions to improve its capital position (e.g. by reducing Risk Weighted Assets or through a rights issue of ordinary shares) in advance of a Trigger Event. Were a rights issue to be launched, the Company's ordinary shareholders would be offered the opportunity to acquire new ordinary shares in proportion to their existing shareholding in the Company (subject to legal, regulatory or practical restrictions).

(ii) Shareholder Participation – should a Trigger Event occur (despite taking recovery actions), the Board may give shareholders the opportunity to purchase the ordinary shares issued on conversion or exchange of any ECAT1 Securities on a pro rata basis, where practicable and subject to applicable laws and regulations, at the same price as the holders of the ECAT1 Securities would otherwise have acquired those ordinary shares (i.e. the conversion price described below). This will be determined on a transaction-by-transaction basis and the mechanism for shareholder participation will be written into the terms and conditions of the ECAT1 Securities where applicable.

The circumstances in which a Trigger Event might be expected to occur are considered to be remote given the level of capital the Company currently holds in excess of the expected Trigger Event ratio and the recovery actions that it has available to it should such a situation seem likely to arise.

As at 31 December 2017, the Company had US$38.162 billion of Common Equity Tier 1 Capital and a Common Equity Tier 1 ratio of 13.6%. This level of capital is considerably in excess of the expected Trigger Event ratio.

How do ECAT1 Securities provide a more efficient capital structure?

To the extent permitted, ECAT1 Securities are expected to be a cheaper form of eligible regulatory capital for meeting Tier 1 capital and leverage ratio requirements than CET1 capital and so would lower the Company's ongoing costs for the benefit of all shareholders.

Under the Company's accounting policies, it is expected that the ECAT1 Securities will be recorded as equity securities in the financial statements; however, this will be determined at the time of issuance.

At what price will the ECAT1 Securities be issued?

The pricing mechanism for ECAT1 Securities is similar to other fixed income capital instruments that the Company would issue. The issue price of the ECAT1 Securities will be fixed immediately prior to issuance taking into account prevailing market convention.

At what price will the ECAT1 Securities be converted into or exchanged for ordinary shares?

The terms and conditions of the ECAT1 Securities will specify a Conversion Price or a mechanism for setting a Conversion Price for the ECAT1 Securities. The "Conversion Price" is the rate at which the ECAT1 Securities will be exchanged for ordinary shares on the occurrence of a Trigger Event. This may be set at a discount to the price of the Company's ordinary shares immediately prior to issuance of the ECAT1 Securities. The extent of the discount will be determined in consultation with the PRA and taking into account prevailing market convention.

Will the ECAT1 Securities be redeemable?

Yes. The CRR requires AT1 capital instruments to be perpetual with a minimum of five years before the first optional call date. The ECAT1 Securities will include redemption terms consistent with regulatory requirements and market practice. For example, the Company may redeem the ECAT1 Securities (i) after a fixed period of time (minimum five years) upon an interest rate reset date (Optional Redemption); (ii) in the event of a change in the regulatory classification of the ECAT1 Securities such that they can no longer be included in the Company's Tier 1 capital (Regulatory Event Redemption); or (iii) as a result of a change in the tax treatment of the ECAT1 Securities (Tax Redemption). In each case, redemption can only take place with the prior consent of the PRA.

How have you calculated the size of the authorities you are seeking?

The size of the authorities reflected in resolutions 22 and 25 has been calculated based on anticipated capital requirements to provide flexibility in capital management. The resolutions give the Board authority to set the specific terms of the ECAT1 Securities, which may provide for write-down or conversion on the occurrence of a Trigger Event. The authorities sought are set at a level to provide full flexibility to the Company in managing its capital structure efficiently given the uncertainties that remain in both the precise regulatory requirements and the market for this form of capital instrument. The specific mandate will give the Board authority to allot ordinary shares and grant rights to subscribe for or convert any security into ordinary shares in the Company representing up to 20 per cent of the Company's issued ordinary share capital as at 15 March 2018. This limit has been calculated based on internal modelling to provide sufficient flexibility to the Company, taking into account potential fluctuations in the Company's share price, the GBP/USD exchange rates and inflation in the Group's risk-weighted assets, and modelled on a hypothetical conversion price discount factor of 10%. The previous issue of ECAT1 Securities of the Company made pursuant to the 2014 Mandate was made at a conversion price discount factor of 30% and the two issues of ECAT1 Securities of the Company made pursuant to the 2016 Mandate were made at a conversion price discount factor of 10%. The Company expects that any issue of ECAT1 Securities made pursuant to the 2018 Mandate will be made at a similar conversion price discount factor to the issues made pursuant to the 2016 Mandate. However, the price discount factor will ultimately depend on the prevailing market conditions at the time of issuance.

Hong Kong Stock Exchange waiver

Under Rule 13.36(1) of the Hong Kong Listing Rules, the directors of a company must obtain the consent of shareholders in a general meeting prior to allotting or issuing shares or securities convertible into shares except as set out under Rule 13.36(2)(b). Rule 13.36(2)(b) of the Hong Kong Listing Rules allows the directors to seek a general mandate from shareholders to allot or issue shares on a non pre-emptive basis. As explained above, the Company is seeking this specific mandate from shareholders in addition to the general mandate under Rule 13.36(2)(b) of the Hong Kong Listing Rules for the sole purpose of issuing ECAT1 Securities. This specific mandate would require a dispensation from Rule 13.36(1) of the Hong Kong Listing Rules. The Company has therefore applied for, and the Hong Kong Stock Exchange has granted, a waiver from compliance with Rule 13.36(1) to allow the directors to seek the authority under resolution 22 in relation to issuing ECAT1 Securities subject to the limits set out in that resolution.

On 21 February 2018, the Hong Kong Stock Exchange granted a waiver of Rule 13.36(1) to the Company to allow it to seek the specific mandate which, if approved by shareholders, would continue in force until:

(i) the end of next year's AGM (or, if earlier, at the close of business on 8 August 2019) at which time it will lapse unless the specific mandate is renewed, either unconditionally or subject to conditions; or

(ii) revoked or varied by ordinary resolution of the shareholders in a general meeting.

Notes

Audio version of Notice of AGM

We have produced an audio version of our Notice of AGM. Copies are available (in limited numbers) on CD. If you require an audio version, please contact our registrar, Computershare Investor Services PLC, on +44 (0)370 702 0138. Please specify whether you wish to receive a CD and provide them with your full name and postal address. They will arrange for a copy to be sent to you.

Right to attend the AGM

If you want to attend the AGM and vote, you must be on the Company's register of members in the UK at 10.00pm UK time on 4 May 2018 or on the Company's branch register of members in Hong Kong at 5.00am Hong Kong time on 4 May 2018. This will enable us to determine how many votes you have on a poll. If the AGM is adjourned to a time after 10.00pm UK time on Wednesday 9 May 2018, you must be on the appropriate register of members of the Company 48 hours before the time of the adjourned meeting. This will also allow us to confirm how many votes you will have on a poll at such a meeting. If we give you notice of an adjourned meeting we will tell you in the notice when you need to be on the register to be able to attend and vote. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Right to ask questions at the AGM

Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if (a) to do so would interfere unduly with the preparation for the AGM or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

Proxy appointments

If you are an ordinary shareholder you may attend, speak and vote at the AGM or appoint one or more proxy(ies) to exercise all or any of your rights to attend and to speak and vote on your behalf at the Company's AGM. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy may be appointed by any of the following methods:

- Electronic proxy – shareholders on the UK register of members may appoint a proxy electronically, which is a quicker, simpler and more efficient method of appointment. If you wish to submit your proxy form electronically, you will need an internet-enabled PC. For best results we recommend that you use the latest vendor supported release of your internet browser. You can then appoint your proxy online at investorcentre.co.uk/eproxy. You will need the Control Number, your Shareholder Reference Number (SRN), and Personal Identification Number (PIN), which are stated on the accompanying proxy form or voting instruction form to access the service. Your PIN will expire at 11.00am UK time on 4 May 2018. Before you can appoint a proxy electronically, you will be asked to agree to the terms and conditions for electronic proxy appointment. It is important that you read these terms and conditions carefully as they will govern the electronic appointment of your proxy;
- Completing and returning the enclosed proxy form to our registrar Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, UK; or
- CREST voting – if you are a member of CREST you can use the CREST electronic proxy appointment service (see below).

IMPORTANT: Whichever method you choose, any proxy form or other instrument appointing a proxy, including voting instruction forms for ShareCare members, must be received by the Company's registrar no later than 11.00am UK time on 4 May 2018 (or 6.00pm Hong Kong time on 4 May 2018) to be valid.

Appointing a proxy electronically via the CREST electronic proxy appointment service, or the return of a completed proxy form will not prevent a shareholder attending the AGM and voting in person if s/he wishes to do so.

Voting through ShareCare

If you hold your shares in ShareCare, you may submit your voting instruction electronically in the same way as set out above for the electronic appointment of proxies using the Control Number, your ShareCare Number (SRN) and (PIN) (both of which are stated on the accompanying voting instruction form), or you can complete and return the enclosed voting instruction form to our registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, UK. Your PIN will expire at 11.00am UK time on 4 May 2018. Whichever method you choose, any voting instruction form or other instrument appointing a proxy must be received by our registrar no later than 11.00am UK time on 4 May 2018 to be valid.

CREST Electronic proxy voting

If you are a CREST member and wish to appoint a proxy or proxies using the CREST electronic proxy appointment service, you may do so by following the procedures described in the CREST manual (available via euroclear.com/site/public/EUI). If you are a CREST Personal Member or other CREST sponsored member or a CREST member who has appointed a voting service provider, you should refer to your CREST sponsor or voting service provider, who will be able to take the appropriate action on your behalf.

In order for your proxy appointment using CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for these instructions, as described in the CREST manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed

proxy, must, in order to be valid, be transmitted so as to be received by our agent (ID 3RA50) by 11.00am UK time on 4 May 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which our agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers, should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001, which regulates instructions containing incorrect information and instructions that are improperly sent.

Nominated persons

Any person to whom this document is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom s/he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, s/he may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statements under the paragraphs headed 'Proxy appointments' do not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by ordinary shareholders (or by proxy(ies) appointed to act on their behalf) at a general meeting of the Company.

Corporate representatives

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Poll voting procedure

The Company will call a poll on all resolutions at the AGM. This allows the votes of both shareholders who have lodged proxies and shareholders who attend the AGM to be taken into account. On arrival at the AGM, all those entitled to vote will be required to register and be given an electronic handset to be used for the poll vote. The Chairman will advise shareholders when the poll is open and shareholders are able to start voting. At the end of the meeting, the Chairman will confirm when the poll is closed. All the votes present will be counted and added to those received by proxy to obtain the final poll results. If you have already voted by proxy you will still be able to vote at the AGM and your vote on the day will replace your proxy vote lodged previously. To facilitate these arrangements, it would be helpful if you could please arrive at the AGM venue in good time and have your attendance card to hand. If you have submitted your votes online you will need to print the attendance card provided within the site.

On a poll, every ordinary shareholder present in person or by proxy has one vote for every US$2.00 nominal value of ordinary shares held. The nominal value of each ordinary share being US$0.50 means that a member needs to hold four ordinary shares to register one vote on a poll, and Indian Depository Receipts (IDRs) holders have one vote for every forty IDRs they hold. As at 15 March 2018 (being the latest practicable date prior to the publication of this document), the Company had 3,300,634,294 ordinary shares of US$0.50 each in issue, none of which were held in treasury. The ordinary shares carry in aggregate 825,158,573 voting rights on a poll.

You can obtain the results of the poll on all resolutions by telephoning our registrar on or after Thursday 10 May 2018. The results of the poll will be announced to the London Stock Exchange, The Stock Exchange of Hong Kong Limited, the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited as soon as possible after the AGM and will appear on our website at sc.com/en/investors/stock-exchange-announcements on Thursday 10 May 2018.

Audit statement

Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

Website

A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at sc.com/en/investors/events-and-presentations/#agm.

Inspection of documents

The following documents will be available for inspection at 1 Basinghall Avenue, London, EC2V 5DD and at the offices of Slaughter and May, 47th Floor, Jardine House, One Connaught Place, Central, Hong Kong from the date of this document until the end of the AGM and at the AGM venue from 15 minutes before the AGM until it ends.

- Copies of the executive directors' contracts of employment.
- Copies of the Chairman's contract for services and the letters of appointment of independent non-executive directors.

In the case of any conflict between any translation and this English text, this English text shall prevail.

Preference shareholders

Only ordinary shareholders may attend, speak and vote at the AGM. This document is sent to holders of preference shares for information only.

The Company does not contact its shareholders directly to provide recommendation advice, nor does it appoint third parties to do so. As required by law, our shareholder register is available for public inspection. As the Company cannot control the use of information obtained by persons inspecting the register, please treat any approaches providing recommendation advice purporting to originate from the Company with caution. The Company shareholder register is administered by Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8AE (for shareholder enquiries, telephone: +44 (0)370 702 0138 or refer to the website: investorcentre.co.uk/contactus).

As at the date of this document, the Board of directors of the Company comprises:

Chairman:	José María Viñals Iñiguez
Executive directors:	William Thomas Winters, and Andrew Nigel Halford.
Independent non-executive directors:	Om Prakash Bhatt, Dr Louis Chi-Yan Cheung, David Philbrick Conner, Dr Byron Elmer Grote, Dr Han Seung-soo KBE, Christine Mary Hodgson (Senior Independent Director), Gay Huey Evans OBE, Dr Ngozi Okonjo-Iweala, Naguib Kheraj (Deputy Chairman), and Jasmine Mary Whitbread.

Additional Information for Shareholders Attending the AGM

The AGM

The AGM will be held at etc.venues, 200 Aldersgate, St Paul's, London, EC1A 4HD on Wednesday 9 May 2018. A map showing the location of the venue can be found on your shareholder attendance card or at the venue's website etcvenues.co.uk. The AGM will start promptly at 11:00am UK time; you should allow 15 to 20 minutes for security and registration formalities.

Registration

Upon arrival, please go to the registration desks which are clearly positioned. Please bring your shareholder attendance card with you. If you do not have an attendance card, you will need to confirm your name and address details with our registrar prior to admittance.

At the discretion of the Company, a shareholder may bring one guest to the AGM.

Security

For your safety and security, all hand baggage may be subject to examination on entry to the AGM venue. Please note that you will be asked to leave large bags in the cloakroom. Laptop computers, tape recorders, cameras, briefcases and umbrellas and any other bulky items are not permitted into the AGM. Mobile phones and all other electronic devices should be turned off throughout the AGM.

Refreshments

Refreshments will be available in the reception areas before the AGM. After the business of the AGM has concluded, lunch will be served.

Attending the AGM

All shareholders, proxies and joint shareholders may attend and speak at the AGM. However, in the case of a joint shareholder only the vote of the most senior shareholder present (in person or by proxy) at the AGM (as determined by the order in which the names are listed on the register of members) shall be accepted. Voting will be conducted on a poll.

Asking questions

If you would like a question or questions to be addressed at the AGM we would encourage you to email your question to scplc.agm@sc.com before 11.00am UK time on 8 May 2018. We will endeavour to address any questions raised when the item of business to which the question relates is under consideration at the AGM. Any questions submitted that are not relevant to the business of the AGM will be forwarded for the attention of an appropriate executive. If you have not submitted a question by this deadline, you will still have the opportunity to ask questions at the AGM. If you wish to ask a question, please raise your hand and wait for the Chairman to invite you to ask your question.

Access

The AGM venue has full wheelchair access. If you are hard of hearing, an induction loop system will be available in the room.

Anyone accompanying a shareholder in need of assistance will be admitted to the AGM. If any shareholder with a disability has a question regarding attendance, please contact Group Corporate Secretariat at Standard Chartered PLC, 1 Basinghall Avenue, London EC2V 5DD (telephone +44 (0)207 885 7154 / email: scplc.agm@sc.com).

First Aid

First aid facilities will be available. Please approach any member of Standard Chartered staff.

Enquiries

Computershare Investor Services maintain the Company's share register. If you have any queries about the AGM or about your shareholding, you should contact Computershare Investor Services PLC at The Pavilions, Bridgwater Road, Bristol BS13 8AE Telephone +44 (0)370 702 0138 between 9.00am and 5.00pm UK time, Monday to Friday (excluding UK public holidays).

© Standard Chartered PLC
March 2018

Registered Office:
1 Basinghall Avenue
London EC2V 5DD
Telephone: +44 (0)20 7885 8888
For information, visit:
sc.com

Principal Place of Business in Hong Kong:
32nd Floor, 4-4A Des Voeux Road Central
Hong Kong

Registered in England and Wales
number 966425

Voting Instruction form

Standard Chartered PLC (the '**Company**')
Registered Office: 1 Basinghall Avenue Square, London, EC2V 5DD, UK
Annual General Meeting on 9 May 2018 in London, UK

Indian Depository Receipts ('**IDRs**')

Serial No:

Name(s) of IDR holder(s) :
(including joint holders) :
:

Folio No. /DP ID No. /CL-ID :

Number of IDRs held :

I/We, being IDR holders, hereby instruct Karvy Computershare Private Limited (the "**Registrar**") to:
(Please **tick** (✓) one of the following options)

❑ 1. Appoint a third party [*insert name of third party*……] (the "**Nominated Proxy**") to attend the meeting as a proxy in respect of the deposited ordinary shares of US$0.50 each of the Company (the "**Shares**") represented by my/our IDR holding at the annual general meeting of the shareholders of the Company on 9 May 2018 at 3.30 pm India time (11.00 am London time / 6.00 pm Hong Kong time) and at any adjournment or postponement thereof (the "**AGM**"); or
(See Note (a), (b) and (d) below)

❑ 2. Appoint [*insert name of IDR holder*……] as the/a IDR holder to attend the meeting as a proxy in respect of the Shares represented by my/our IDR holding, at the AGM; or
(See Note (a), (b) and (d) below)

❑ 3. Appoint Chairman of the AGM as a proxy in respect of the Shares represented by my/our IDR holding at the AGM, and register my voting instruction in respect of the resolutions mentioned in the notice for the AGM enclosed with the letter dated 26 March 2018, by conveying my/our assent or dissent to the said resolution by placing the tick (✓) mark at the appropriate box below:
(See Note (a), (c) and (d) below)

*Only complete below if **option 3** is ticked*

Vote Cast on Resolution No.	1	2	3	4	5	6	7	8	9	10
FOR										
AGAINST										
WITHHELD										

Vote Cast on Resolution No.	11	12	13	14	15	16	17	18	19	20
FOR										
AGAINST										
WITHHELD										

Vote Cast on Resolution No.	21	22	23	24	25	26	27	28
FOR								
AGAINST								
WITHHELD								

Signature(s) of the IDR holder/ Authorised Representative: ……

Instructions:

(a) Please cast your vote by putting a (✓) mark or number of IDRs under the appropriate column.

(b) If you wish to attend in person or appoint someone else (a Nominated Proxy who need not be an IDR holder or a shareholder) to attend and vote on your behalf at the AGM, please print your name in the space provided in option 2 above or the name of your Nominated Proxy in the space provided in option 1 above.

If you instruct the Registrar to appoint a Nominated Proxy to vote the Shares underlying your IDRs in person at the AGM, that Nominated Proxy can decide whether or not to attend the AGM and if he or she attends, whether or not to vote. Therefore, you should nominate someone you can trust. However, if a Nominated Proxy attends the meeting and votes, a Nominated Proxy should only vote following any voting directions given to them by you, the IDR holder. If no voting directions are given, a Nominated Proxy may decide whether to vote in favour, against or abstain on any item of business. The Nominated Proxy will also have discretion to vote as he or she thinks fit on any other business which may properly come before the meeting including amendments to any resolution, and at any adjourned meeting.

If you instruct the Registrar to appoint yourself as a proxy to vote the Shares underlying your IDRs in person at the AGM and you do not attend and vote, the votes attached to the Shares represented by your IDRs will not be cast.

(c) If you instruct the Registrar to appoint the Chairman of the AGM to vote the Shares underlying your IDRs, those Shares will be voted in accordance with your direction above. If your voting instructions are incomplete, illegible or unclear or are received after the date specified or you do not return this voting instruction form, no vote will be cast in respect of your IDR holding. If you do not tick a box for a particular resolution, no vote will be cast in respect of your IDR holding on that resolution.

(d) The vote withheld box is generally included on proxy forms for English companies to enable shareholders to register reservations on a proposed resolution without voting against it. The vote withheld box is included so that IDR holders have the same options on their voting instruction form as ordinary shareholders. A vote withheld is not a vote on the relevant resolution and will not be counted in the calculation of the proportion of votes for or against a resolution.

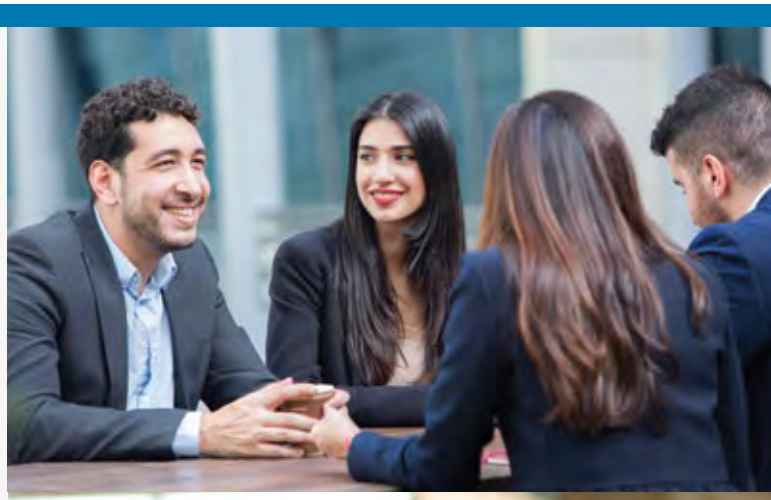
An ordinary shareholder is required to hold four ordinary shares in order to register one vote on a poll and every ten IDRs represents one ordinary share. Therefore, for every 40 IDRs that you held on the Record Date, you have the right to one vote. In case you held less than 40 IDRs on the Record Date, you will not have a right to vote.

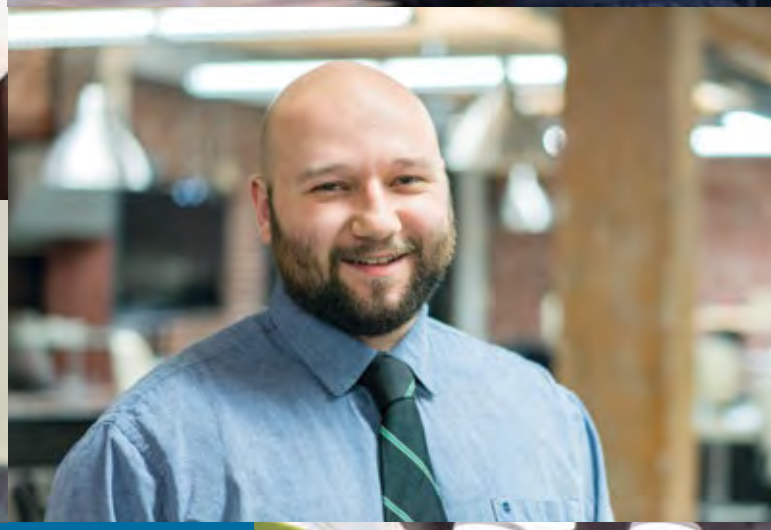
You must return this voting instruction form so that it is received by the Registrar by no later than 3.00 pm (India time) on 19 April 2018.

IDR holders must sign this form. If your IDRs are held in joint names, the main holder must sign this form (main holder is the first named on the IDR register). Only duly authorised officers can sign on behalf of a company. Please sign and state the office held by the signatory i.e. Director, or Director and Company Secretary.

Karvy Computershare Private Limited Karvy Selenium Tower B, Plot 31-32, Gachibowli, Financial District, Nanakramguda, Hyderabad – 500 032

Standard Chartered





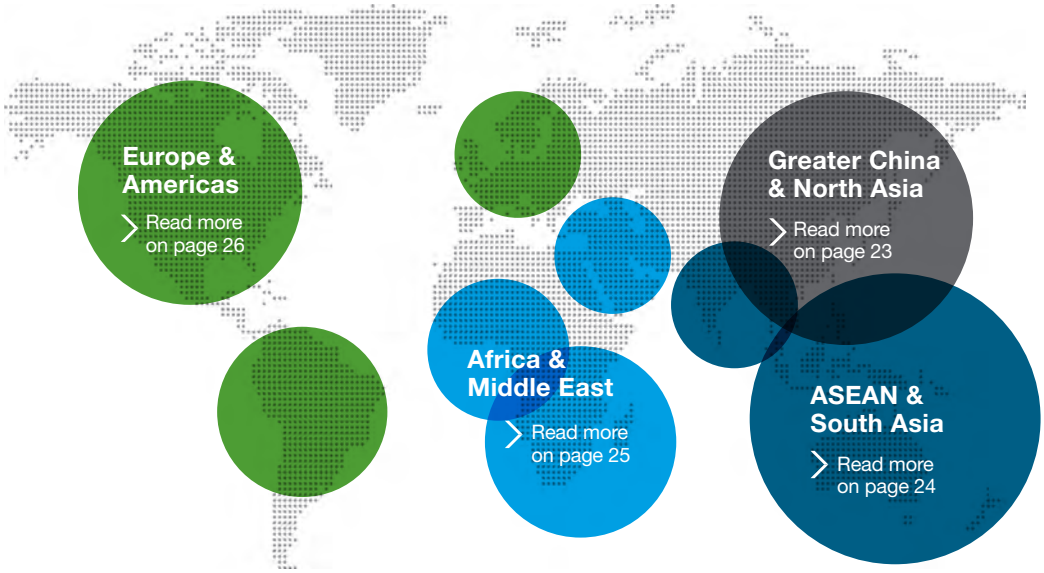
Annual Report 2017

Driving commerce and prosperity through our unique diversity

Who we are

Standard Chartered is a leading international banking group. Our heritage and values are expressed in our brand promise, Here for good.

We operate in 63 markets worldwide, including some of the world's most dynamic. More than 80 per cent of our income and profits are derived from Asia, Africa and the Middle East. Our businesses serve four client segments in four regions, supported by seven global functions.



About this report

Sustainability reporting is embedded across our Annual Report and Accounts and is also available in consolidated form in our Sustainability Summary at sc.com/sustainabilitysummary

The Group uses a number of alternative performance measures in the discussion of its performance. These measures exclude certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. They also provide the reader with insight into how management measures the performance of the business.

For more information please visit sc.com

Further information is available where you see these icons:

- Additional information can be found within the report
- More information is available online

- @StanChart
- linkedin.com/company/standardchartered
- facebook.com/standardchartered

Photo competition

Our aim was to make this year's annual report as engaging and diverse as possible. As part of this, we invited all colleagues to participate in a photo competition. The top three entrants can be found on the front and back covers, and there is further information on page 309

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

Those disclosures marked 'unaudited' are not within the scope of KPMG LLP's audit.

Unless the context requires, within this document, 'China' refers to the People's Republic of China and, for the purposes of this document only, excludes Hong Kong Special Administrative Region (Hong Kong), Macau Special Administrative Region (Macau) and Taiwan. 'Korea' or 'South Korea' refers to the Republic of Korea. Greater China & North Asia (GCNA) includes China, Hong Kong, Japan, Korea, Macau and Taiwan; ASEAN & South Asia (ASA) includes Australia, Bangladesh, Brunei, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka, Thailand and Vietnam; and Africa & Middle East (AME) includes Bahrain, Egypt, Iraq, Jordan, Lebanon, Oman, Pakistan, Qatar, Saudi Arabia and the United Arab Emirates (UAE).

Within the tables in this report, blank spaces indicate that the number is not disclosed, dashes indicate that the number is zero and nm stands for not meaningful.

Standard Chartered PLC is headquartered in London. The Group's head office provides guidance on governance and regulatory standards. Standard Chartered PLC stock codes are: HKSE 02888; LSE STAN.LN; and BSE/NSE STAN.IN.

OUR PURPOSE AND PROGRESS

At Standard Chartered our purpose is to drive commerce and prosperity through our unique diversity

In this report we describe our progress in realising this goal and the strategic objectives we are pursuing to strengthen our business, get closer to our clients and fulfil the Group's potential. We gauge our annual progress against a set of Group key performance indicators (KPIs), summarised below, as well as Client segment KPIs, some of which are shown on pages 18 to 21

Throughout this report, we use these icons to represent the different stakeholders groups for whom we create value.
Read more on page 13

Clients | Regulators and governments | Investors | Colleagues | Society

FINANCIAL KPIs

Return on equity

3.5% ↑ 320bps
Underlying basis

1.7% ↑ 280bps
Statutory basis

Read more on page 05

Common Equity Tier 1 ratio

13.6%

Read more on page 05

Total shareholder return

17.6% ↓ 10bps

Read more on page 05

NON FINANCIAL KPIs

Diversity and inclusion: women in senior roles

25.7% ↑ +0.8%

Read more on page 39

Employee engagement

5.9% ↑ 146%

Read more on page 39

OTHER FINANCIAL MEASURES

Operating income

$14,289m ↑ 3%
Underlying basis

$14,425m ↑ 3%
Statutory basis

Read more on page 29

Profit before tax

$3,010m ↑ 175%
Underlying basis

$2,415m ↑ 490%
Statutory basis

Read more on page 29

Earnings per share

47.2 cents ↑ 43.8 cents
Underlying basis

23.5 cents ↑ 38 cents
Statutory basis

Read more on page 29

Contents

Strategic report

02	What we do
03	Where we do it
04	Chairman's statement
06	Group Chief Executive's review
10	Market environment
12	Business model
14	Strategy
18	Client segment reviews
23	Regional reviews
28	Group Chief Financial Officer's review
33	Group Chief Risk Officer's review
36	Stakeholders and responsibilities
43	Viability statement
44	**Directors' report**
116	**Risk review and Capital review**
190	**Financial statements**
308	**Supplementary information**

What we do

Serving client segments with differentiated expertise

Read more about our client segments' performance on pages 18 to 21

Global

Corporate & Institutional Banking

Serving over 5,300 large corporations, governments, banks and investors.

Operating income

$6,496m	$6,523m
Underlying basis	Statutory basis

Private Banking

Helping 7,000 high-net-worth individuals manage, preserve and grow their wealth.

Operating income

$500m	$500m
Underlying basis	Statutory basis

Regional

Commercial Banking

Supporting over 40,000 local corporations and medium-sized enterprises across Asia, Africa and the Middle East.

Operating income

$1,333m	$1,329m
Underlying basis	Statutory basis

Retail Banking

Serving over nine million individuals and small businesses.

Operating income

$4,834m	$4,903m
Underlying basis	Statutory basis

Central & other items (segment)

Operating income

$1,126m	$1,170m
Underlying basis	Statutory basis

Total operating income

$14,289m	$14,425m
Underlying basis	Statutory basis

Global functions

Our client-facing businesses are supported by seven global functions, which work together to ensure the Group's day-to-day operations run smoothly and are compliant with banking regulations.

Human Resources
Recruits and builds talent while providing learning and development opportunities to motivate colleagues

Legal
Enables sustainable business and protects the Group from legal-related risk

IT & Operations
Responsible for the Group's operations, systems development and technology infrastructure

Where we do it

Building a sustainable business in dynamic economies

Read more about our regions' performance on pages 23 to 26

Greater China & North Asia

Serving clients in China, Hong Kong, Korea, Japan, Taiwan and Macau. The Group's largest region by income.

Operating income

$5,616m	$5,613m
Underlying basis	Statutory basis

ASEAN & South Asia

Our largest markets in ASEAN & South Asia by income are Singapore and India. We are active in all 10 ASEAN countries.

Operating income

$3,833m	$3,870m
Underlying basis	Statutory basis

Africa & Middle East

Present in 25 markets, of which the most sizeable by income are the UAE, Nigeria, Pakistan and Kenya.

Operating income

$2,764m	$2,764m
Underlying basis	Statutory basis

Europe & Americas

Centred in London and New York with a presence across both continents. Key income originator for the Group.

Operating income

$1,601m	$1,596m
Underlying basis	Statutory basis

Central & other items (region)

Operating income

$475m	$582m
Underlying basis	Statutory basis

Total operating income

$14,289m	**$14,425m**
Underlying basis	Statutory basis

Risk & Compliance
Responsible for the sustainability of our business through good management of risk across the Group and ensuring that business is conducted in line with regulatory expectations

Group COO
Provides control and governance to operating platforms and processes, ensuring operating efficiency

Group CFO
Incorporates seven support functions: Finance, Treasury, Strategy, Investor Relations, Corporate Development, Supply Chain and Property. The leaders of these functions report directly to Andy Halford, Group Chief Financial Officer

Corporate Affairs & Brand and Marketing
Manages the Group's communications and engagement with stakeholders in order to protect and promote the Group's reputation, brand and services

Group Chairman's statement

Focused on unlocking potential
while strengthening culture and resilience

In my statement last year – my first as Chairman of the Group – I committed to focus my efforts on three priorities: helping the Group to unlock its true potential; improving its resilience to shocks; and ensuring excellent governance and the highest ethical standards. This is critical to achieving sustainable, long-term growth and improving long-term value.

Unlocking the Group's potential

The Group's underlying profit before tax trebled in the last year. This is encouraging given that the extraordinary engine that sits within the Group is not yet firing on all its cylinders, but we must improve the result further.

To increase the Group's returns over the medium term, we need to grow income in a strong, safe and sustainable manner, while maintaining both cost and capital discipline. We are confident that we can do this. There are clear links between the global economy, international banks and trade that are fundamentally tied to global growth and prosperity. As one of the world's top-three trade banks, the Group is ideally positioned to benefit from the opportunities that the continuing recovery in global trade will bring.

Banking plays a crucial role at the heart of the economy and in the lives of individuals. We are privileged to be present in some of the most exciting and dynamic economies in the world, which are inhabited by two-thirds of the world's population. This unique position brings with it a tremendous responsibility. Our obligation is to carry out our business in a way which not only provides returns for our shareholders but also delivers good things for society: our clients, communities, and people. All of our extensive work in our markets to improve standards of conduct and control is aimed at helping to improve the lives of people in the communities where we work, through enabling sustainable growth. We complement this with our successful health and education programmes such as Seeing is Believing (seeingisbelieving.org) and Goal (sc.com/goalprogramme).

Improving our resilience

We have experienced a decade of lower economic growth, subdued world trade, low interest rates, stricter regulation and increasing competition, including from the technology sector. Recent political controversies about globalisation have further complicated the situation.

Yet, as Bill Winters describes in his review, many indicators are now changing in a positive direction. Economic forecasts have been upgraded again, with global growth broadening and projected to improve this year and next, and world trade continues to advance at a healthy pace. It is up to us to continue working hard to identify and seize the opportunities as they arise, becoming more competitive, embracing technological change and innovation, and continuing to develop attractive value propositions for our clients.

At the same time, we should be mindful of the risks around this favourable outlook. These range from the geopolitical situations in North Korea and the Middle East, and protectionist fears, to those stemming from the challenges of normalising monetary policy in an environment of elevated market valuations and high leverage. The realisation of some of these risks could provoke sharp market corrections, undermine the global recovery and adversely affect emerging markets that are more leveraged or exhibit weaker fundamentals. It is essential that we continue our efforts to increase the Group's resilience to such potential shocks.

I believe the completion by international standard setters of the international regulatory capital framework for banks, known as Basel III, is a positive development for the industry overall. Although banks, as well as their investors and clients, do not yet know precisely how the rules will be applied in practice, having the framework in place is an important step towards a more resilient banking system that supports the real economy.

Against this backdrop, the Group's strengthening position was evident in several respects in 2017. The quality of our balance sheet improved significantly, loan impairment reduced to around half the level it was in 2016, and we passed what was considered the toughest Bank of England stress test to date. It is critical that we maintain the focus and progress into 2018 while – as I said at this time last year – being willing to adapt and make the necessary decisions as conditions evolve.

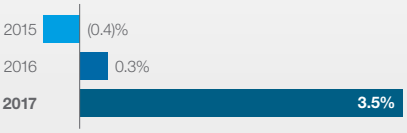
José Viñals
Group Chairman

Financial KPIs

Underlying return on equity (RoE)

Aim Deliver sustainable improvement in the Group's profitability as a percentage of the value of shareholders' equity

3.5% 320bps



Analysis Underlying RoE of 3.5 per cent in 2017 was a substantial improvement on 0.3 per cent in 2016 but further progress is required

The underlying profit attributable to ordinary shareholders expressed as a percentage of average ordinary shareholders' equity

Capital ratio

Aim Maintain a strong capital base and a Common Equity Tier 1 (CET1) ratio of 12 to 13 per cent

13.6%

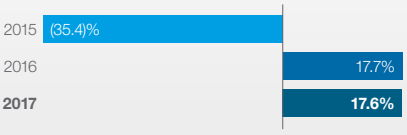
Analysis The Group's CET1 ratio remained at 13.6 per cent – above the top end of the range

The components of the Group's capital are summarised on page 183

Total shareholder return (TSR)

Aim Deliver a positive return on shareholders' investment through share price appreciation and dividends paid

17.6% 10bps



Analysis The Group's TSR in the full year 2017 was 17.6 per cent, compared to 17.7 per cent in 2016 and negative 35.4 per cent in 2015

Combines simple share price appreciation with dividends paid to show the total return to the shareholder and is expressed as a percentage

Ensuring excellent governance

The independent, externally facilitated Board evaluation that I commissioned shortly after becoming Chairman concluded that the Board is operating effectively and provided useful ideas on how to maximise its leadership to the Group. More details can be found in the Directors' report.

Towards the end of the year, following the departure of Dr Kurt Campbell, Dr Ngozi Okonjo-Iweala joined us as an independent non-executive director. Ngozi has significant geopolitical, economic, risk and development experience at a government level and in international organisations. She twice served as Finance Minister in Nigeria, Africa's largest economy and one of our most significant African markets, and was part of the senior leadership of the World Bank. I would like to take this opportunity to thank Kurt for his significant contributions to the Group, and welcome Ngozi to the Board.

We also recently announced the appointment of Christine Hodgson as Senior Independent Director of the Group, in addition to her current role as Chair of the Remuneration Committee. Christine takes over this role from Naguib Kheraj, who will remain as Deputy Chairman and Chair of the Audit Committee.

Embedding a culture of ethical banking

Deeply embedding a culture of ethical banking will ensure we are able to deliver for our investors, our clients, our colleagues and our communities. Good conduct – doing business in the right way – can, and will, be a powerful differentiator for our Group.

Since I wrote to you in the 2017 Half Year Report, I have continued to travel extensively across our franchise, meeting our clients, colleagues, investors, regulators and other stakeholders. This has reinforced for me what an extraordinary organisation we have, with talented and dedicated colleagues and remarkably strong client relationships.

As part of our focus on brand and culture in 2017, we engaged with our colleagues around the world to identify the essence of what we stand for, who we are and how we need to behave to deliver our full potential. This led to our invigorated purpose statement – "Driving commerce and prosperity through our unique diversity" – and a refreshed set of valued behaviours. These are designed to support the Group's desired culture, drive our transformation and increase our returns and resilience.

The Board continues to oversee far-reaching changes to transform the Group's response to financial crime. This is a critical journey, and we must remain focused on delivering this transformation to provide the foundation for a strong, sustainable business in the long term.

Dividend

In recognition of our increased confidence in the prospects for the Group, I am pleased to report that we are recommending the resumption of dividends with an 11 cent per share distribution in respect of 2017. The Board understands the importance of the ordinary dividend to shareholders and intends to increase the full year dividend per share over time taking into account the earnings outlook, group and local regulatory capital requirements and opportunities to invest to grow the business.

Conclusion

This is an exciting time to be at Standard Chartered. I remain convinced that if we work hard, with dedication, passion and creativeness to seize the opportunities ahead of us, our future will be bright. I look forward to updating you on our progress in our 2018 Half Year Report.

José Viñals
Group Chairman

27 February 2018

Group Chief Executive's review

A year of progress
on a path that is now clear

In 2015, we set out a strategy designed to address our performance issues and reposition our business for success. We needed to secure our foundations, become lean and focused, and continually invest and innovate. Thanks to the outstanding efforts of our 86,000 colleagues around the world, I am proud to say we are succeeding. Financial performance in 2017 has been steady rather than spectacular but has significantly improved. The trebling of underlying profits, a strong capital position and emerging regulatory clarity allows us to resume paying dividends.

Of course, we have a long way to go. We are working hard to establish income growth momentum across all our businesses, and our return on equity continues to fall short of our cost of capital. At the time of writing we are just under halfway to our initial milestone of 8 per cent underlying return on equity. Our key investment areas are growing well and we are encouraged by our start to 2018. But we are well aware that this franchise is capable of much more. I would like to update you on the work we have done so far, and set out how we intend to build upon our successes to capture our full potential.

Securing our foundations

Our foundations have been secured. Our capital and liquidity positions are strong and our risk appetite is properly calibrated, with much greater front-line ownership. Loan impairments are at less than half the levels of recent years and we have made substantial progress on the items we set out for restructuring. Our enhanced resilience has been confirmed by our performance in the most recent Bank of England stress tests, which we passed without caveat. Despite this progress, we are not complacent and remain focused on further enhancing the risk management framework and capabilities of the Group, particularly in areas such as cyber security.

Getting lean and focused

We are ahead of our plans to remove inefficient cost from the business. This has enabled us to increase investment significantly while remaining on track to hold overall expenses flat over the initial three years of our plan to the end of 2018.

We are also working to instil a culture of excellence across our organisation. As José Viñals noted in his Chairman's statement, we recently re-set expectations for every employee of the Group, based on three new valued behaviours: *Do the right thing*, *Never settle*, and *Better together*. Taken together these behaviours will help us to continuously challenge the way we do things, make better decisions, and hold each other accountable for delivery. They will be ingrained into every aspect of our business as we seek to put the client experience at the centre of every plan, every process, and every product offering. They will also inform our hiring policies and how we measure individual performance. We are building a truly client-centric organisation with no tolerance for complacency or mediocrity.

Investing and innovating

We have increased the rate of investment in our business by over 50 per cent since 2015, spending close to $1.5 billion in 2017 to improve our controls and bolster our franchise capabilities. We have focused on the areas we set out in 2015: the opening of China, the digitisation of Retail Banking, the wealth management needs of the growing affluent populations across our markets, and the ongoing development of countries in Africa. We are beginning to see the pay-back in terms of client satisfaction and strong income momentum in these areas, which together with our highly relevant network offering and strong brand are the foundations for our future. We were convinced these were the areas of our competitive advantage in 2015 and we believe it even more so today.

Technology is already changing the financial services landscape, reflecting evolving client expectations. While it threatens the status quo in some respects it will also be a source of relative advantage for us. Our presence in more than 60 markets gives us an unparalleled opportunity to test and refine new concepts in single locations before rolling them out across many. We are doing this in Côte d'Ivoire currently, trialling a purely digital retail banking offering. And as one of the world's leading trade banks we are ideally placed to drive a better client experience and higher returns for our shareholders by utilising new technologies. For example, we are using blockchain technology to streamline cross-border payments as part of the first live, real-time payments corridor between Singapore and India that we initiated in 2017. We will expand this capability to five more pairs of countries in 2018.

Bill Winters
Group Chief Executive

New valued behaviours

1. Do the right thing
2. Never settle
3. Better together

Invested in 2017

$1.5bn

2016: $1.4bn
2015: $0.9bn

Proportion of Retail Banking income generated from Priority clients

45%

2016: 39%
2015: 35%

Proportion of Retail Banking clients that are digitally active

45%

2016: 40%
2015: 36%

Business performance

Our Corporate & Institutional Banking business has been re-positioned around our core strengths as a global network bank. This focus enabled us to on-board over 90 mainly OECD-based multinational companies in 2017. They were attracted by our strength in the emerging markets where they are investing. Early incremental income gains from this cohort are encouraging.

Simon Cooper, the CEO of this business, explained at an investor seminar in November how over the coming years we will grow the top line further, while improving our efficiency through cost management, process improvement and upgrading technology. He also outlined initiatives to allocate capital more effectively within the business and further improve its funding mix. At the same seminar the new head of our Financial Markets business Roberto Hoornweg explained our plans to re-establish it as a leading risk manager in global markets and the leading provider in emerging markets.

The Retail Banking business has continued to attract more affluent clients in core commercial cities across our footprint and to improve our digital offering. We have successfully targeted Priority clients with improved wealth and advice products and a more focused service offering. As a result, the proportion of income generated from that segment grew from 39 per cent to nearly 45 per cent in 2017, constituting most of the business's 7 per cent income growth in the year, excluding the effect of exiting Thailand and the Philippines. Over the same period the proportion of Retail Banking clients that are digitally active rose from just under 40 per cent to around 45 per cent.

Ben Hung, who took over as CEO of Retail Banking in November, will host an investor seminar later in the first half of this year in which he will further explain our plans and ambitions for this business.

The ongoing transformation of our Commercial Banking business is delivering results. Enhanced frontline management and risk monitoring has translated into significantly lower loan impairment. It has returned to profitability and is now far better integrated with the other client segments, which will help it to generate higher quality and more sustainable income.

In Private Banking, we have continued to make significant investments in people and technology. We are encouraged by the increase in net new money driven in part by higher productivity from our new relationship managers, and in 2018 the business will target further improvements in both respects.

Group outlook

We believe these business initiatives will help the Group generate income at a compound annual growth rate of between 5 and 7 per cent in the medium term, with our personal banking businesses likely to grow at a relatively faster rate than our corporate businesses, given our focus on optimising the returns from our credit portfolios. We expect to achieve this growth while tightly managing costs, which we aim to increase below the rate of inflation across the Group. The operating leverage this creates, together with our continued focus on risks, will enable us to deliver an underlying return on equity above 8 per cent in the medium term.

Continued focus on conduct

Group-wide awareness of our collective responsibility to our clients and the communities that we serve has tangibly improved. We have developed and implemented a framework defining and identifying good conduct, and I have made it a strategic priority in 2018 for every segment and region rigorously to review, refine and strengthen our conduct environment. While incidents cannot be entirely avoided, we have no tolerance nor appetite for breaches of laws and regulations, and are determined to ensure that our employees do the right thing.

Group Chief Executive's review continued

It also remains a central part of our mission to help combat financial crime. Over the course of 2017, our work has made a real impact by identifying and preventing criminal activity in the financial system. We continue to innovate, putting into place more efficient and effective tools, practices and processes that should position us among the leaders in discovering and disrupting financial crime. We take our responsibility as a leading international bank seriously and continue to invest significantly in improving standards across our markets through our correspondent banking and new NGO academies. Significantly, in 2017, the New York State Department of Financial Services recognised that the Group has made "substantial progress" towards remediating past financial crime controls issues and noted that we remain "fully committed" to finishing the job. As described on page 259, we continue to cooperate with authorities in the US and the UK in their investigations of past conduct and are engaged in ongoing discussions to resolve them. Concluding these historical matters, which could have a substantial financial impact, remains a focus for us.

The external outlook

The global economic environment continues to improve. Productivity remains weak but is improving, and inflation remains low. Commodity prices have increased but are still at levels that do not threaten global growth. Geopolitical risks remain high but have not affected economic activity. We expect these conditions to persist for some time, and as such expect interest rates to continue to normalise and trade volumes to increase. We expect the Middle East region to return to growth in 2018, while many sub-Saharan Africa economies are showing signs of stabilisation and recovery.

Conclusion

We have made encouraging progress in transforming the Group, the path ahead is clear and we are now well positioned to drive sustainable profit growth across our markets. We remain focused on improving our service to our clients, generating strong returns for our investors, and contributing even more to the communities in which we operate. This will enable us to realise the Group's full potential.

Bill Winters
Group Chief Executive

27 February 2018

Management Team

1. **Bill Winters, CBE**
   Group Chief Executive
2. **Andy Halford**
   Group Chief Financial Officer
3. **Tracy Clarke**
   Regional CEO, Europe & Americas
4. **Simon Cooper**
   CEO, Corporate & Institutional Banking
5. **David Fein**
   Group General Counsel
6. **Dr Michael Gorriz**
   Group Chief Information Officer
7. **Doris Honold**
   Group Chief Operating Officer
8. **Benjamin Hung Pi Cheng**
   Regional CEO, Greater China & North Asia; and CEO, Retail Banking
9. **Sunil Kaushal**
   Regional CEO, Africa & Middle East
10. **Anna Marrs**
    Regional CEO, ASEAN & South Asia; and CEO, Commercial and Private Banking
11. **Judy Hsu**
    CEO, Singapore and ASEAN Markets (Malaysia, Vietnam, Thailand and Rep Offices)
12. **Tracey McDermott, CBE**
    Group Head of Corporate, Public and Regulatory Affairs
13. **Mark Smith**
    Group Chief Risk Officer
14. **Pam Walkden**
    Group Head, Human Resources

Driving commerce and prosperity through our unique diversity

Working with NGOs to fight financial crime

Our efforts to fight financial crime can have unintended consequences for clients that deliver critical humanitarian services to people in need

Financial crime controls can prevent legitimate payments to and from development and non-profit organisations providing humanitarian programmes in countries where bribery, corruption and money laundering are prevalent.

We are helping these clients to mitigate financial crime risk through education. In October 2017, we hosted our first Financial Crime Risk Management workshop in Washington for US-headquartered clients in partnership with the World Bank Group, World Vision and the US NGO-membership group InterAction.

The event shared international best practices in financial crime compliance and showed organisations how they could strengthen their fraud, anti-money laundering and counter-terrorist financing controls. We also offer free financial crime compliance e-learning. modules to our NGO clients.

Market environment

Macroeconomic factors
affecting the financial landscape

Trends in 2017

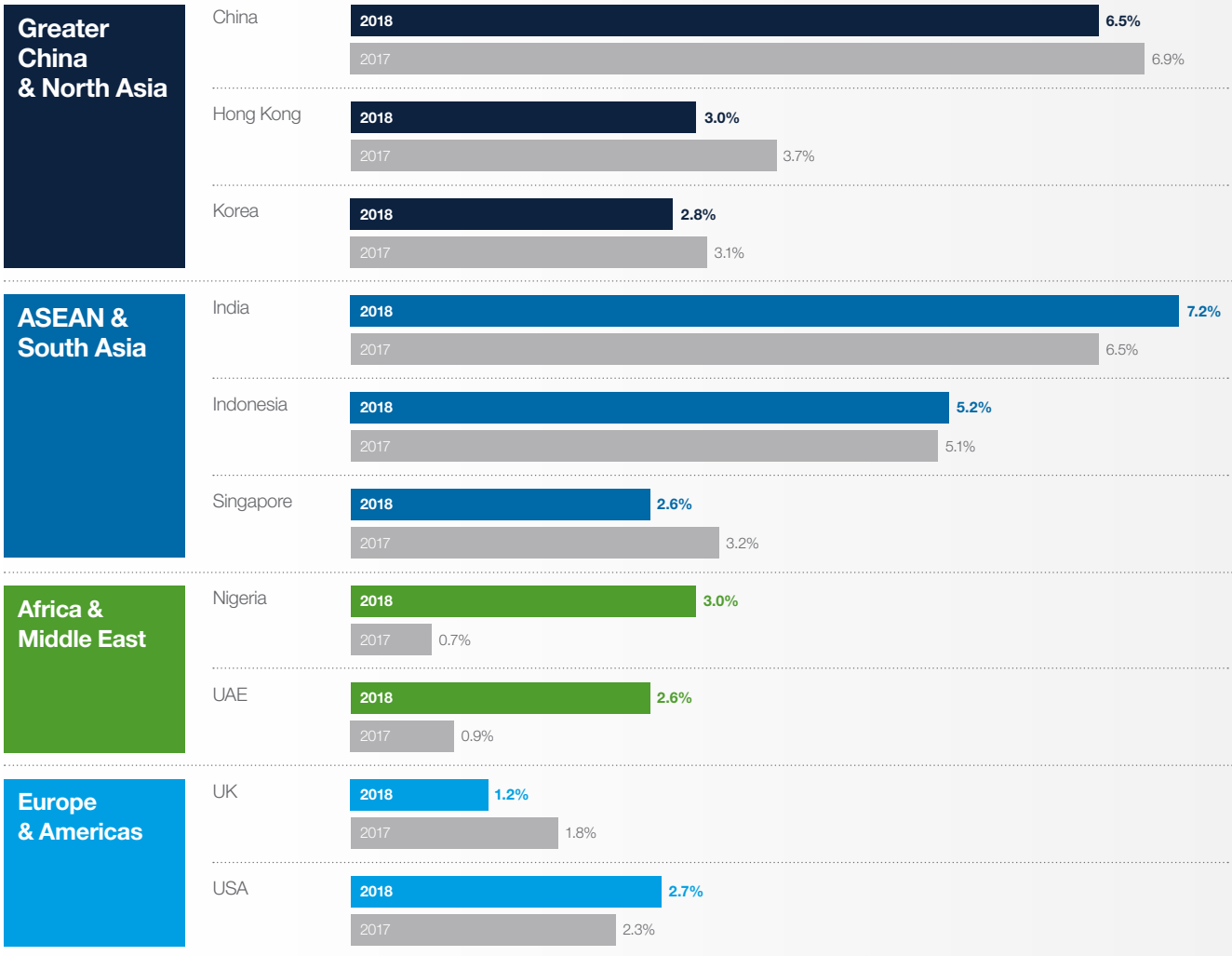
- The world economy enjoyed a cyclical recovery in 2017, growing at an estimated 3.8 per cent, compared to 3.2 per cent in 2016
- Emerging markets, led by Asia, continued to be the main driver of global growth, though growth also picked up in major developed economies
- The euro area saw an acceleration in growth in 2017 of approximately 2.3 per cent, up from 1.8 per cent in 2016, despite concerns about geopolitical risks
- Expectations of fiscal stimulus from the US following the US Presidential election faded and monetary policy remained the main support for US growth
- Major central banks including the US Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of England signalled an end to ultra-easy monetary policy but policy still remained very accommodative

Outlook for 2018

- Global growth is expected to remain strong at 3.9 per cent in 2018
- Growth will remain faster in emerging markets, with Asia continuing to grow at a robust 6.1 per cent
- Major central banks are expected to continue to tighten monetary policy very gradually, removing some of the extraordinary support for the global economy. This is expected to keep the market risk environment benign and supportive for emerging markets
- Recovering oil prices are also expected to support the recovery of growth in commodity-dependent countries in Africa, the Middle East and Latin America

Regional trends and outlooks

Actual and projected growth by economy in 2017 and 2018



Medium- and long-term view

See our long-term market trends on page 14

- Ongoing global growth recovery is cyclical in nature and therefore vulnerable; structural challenges remain. Productivity growth is weak, especially in developed countries
- Long-term growth in the developed world is constrained by high levels of indebtedness and ageing populations
- There is reason to be more optimistic on long-term growth prospects for emerging markets. Unencumbered by old infrastructure, many of these countries can adopt the latest technologies and the associated infrastructure, boosting productivity growth
- Relatively younger populations in many emerging markets, as well as adoption of digital technology, will allow emerging markets to become increasingly more important for the global growth story
- Rising nationalism, anti-globalisation and protectionism are a threat to long-term global growth prospects, including emerging markets

The market environment report has been produced by our Global Research team. The forecasts for 2018 reflect its projections, and not necessarily those of the Board.

Trends and outlook for our four regions

Greater China & North Asia

See our regional performance on page 23

- China's economy has benefited from healthy demand for its exports, a risk-averse political backdrop and recovering industrial profits
- While real activity may decelerate moderately in H1 2018, as property tightening measures and an end to inventory build limit investment growth, we expect a solid economic performance, with growth of 6.5% expected in 2018
- China's authorities are increasingly focusing on the quality of growth and addressing medium-term vulnerabilities including corporate debt
- Hong Kong's expected growth of 3.0% will be moderate compared to the 3.7% growth seen in 2017 as the cyclical recovery in trade fades
- Growth in Japan is likely to be at 1.2% aided by still easy monetary policy and fiscal policy, and a supportive external demand environment

ASEAN & South Asia

See our regional performance on page 24

- ASEAN is set to remain one of the fastest-growing regions in 2018
- Growth in economies with proactive government investment in infrastructure projects – including Indonesia, the Philippines and Thailand – should be supported, even if external demand is softer than in 2017
- Inflation has remained low in the region, allowing central banks to keep monetary conditions loose. The possibility of further rate cuts, however, is low as inflation starts to pick up on the back of higher commodity prices
- India is likely to start recovering from the slowdown accompanying reforms in 2017. At 7.2%, India's growth will be one of the strongest in the emerging market space

Africa & Middle East

See our regional performance on page 25

- Growth across Africa will continue to rebound in 2018 compared to 2017. The expected recovery will be driven by large economies that emerged from recession in 2017, namely oil producers Angola and Nigeria, and by South Africa, where external demand has lifted mining and manufacturing
- For oil importers, the boost to growth from lower oil prices has likely run its course
- 2018 should bring a pick-up in headline growth in the Middle East
- GDP related to oil production is likely to be flat, while non-oil economic growth will be constrained by geopolitical worries that will weigh on consumer and business confidence

Europe & Americas

See our regional performance on page 26

- Growth in the US and euro area is likely to exceed 10-year averages with growth exceeding 2.0% in both regions
- Political risk will remain in Europe, led by Italy's elections. UK Brexit talks with the European Union have been positive, with a transition deal likely beyond 2019 until a trade deal is finalised
- The ECB will continue to taper its quantitative easing purchases, even though inflation is likely to take time to move back to the close-to-but-lower-than-2% target
- In the US, tax reform and increased fiscal expenditure will lend support to the growth outlook for 2018 and 2019
- The US Fed rate is likely to reach 2.5% by end-2018

Business model

A business model
built on long-term relationships

We have a sustainable approach to business and strive to achieve the highest standards of conduct. Our business model and strategy are built on capturing the opportunities inherent in our unique footprint by developing deep relationships with clients across our network and in local markets

Developing these relationships means using both our tangible and intangible resources in a sustainable and responsible manner, deploying them to maximum impact on our profitability and returns

Our resources

We aim to use resources in a sustainable way, to achieve our long-term strategic objectives

Human capital

Our diverse colleagues are our greatest asset. Being part of the local fabric of our markets means we understand our clients' needs and aspirations, and how these can be achieved

86,000 employees

15,000 non-employed workers

46% female

Strong brand

We are a leading international banking group with over 150 years of history and in many of our markets we are a household name

International network

We have an unparalleled international network, connecting companies, institutions and individuals to, and in some of the world's fastest-growing and most dynamic regions

Financial strength

With over $600 billion in assets on our balance sheet, we are a strong, trusted partner for our clients

Local expertise

We have a deep knowledge of our markets and a privileged understanding of the drivers of the real economy, offering us insights that can help our clients achieve their ambitions

Our purpose makes us different

Our purpose is what sets us apart: we drive commerce and prosperity through our unique diversity. Our strategy helps us achieve our purpose

We drive commerce and prosperity through our unique diversity

Client focus

Our clients are our business. We build long-term relationships with them

5,300 corporations, governments, banks and investors

260,000 business banking clients

40,000 commercial banking clients

9m individual clients

7,000 private banking clients

Robust risk management

We are here for the long term. Effective risk management allows us to grow a sustainable business

Distinct proposition

Our unique understanding of our markets and our extensive international network allow us to offer a truly tailored proposition to our clients, combining global expertise grounded in local knowledge

Sustainable approach to business

We promote social and economic development by contributing to sustainable economic growth through our core business of banking, by being a responsible company and by investing in our communities

For more details on how we deliver on our business model, see our Strategy section on page 14

What we deliver

We deliver an extensive set of solutions, products and services, adapted to the needs of our clients

Global

Clients in our global businesses are supported by relationship managers with a global reach

Corporate & Institutional Banking

Private Banking

Local

Country-level relationship managers support clients in our regional businesses. To ensure efficiency and consistency, and to enable greater investment, we have a global oversight of our systems and products

Retail Banking

Commercial Banking

See our client segment reviews on pages 18 to 21

Products and services

Retail Products
- Deposits
- Savings
- Mortgages
- Credit cards
- Personal loans

Wealth Management
- Investments
- Portfolio management
- Insurance and advice
- Planning services

Transaction Banking
- Cash management
- Payments and transactions
- Securities services
- Trade finance products

Corporate Finance
- Structured and project financing
- Strategic advice
- Mergers and acquisitions

Financial Markets
- Investment
- Risk management
- Debt capital markets

Financial performance

Income
- Net interest income
- Fee income
- Trading income

Profits
Income gained from providing our products and services minus expenses and impairments

Return on equity
Profit generated relative to equity invested

The value we create

We aim to create long-term value for a broad range of stakeholders, in a sustainable manner

Clients
We enable individuals to grow and protect their wealth. We help businesses to trade, transact, invest and expand. We also help a variety of financial institutions – including banks, public sector clients and development organisations – with their banking needs

Regulators and governments
We engage with relevant authorities to play our part in supporting the effective functioning of the financial system and the broader economy

Investors
We aim to deliver robust returns and long-term sustainable value for our investors

Colleagues
We offer colleagues opportunities to learn and progress. We encourage them to improve, innovate, take ownership of their careers and succeed together

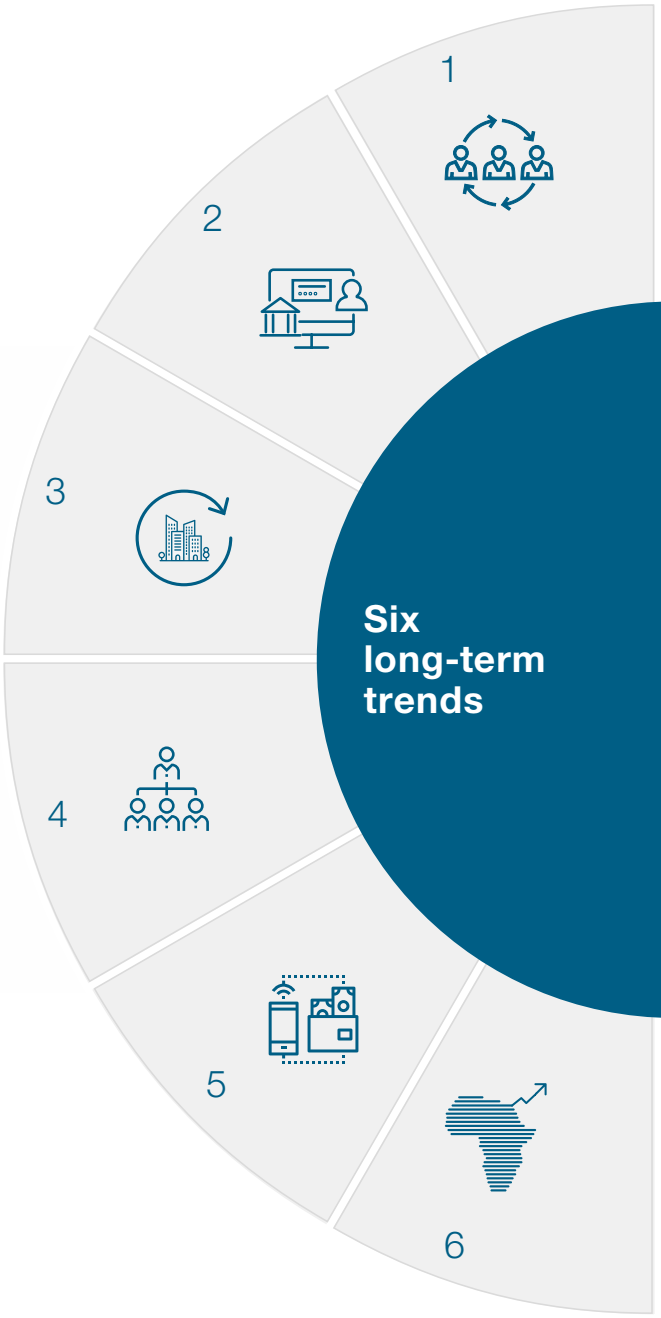
Society
We strive to operate as a responsible and sustainable company, driving prosperity through our core business, and collaborating with local partners to promote social and economic development

More detail can be found in our stakeholders and responsibilities section on page 36

Our strategy

A strategy addressing long-term trends

Our strategy was developed against the backdrop of six long-term trends, which will continue to significantly shape the economies and broader landscape in the markets in which we operate. We believe that each of these long-term trends presents opportunities that we are uniquely positioned to capture



1 Rise of urban middle class

Markets in our footprint are urbanising rapidly and becoming more consumption-led, driving rapid growth in demand for wealth and financing solutions

Our strategic response: Focus on the affluent and wealth offerings

2 Digital revolution

Digital adoption in our markets is often ahead of otherwise more developed Western markets. Digitisation offers an opportunity for us to deliver more convenient and efficient solutions to clients and thus to increase our client reach and engagement in a cost-effective manner

Our strategic response: Accelerate pace of our digitisation

3 Increasing regional connectivity

Despite a rise in anti-globalisation sentiment in several parts of the world, we are witnessing in the long term the emergence of complex supply chains, combined with new frameworks for cooperation, such as the Belt and Road initiative and the ASEAN Economic Community. With our long history in the markets that are driving these trends, we are uniquely positioned to capture the benefits they bring

Our strategic response: Leverage our network capabilities

4 Financial deepening and evolving regulation

Clients are increasingly looking for innovative cross-border funding, cash management and investment solutions, coupled with local hedging instruments to better manage risks. This, along with the growing sophistication of the financial services sector, and ongoing government-led reform, is driving the deepening and internationalisation of local capital markets in our footprint

Our strategic response: Strengthen our capital markets capabilities

5 The rise of renminbi (RMB)

The launch of the Cross-Border Interbank Payment System and the inclusion of RMB in the International Monetary Fund's Special Drawing Rights basket of currencies are major landmarks on the RMB's path to internationalisation. We expect that by 2020, 5 per cent of global international payments could be settled in RMB

Our strategic response: Maintain leadership in RMB

6 The growth of Africa

Backed by a large workforce and a growing, connected urban middle class, there are many growth opportunities across African economies. This is particularly the case in sectors such as agriculture, fast-moving consumer goods and infrastructure

Our strategic response: Focus on urban Africa

Within this context, we continue to believe in the inherent value and strength of the Standard Chartered franchise and its ability to deliver financial performance

Our strategy
is focused on capturing the existing growth opportunities in our footprint, by developing deep, long-term relationships with our clients and helping them connect across our markets

Our strategy continued

Delivering against our strategic objectives

Well positioned to capture the opportunities in our markets

We are in a strong position to capture the opportunities in our markets, while being aware of potential threats and areas where we need to improve

We take external risk factors into account as part of our strategy and ensure that we are always prepared adequately. These include macro and geopolitical changes globally and in countries where we operate, pressure on profitability, and disruption from new uses of technology. We believe that we are in a unique position to capture the growth in our markets through strengths like our cross-border proposition, comprehensive product range and high standards for the way we do business. At the same time, we are addressing areas that will further strengthen the Group, such as continuing to focus on conduct and fighting financial crime, shifting the mix in our client and product books towards our target segments and businesses, improving and digitising our processes, and strengthening our areas of competitive differentiation.

Since 2015, we have made significant progress against the Group's three strategic objectives. We have tracked progress against these through our Group scorecards, which contain a mix of quantitative performance indicators, such as return on equity, loan impairment and capital adequacy, and qualitative performance indicators, such as the shift in our portfolio mix towards different client profiles and returns-accretive businesses, as well as client sentiment metrics such as the net promoter score. Some selected indicators are highlighted below.

	Progress in 2017	Focus for 2018
1 Secure the foundations We have substantially completed this objective, putting us in a position of strength from which to drive business growth confidently	**CET1: 13.6%** (2016: 13.6%)	Maintain a strong capital position
	Loan impairment: $1.2bn (underlying) (2016: $2.4bn)	Continue efforts to further strengthen risk controls and conduct
2 Get lean and focused We have continued the restructuring of our businesses and the shift towards sustainable, profitable growth	**Profit before tax: $3.0bn (underlying)** (2016: $1.1bn)	Drive income within our desired risk appetite, and contain costs, leveraging technology
	Return on equity: 3.5% (underlying) (2016: 0.3%)	Focus on driving sustainable momentum in capital and returns-accretive businesses
3 Invest and innovate We have invested to improve the way we serve our clients and the way we collaborate. Examples include significant investments in automation and a revamped learning offering for colleagues	**Digitisation and analytics** driving efficiency and superior client service	Ambitious investment plan in technology to drive business
		Invest in our colleagues and culture
	Retail Banking digital adoption: 44.7% of clients (2016: 39.6%)	Leverage our unique diversity to serve our clients better

For more insights on strategy-related risks see our Group Chief Risk Officer's review on pages 33 to 35

For more information on progress in 2017 and focus for 2018 see our Group Chief Financial Officer's review on pages 28 to 32

Driving commerce and prosperity through innovation

Innovative solutions in Kenya

For over 20 years, we have provided tailored solutions and expert advice to meet the unique requirements of Africa Flight Services, a leading provider of logistical and ground handling services in Kenya

We've helped Africa Flight Services (AFS) develop its expansion programmes by utilising our global footprint and experience in the field of corporate finance. AFS, which owns and operates the largest transit hub in the East and Central Africa region, has unique requirements that are met with bespoke financial solutions by our experienced relationship managers. This, combined with our competitive product portfolio and personalised service, has allowed our partnership with AFS to span over 20 years. Standard Chartered has been the primary banker and financial services partner for the company since 1994.

Corporate & Institutional Banking

Profit before taxation

$1,261m

underlying basis

$986m

statutory basis

Risk-weighted assets

$147bn

Return on risk-weighted assets

0.9%

underlying basis

Segment overview

Corporate & Institutional Banking supports clients with their transaction banking, corporate finance, financial markets and borrowing needs across more than 60 markets, providing solutions to over 5,300 clients in some of the world's fastest-growing economies and most active trade corridors.

Our clients include large corporations, governments, banks and investors headquartered, operating or investing in Asia, Africa and the Middle East. Our strong and deep local presence across these markets enables us to facilitate trade, capital and investment flows in and for our footprint, including across China's Belt and Road initiative.

We collaborate increasingly with other segments: introducing Commercial Banking services to our clients' ecosystems – their networks of buyers, suppliers, customers and service providers – and offering our clients employee banking services through Retail Banking.

Strategic priorities

- Deliver sustainable growth for clients by understanding their agendas, providing trusted advice, and strengthening leadership in flow solutions
- Manage our balance sheet to grow income and returns by driving balance sheet velocity, improving funding quality and maintaining strengthened risk controls
- Improve our efficiency, innovate and digitise to enhance the client experience

Progress

- Completed on-boarding of 91 new OECD clients, and delivered strong growth from the next generation of priority clients
- Improved balance sheet quality, with investment-grade clients now representing 57 per cent of customer loans and advances (2016: 52 per cent) and high quality operating account balances now comprising 48 per cent of Transaction Banking customer accounts (2016: 44 per cent)
- Launched focused workstreams to drive efficiency and innovation, and increase talent diversity

Performance highlights

- Underlying profit before taxation of $1,261 million more than doubled year-on-year primarily driven by lower impairment. While operating expenses were higher, business efficiency improvements created capacity for increased investments
- Underlying income of $6,496 million was stable year-on-year. However, excluding Principal Finance losses, income declined 3 per cent, impacted by a decline in market volatility and spreads in Financial Markets and margin compression in financing businesses. This more than offset the volume growth and margin improvement in Cash Management
- Good balance sheet momentum with loans and advances to customers up 8 per cent year-on-year and customer accounts up 9 per cent
- The difference of $275 million between statutory and underlying profit represents restructuring costs

LEADING DIGITAL CHANNELS

A single gateway for payments in China

In February 2017, we became the first international bank to launch a mobile wallet collection service in China. Having worked closely with national and international businesses and banking institutions in China we recognised the need for a single digital gateway to connect and consolidate multiple payment channels. Within six months, we implemented solutions for 17 corporates across China and have assisted them with more than 26,000 payment transactions. That number is growing daily.

KPIs

Proportion of low returning client risk-weighted assets

Aim Reduce the proportion of risk-weighted assets deployed in Corporate & Institutional Banking that are delivering low returns.

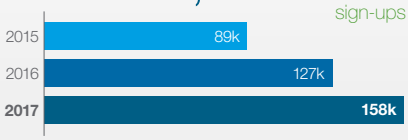
16.8% ↑ of RWAs

Analysis Proportion of low returning client risk-weighted assets has increased from 15.6 per cent in 2016 to 16.8 per cent in 2017, driven by conscious client actions, market pressures, credit migration and model changes.

Collaboration with other client segments

Aim Increase collaboration with other client segments to generate cross-segment business opportunities.

158,000 ↑ new sign-ups



Analysis Increasing trend in Employee Banking account sign-ups from Corporate & Institutional Banking clients with an increase of 24 per cent year-on-year from 127,000 to 158,000.

Retail Banking

Profit before taxation

$873m

underlying basis

$854m

statutory basis

Risk-weighted assets

$44bn

Return on risk-weighted assets

2.0%

underlying basis

UNDERSTANDING CLIENTS' BANKING NEEDS

Building relationships through technology

We are constantly enhancing our products and services to take advantage of digital advances. This includes our new voice recognition platforms and cross-border payment options on mobile and tablet devices for clients who need to bank anytime, anywhere. Every innovation is based on insights: we spend time getting to know our clients and understanding their banking needs and financial goals.

Segment overview

Retail Banking serves over nine million individuals and small businesses, with a focus on affluent and emerging affluent in many of the world's fastest-growing cities. We provide digital banking services with a human touch to our clients across deposits, payments, financing products and Wealth Management, as well as supporting their business banking needs.

Retail Banking represents approximately one-third of the Group's operating income and operating profit. We are closely integrated with the Group's other client segments, for example offering employee banking services to Corporate & Institutional Banking clients, and we are also an important source of high quality liquidity for the Group.

Increasing levels of wealth across Asia, Africa and the Middle East support our opportunity to grow the business sustainably. We aim to improve productivity and client experience through increasing digitisation, driving cost efficiencies and simplifying our processes.

Strategic priorities

- Continue to focus on affluent and emerging affluent clients and their wealth needs in core cities and capture the significant rise of the middle class in our markets
- Continue to build on our client ecosystem and alliances initiatives
- Improve our clients' experience through an enhanced end-to-end digital offering, with intuitive platforms, best-in-class products and service responding to the change in digital habits of clients in our markets

Progress

- Increased share of income from Priority clients to 45 per cent, up from 29 per cent in 2014, supported by adding more than 100,000 Priority clients during 2017
- Our major strategic alliances, with partners such as Asia Miles, Shinsegae and Disney, and our Employee Banking initiatives, have together delivered over 50 per cent of new clients in the year
- Investment in technology is showing results, with nearly 45 per cent of clients now actively using online or mobile banking

Performance highlights

- Underlying profit before taxation of $873 million was up 14 per cent year-on-year as income growth and lower loan impairment offset increased expenses
- Retail Banking income in Greater China & North Asia grew 10 per cent year-on-year; income in ASEAN & South Asia grew 4 per cent excluding the impact of business exits in Thailand and the Philippines; and income in Africa & Middle East was flat
- Strong momentum from Wealth Management and Deposits drove the improved income performance, more than offsetting continued margin compression across asset products
- Good balance sheet momentum, with both loans and advances to customers and customer accounts up 10 per cent during the year
- The difference of $19 million between statutory and underlying profit represents restructuring costs

KPIs

Digital adoption

Aim Align the Group's service to how clients want to interact and increase efficiency by reducing the amount of manual processing.

44.7% ↑ of clients

Analysis Online applications have continued to grow year-on-year with the proportion of Retail Banking clients that are digital-active up from 39.6 per cent in 2016 to 44.7 per cent at the end of 2017.

Priority client focus

Aim Increase the proportion of income from Priority clients, reflecting the strategic shift in client mix towards affluent and emerging affluent clients.

44.8% ↑ of income

Analysis The share of Retail Banking income from Priority clients increased to 44.8 per cent in 2017 from 39.0 per cent in 2016, supported by more than 100,000 new-to-bank Priority clients in the year.

Commercial Banking

Profit before taxation

$282m

underlying basis

$269m

statutory basis

Risk-weighted assets

$33bn

Return on risk-weighted assets

0.9%

underlying basis

CROSS-BORDER RELATIONSHIPS

Helping clients grow their businesses

We are constantly increasing our global footprint and supporting clients to grow their businesses locally and internationally. In 2017, we helped more than 80 per cent of our clients engage in business outside the markets they already operated in, and almost half of them now have offices overseas. The markets we operate in and the relationships we have developed underpin the 20 per cent year-on-year growth of our network business and drives our ambition of helping small and mid-sized companies capture international opportunities.

Segment overview

Commercial Banking serves over 40,000 local corporations and medium-sized enterprises in 26 markets across Asia, Africa and the Middle East. We aim to be our clients' main international bank, providing a full range of international financial solutions in areas such as trade finance, cash management, financial markets and corporate finance.

Through our close linkages with Retail Banking and Private Banking, our clients can access additional services they value including employee banking services and personal wealth solutions. We also collaborate with Corporate & Institutional Banking to service their clients' end-to-end supply chains.

Our clients represent a large and important portion of the economies we serve and are potential future multinational corporates. Commercial Banking is at the heart of our shared purpose to drive commerce and prosperity through our unique diversity.

Strategic priorities

- Drive quality sustainable growth by deepening relationships with our existing clients and attracting new clients that are aligned with our strategy, with a focus on rapidly growing and internationalising companies in our footprint
- Improve client experience, through investing in frontline training, tools and analytics
- Continue to enhance credit risk management and monitoring and maintain a high bar on operational risk

Progress

- Improved client experience materially, with client satisfaction as measured by our annual 'client intelligence survey' having improved meaningfully year-on-year
- On-boarded over 4,500 new-to-bank clients in the year, of which 830 came from our clients' international and domestic networks of buyers and suppliers
- Significantly strengthened the foundations in credit risk management through a series of actions which resulted in lower loan impairments in 2017

Performance highlights

- Returned Commercial Banking to profitability, with an underlying profit before taxation of $282 million reflecting significantly lower impairment, reduced expenses and higher income
- Underlying income of $1,333 million was up 3 per cent year-on-year, driven by positive momentum across regions, with income up 5 per cent in ASEAN & South Asia, up 2 per cent in Africa & Middle East, and up 1 per cent in Greater China & North Asia, led by Cash Management and Financial Markets products
- Strong balance sheet growth, with loans and advances to customers up 17 per cent year-on-year and customer accounts up 4 per cent
- The difference of $13 million between statutory and underlying profit represents restructuring costs

KPIs

New-to-bank ecosystem clients

Aim Bank our clients' international and domestic networks of suppliers and buyers (the ecosystem).

28.3% increase in clients

Analysis The number of clients on-boarded through our 'banking the ecosystem' initiative increased 28.3 per cent in 2017.

Straight2Bank utilisation

Aim Improve client experience and minimise manual transactions and the reliance on branches for cash, trade and FX, thereby reducing the cost of servicing.

44.7% of clients

Analysis Straight2Bank utilisation increased 13 per cent in 2017. By the end of 2017, 44.7 per cent of active Commercial Banking clients are using the capability, up from 42.4 per cent in 2016.

Private Banking

Loss before taxation

$(1)m

underlying basis

$(16)m

statutory basis

Risk-weighted assets

$6bn

Return on risk-weighted assets

0.0%

underlying basis

BUILDING SKILLS FOR THE FUTURE

Mentoring the next generation of leaders

At Standard Chartered, we believe the next generation will play a critical role in shaping the world's future. Our Future Global Leaders' Programme, part of our offering to Private Banking clients, is designed to harness the skills of tomorrow's influencers. The programme brings together future leaders aged between 20-35 to help them connect as a global community, and develop leadership, philanthropy, sustainability and entrepreneurship skills, so that they can maximise their potential and enable others to do the same. In 2017, we held the programme in London, Cape Town, Delhi and Singapore.

Segment overview

Private Banking offers a full suite of investment, credit and wealth planning solutions to grow and protect the wealth of high-net worth individuals across our footprint.

Our investment advisory capabilities and product platform are independent from research houses and product providers, allowing us to put client interests at the centre of our business. This is coupled with an extensive network across Asia, Africa and the Middle East, which provides clients with relevant market insights and cross-border investment and financing opportunities.

As part of our universal banking proposition, clients can also leverage our global Commercial Banking and Corporate & Institutional Banking capabilities to support their business needs. Private Banking services can be accessed from six leading centres: Hong Kong, Singapore, London, Jersey, Dubai and India.

Strategic priorities

- Instil a culture of excellence by improving the expertise and enhancing the skills of senior relationship management teams
- Improve client experience by enhancing our advisory proposition and reducing turnaround time of the investment process
- Balance growth and controls by simplifying the business model through implementation of a rigorous controls enhancement plan

Progress

- Strengthened relationship management teams with almost 60 new frontline hires globally. Launched Private Banking Academy in partnership with INSEAD and Fitch to deliver an industry leading frontline training programme across key markets
- Enhanced our open architecture platform through digitisation, enabling real-time price discovery across equity derivatives and fixed income, and halving preparation time for investment proposals
- Sharpened our client coverage model with the completion of the country coverage initiative and continuous shift to focus on the above $5 million assets under management client segment

Performance highlights

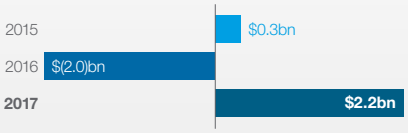
- Private Banking generated an underlying loss before taxation of $1 million compared to a profit of $32 million in 2016, due to higher expenses as we continued to invest significantly in the business
- Underlying income of $500 million was up 1 per cent year-on-year, impacted by the non-recurrence of an insurance recovery. Excluding this, income improved 6 per cent driven by Wealth Management, Treasury and Funds products, and improved Deposit margins
- Assets under management increased by $10.2 billion or 18 per cent since 31 December 2016 driven by positive market movements and $2.2 billion of net new money
- The difference of $15 million between statutory and underlying loss represents restructuring costs

KPIs

Net new money

Aim Grow and deepen client relationships, improve investment penetration and attract new clients.

$2.2bn ↑ of net new money

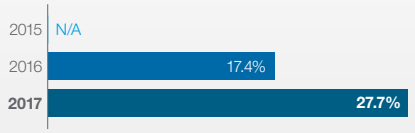


Analysis We added $2.2 billion of net new money in 2017, after seeing outflows in 2016 when investor sentiment was impacted by volatility in equity and other markets, coupled with our actions taken to improve our risk profile.

Net client score for ease of doing business

Aim Holistically improve the Private Banking client experience through all touch points with the Group.

27.7% ↑ more clients



Analysis Launched in 2016, the annual Private Banking client satisfaction survey reviews multiple dimensions of client sentiment and measures our progress in putting client needs at the heart of everything we do. In 2017, significantly more clients rated us very easy to do business with than those that rated us difficult to do business with.

Driving commerce and prosperity through our unique diversity

Developing partnerships to deliver financial inclusion

Working together with the Asian Development Bank (ADB), we are helping to drive prosperity for people traditionally excluded from the financial system

We have extended a unique risk participation deal – the first of its type for the microfinance sector in Asia when launched in 2013 – with the ADB to increase the flow of credit to microfinance institutions (MFIs) across Asia. By increasing the capital available, partner MFIs are able to reach more unbanked individuals and finance additional microenterprises.

Originally, we aimed to originate and service a $150 million portfolio of MFI loans across Asia by the end of 2018, with the ADB sharing 50 per cent of the risk on the portfolio. Due to the programme's success, the ADB increased its risk participation ceiling from $75 million to $120 million, allowing us to increase the total programme size to $240 million outstanding at any given time. The programme has now been recognised as part of the ADB's mainstream operations with no specified end date.

Together, Standard Chartered and ADB have provided approximately 125 loans totalling $325 million to 13 MFIs in Bangladesh, Indonesia and India, with the potential to expand to additional markets in Asia.

Greater China & North Asia

Highlights of 2017

Profit before taxation

$1,942m

underlying basis

$1,977m

statutory basis

Risk-weighted assets

$85bn

Loans and advances to customers

Greater China & North Asia
44% of Group

Income split by key markets

Hong Kong
60%

Others
40%

Region overview

Greater China & North Asia is the Group's largest region, representing approximately 40 per cent of the Group's income, and includes our clients in Hong Kong, Korea, China, Taiwan, Japan and Macau. Of these, Hong Kong remains the Group's largest market, underpinned by a diversified franchise and deeply rooted presence.

The region is highly interconnected, with China's economy at its core. Our regional footprint, distinctive proposition and continued investment positions us strongly to capture opportunities as they arise from the continuing opening up of China's economy.

We are building on the region's ongoing economic growth, the rising wealth of its population, the increasing sophistication and internationalisation of Chinese businesses and the resulting increased usage of the renminbi internationally.

Strategic priorities

- Leverage our network strength to serve the inbound and outbound cross-border trade and investment needs of our clients
- Capture opportunities arising from China's opening, including the renminbi, Belt and Road initiative, onshore capital markets and mainland wealth, as well as from our digital capabilities
- Strengthen market position in Hong Kong, and improve Retail Banking performance in China and Korea

Progress

- Added overseas China desks across the Group's footprint, helping to grow income and increase the number of Belt and Road initiative projects we were involved in by over 25 per cent
- Strong progress in Retail Banking in Hong Kong, adding more than 43,300 new-to-bank Priority clients through alliances such as Asia Miles and our enhanced digital on-boarding platform
- Retail Banking in both China and Korea have seen a significant improvement in performance, driven by cost efficiencies and focused client acquisition

Performance highlights

- Underlying profit before taxation of $1,942 million was 45 per cent higher year-on-year, reflecting income growth and lower impairment
- Underlying income of $5,616 million was 8 per cent higher year-on-year, with all markets and client segments contributing. Retail Banking and Private Banking income both grew 10 per cent year-on-year driven by Wealth Management, improving margins and strong balance sheet growth. Corporate & Institutional Banking income rose 9 per cent year-on-year, due to Cash Management, Corporate Finance and Capital Markets. Commercial Banking income grew 1 per cent year-on-year, driven by Cash Management and Corporate Finance
- Strong balance sheet momentum with loans and advances to customers up 15 per cent year-on-year and customer accounts up 10 per cent
- The difference of $35 million between statutory and underlying profit represents restructuring costs

ASEAN & South Asia

Highlights of 2017

Profit before taxation

$492m

underlying basis

$350m

statutory basis

Risk-weighted assets

$97bn

Loans and advances to customers

ASEAN & South Asia
29% of Group

Income split by key markets

Singapore	India	Others
37%	**26%**	**37%**

Region overview

The Group has a long-standing and deep franchise across the ASEAN & South Asia region. We are the only international bank with a presence in all 10 ASEAN countries and we also have meaningful operations in all key South Asian markets. Our two largest markets in the region by income are Singapore and India, where we have had a deep-rooted presence for over 150 years.

The region contributes over a quarter of the Group's income. Within the region, Singapore is home to the majority of our global business leadership and our technology organisation as well as SC Ventures, our innovation hub.

The strong underlying economic growth in the ASEAN & South Asia region supports our opportunity to grow and sustainably improve returns. The region is benefiting from rising trade flows, including from the Belt and Road initiative, continued strong investment and a rising middle class which is driving consumption growth and improving digital connectivity.

Strategic priorities

- Optimise geographic portfolio by selectively reshaping sub-scale unprofitable markets and prioritising larger or more profitable markets
- Shift the income mix towards 'asset-light' businesses, such as network and flow opportunities in Corporate & Institutional Banking and Commercial Banking, and towards Wealth and Priority clients in Retail Banking
- Deploy differentiating digital capabilities in key markets to improve client experience and productivity

Progress

- Exited Retail Banking in the Philippines and Thailand in 2017, and our stake in Asia Commercial Bank in early 2018. Investments in Singapore, India and Vietnam are showing early positive impact
- The business 'mix shift' is starting: 6 per cent year-on-year cash liabilities growth, global subsidiaries up 13 per cent, new Priority clients grew 18 per cent, wealth assets under management up 25 per cent
- Encouraging early signs of digital adoption in key markets, with a faster pace of improving digital sales penetration

Performance highlights

- Underlying profit before taxation of $492 million declined 22 per cent year-on-year due to negative operating leverage impacted by low volatility in Financial Markets and higher costs as we invested for future growth
- Underlying income of $3,833 million fell 5 per cent year-on-year driven by the decisions to exit Retail Banking in Thailand and the Philippines, and from the impact of low volatility on Financial Markets. Retail Banking income, excluding the impact of exits, rose 4 per cent year-on-year, and Commercial Banking income was up 5 per cent year-on-year
- Client activity was positive with 13 per cent growth in loans and advances to customers and 8 per cent growth in customer accounts since December 2016
- The difference of $142 million between statutory and underlying profit represents restructuring costs of $161 million, which are offset by gains on sale of business of $19 million

Africa & Middle East

Highlights of 2017

Profit before taxation

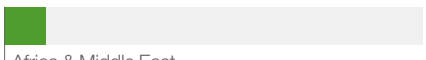
$642m
underlying basis

$609m
statutory basis

Risk-weighted assets

$56bn

Loans and advances to customers



Africa & Middle East
10% of Group

Income split by key markets

UAE **27%**
Others **73%**

Region overview

We have a deep-rooted heritage of over 150 years in Africa & Middle East and are present in 25 markets, of which the UAE, Nigeria, Pakistan and Kenya are the largest by income. Among international banks we have the broadest presence across sub-Saharan Africa by number of markets.

A rich history, deep client relationships and a unique footprint in the region and across key origination centres in Asia, Europe and the Americas enable us to seamlessly support our clients. Africa & Middle East is an important part of global trade and investment corridors, including those on the Belt and Road initiative and we are well placed to facilitate these flows. Demand for capital remains robust, with favourable demographics, urbanisation and infrastructure investment.

While the economic challenges in Africa & Middle East were severe in 2015 and 2016, our business stabilised in 2017 and we remain confident that the opportunities in the region will support long-term sustainable growth for the Group. We continue to invest selectively and drive efficiencies.

Strategic priorities

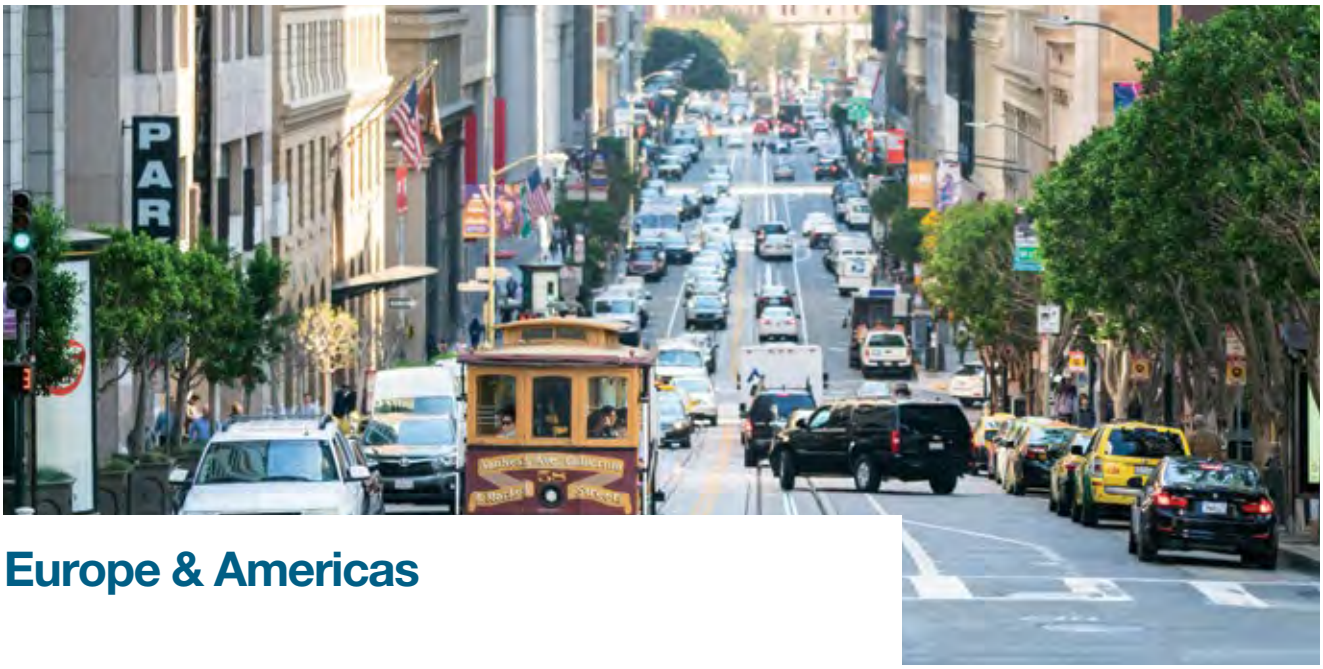
- De-risk and improve the quality of income, and maintain a stable platform for sustainable growth
- Build income momentum in Corporate & Institutional Banking by providing best-in-class structuring and financing solutions and driving origination through client initiatives
- Continue investing in market-leading digitisation initiatives in Retail Banking to protect and grow market share in core markets

Progress

- The UAE, a key market, has turned around and Commercial Banking in the region has stabilised
- Reinforced our strong market presence through a number of marquee deals from sovereigns, financial institutions and corporate clients
- On track to deliver digital solutions across key countries in Africa during 2018

Performance highlights

- Underlying profit before taxation of $642 million rose 49 per cent year-on-year, driven by a reduction in loan impairment
- Despite economic challenges in the region, underlying income of $2,764 million was up 1 per cent year-on-year driven by Africa up 4 per cent while Middle East, North Africa and Pakistan were down 2 per cent. Strong Transaction Banking and Wealth Management performance was offset by the impact of lower volatility in Financial Markets and lower margins in Retail Products
- Loans and advances to customers were up 5 per cent year-on-year and customer accounts grew 6 per cent
- The difference of $33 million between statutory and underlying profit represents restructuring costs



Europe & Americas

Highlights of 2017

Profit before taxation

$71m

underlying basis

$46m

statutory basis

Risk-weighted assets

$45bn

Loans and advances to customers

Europe & Americas
16% of Group

Income split by key markets

UK	US	Others
46%	**42%**	**12%**

Region overview

The Group supports clients in Europe & Americas through hubs in London and New York as well as a presence in several European and Latin American markets. We offer our clients rich network and product capabilities through our knowledge of working in and between Asia, Africa and the Middle East. We also have a Private Banking business, focused on serving clients with linkages to our Asia, Africa and Middle East footprint markets.

The region is a major income origination engine for the Group's Corporate & Institutional Banking business. Clients based in Europe & Americas generate over one-third of Corporate & Institutional Banking income, with two-thirds of that income booked in the Group's other regions where the service is provided.

The region is home to the Group's two biggest payment clearing centres and the largest trading room. Over 80 per cent of the region's income derives from Financial Markets and Transaction Banking products. Given this mix, the business we do across the Group with clients based in Europe & Americas generates above average returns.

Strategic priorities

- Continue to attract new international corporate and financial institutions clients and deepen relationships with existing clients by banking them across more markets in our network
- Enhance capital efficiency, maintain strong risk oversight and further improve the quality of our funding base
- Grow our Private Banking franchise and assets under management in London and Jersey

Progress

- Good progress made in attracting new clients and broadening relationships with existing clients; 79 new multinational corporate clients on-boarded in the region in 2017
- Underlying returns from Corporate & Institutional Banking clients continue to improve along with the improved risk profile
- Assets under management for Private Banking clients grew by 17 per cent in 2017

Performance highlights

- The region returned to profitability with an underlying profit for the year of $71 million, supported by a substantial reduction in loan impairment following earlier management actions. Expense growth reflects the continued investment in people and globally driven investments in systems and product capabilities
- Underlying income of $1,601 million was 4 per cent lower year-on-year impacted by a decline in market volatility in Financial Markets which was only partly offset by an improvement in Cash Management income. Income generated by our clients that is booked in other markets grew by 17 per cent in 2017
- Loans and advances to customers were up 6 per cent year-on-year and customer accounts grew 9 per cent
- The difference of $25 million between statutory and underlying profit represents restructuring costs

Driving commerce and prosperity through our unique diversity

Supporting expansion in Sri Lanka

MAS Intimates Unichela, one of the largest apparel organisations in South Asia, has been working with us to expand its operations and commercial footprint

We used our strong presence in South Asia, as well as our international banking experience, to help MAS Intimates Unichela grow into an industry leader in the region. From payments and settlements to trade facilities and financing, our services have helped the company expand into countries such as Indonesia and Bangladesh and trade internationally. Our Relationship Managers have been pivotal in providing expert advice to benefit not only MAS Intimates Unichela, but also other businesses across South Asia.

Group Chief Financial Officer's review

Significant improvement in the Group's profitability

Performance summary

The significant improvement in the Group's profitability in 2017 was a direct consequence of the many operational and financial actions taken since 2015 and provides a solid base off which to improve return on equity further over the coming years.

- Statutory profit before tax of $2.4 billion is stated after restructuring and other items of $595 million and was a significant improvement compared to the previous year. All commentary that follows is on an underlying basis unless otherwise stated and a reconciliation between statutory and underlying profit is provided in note 2 on page 211
- Underlying profit before tax of $3.0 billion was 175 per cent higher year-on-year and 71 per cent higher excluding losses in 2016 in Principal Finance
- Underlying operating income of $14.3 billion was up 3 per cent year-on-year with good momentum across a range of products partly offset by industry-wide low volatility that affected Financial Markets
- Underlying operating expenses of $9.9 billion excluding the UK bank levy were 3 per cent higher year-on-year primarily resulting from the implementation of some significant regulatory programmes and higher variable pay arising from the Group's improved financial performance
- Gross cost efficiencies were delivered ahead of plan and used to fund investments and offset inflation
- The UK bank levy of $220 million was $163 million lower after updating estimates made in previous years. The UK bank levy in 2018 is expected to be around $310 million
- Underlying impairment of loans and advances and other credit risk provisions of $1.2 billion was half the level it was in 2016 reflecting management actions to improve the quality of the Group's portfolios
- Profit from associates and joint ventures of $210 million was significantly higher than in 2016
- The Group incurred net restructuring charges of $353 million taking the total since November 2015 to $3.1 billion with the exit of Principal Finance and the remaining exposures in the liquidation portfolio left to complete
- Other items include goodwill impairment of $320 million following an increase in the discount rate applied to the Group's subsidiary in Taiwan and a $78 million net gain on the disposal of equity investments
- Changes to the US tax regime caused a reduction in the Group's deferred tax assets of $220 million. The underlying effective tax rate excluding the impact of these reforms and tax on other normalised items was 32.0 per cent
- The Group is well capitalised with a Common Equity Tier 1 (CET1) ratio of 13.6 per cent and is highly liquid. Customer loans and advances grew 12 per cent in the year, and liabilities 9 per cent
- The impact of adopting IFRS 9 on 1 January 2018 is an increase in credit provisions of $1.2 billion and, in line with the Group's previous guidance, an estimated decrease in the Group's CET1 ratio by around 15 basis points. Under transitional rules the day-one impact on the CET1 ratio is negligible
- Based on the 2017 balance sheet the Group's early assessment of the impact of final Basel III reforms to be implemented in 2022 is an increase in the Group's risk-weighted assets (RWAs) of 10-15 per cent
- The Board has recommended resuming a dividend given improving financial performance and strong capital starting with a full year dividend for 2017 of 11 cents per ordinary share. The intent is to increase the dividend per share over time as the Group's performance improves

Andy Halford
Group Chief Financial Officer

Underlying profit before tax 175% higher year-on-year

$3.0bn

	2017 $million	2016 $million	Better/(worse) %
Operating income	**14,289**	13,808	3
Other operating expenses	**(8,599)**	(8,465)	(2)
Regulatory costs	**(1,301)**	(1,127)	(15)
UK bank levy	**(220)**	(383)	43
Operating expenses	**(10,120)**	(9,975)	(1)
Operating profit before impairment losses and taxation	**4,169**	3,833	9
Impairment losses on loans and advances and other credit risk provisions	**(1,200)**	(2,382)	50
Other impairment	**(169)**	(383)	56
Profit from associates and joint ventures	**210**	25	nm
Underlying profit before taxation	**3,010**	1,093	175
Restructuring	**(353)**	(855)	nm
Other items	**(242)**	171	nm
Statutory profit before taxation	**2,415**	409	nm
Taxation	**(1,147)**	(600)	(91)
Profit/(loss) for the period	**1,268**	(191)	nm
Net interest margin (%)	**1.6**	1.5	
Underlying return on equity (%)	**3.5**	0.3	
Statutory return on equity (%)	**1.7**	(1.1)	
Underlying earnings per share (cents)	**47.2**	3.4	
Statutory earnings/(loss) per share (cents)	**23.5**	(14.5)	
Dividend per share (cents)	**11**	–	
Common Equity Tier 1 (%)	**13.6**	13.6	

Underlying income

Operating income of $14.3 billion was up 3 per cent year-on-year. Good momentum in Transaction Banking, Wealth Management and Deposits, particularly across Greater China & North Asia, together with higher Treasury income more than offset the impact of industry-wide lower volatility in Financial Markets.

- Corporate & Institutional Banking income was flat year-on-year. Excluding losses incurred in 2016 in relation to Principal Finance, income was 3 per cent lower as the impact of low volatility in Financial Markets more than offset higher income from Transaction Banking
- Retail Banking income was 4 per cent higher year-on-year and 7 per cent higher excluding the impact of exiting Retail Banking in Thailand and the Philippines. The Group's focus on Priority clients resulted in a strong performance in Wealth Management and Deposits. This more than offset the impact of lower margins on unsecured lending to Personal clients
- Commercial Banking income was 3 per cent higher year-on-year with broad based growth in Transaction Banking, Financial Markets and Corporate Finance offsetting lower income from Lending
- Private Banking income was 1 per cent higher year-on-year and 6 per cent higher excluding an insurance recovery booked in the first quarter of 2016. This followed good growth in income from investment products that now account for around 65 per cent of total assets under management
- Income from Central & other items (segment) was 29 per cent higher year-on-year benefiting from a lower interest expense than in 2016. Gains in the first half from active interest rate management and a third quarter dividend from a strategic investment were largely offset by a hedge accounting adjustment in the fourth quarter
- Income from Greater China & North Asia was up 8 per cent year-on-year following a strong performance in Hong Kong and further improvement in Korea
- ASEAN & South Asia income was 5 per cent lower year-on-year. Excluding the impact of Retail Banking business exits, income was 2 per cent lower with improved performances in Retail Banking and Commercial Banking offset by the impact of low volatility in Financial Markets, particularly in Singapore which is a major Financial Markets hub for the region
- Income from Africa & Middle East was broadly stable year-on-year and up 3 per cent on a constant currency basis
- Europe & Americas income was 4 per cent lower year-on-year. The region's status in the Group as a hub for Financial Markets activity meant it was particularly impacted by industry-wide lower volatility. The region is a significant contributor to the Group with around one-third of Corporate & Institutional Banking income originated with clients that are based there

Underlying expenses

Other operating expenses of $8.6 billion were up 2 per cent year-on-year driven primarily by higher variable pay arising from the Group's improved business performance.

Group Chief Financial Officer's review continued

Performance summary continued

Regulatory costs of $1.3 billion were 15 per cent higher year-on-year, reflecting the implementation of a number of significant regulatory programmes.

The UK bank levy of $220 million included a $105 million benefit in relation to changes to estimates made in previous years and as a result was $163 million lower year-on-year. The UK bank levy in 2018 is expected to be around $310 million.

The Group had by the end of 2017 delivered over 85 per cent of its $2.9 billion three-year gross cost efficiency target set in November 2015. This is ahead of plan and has created capacity to fund investments and offset inflation.

Underlying impairment

Loan impairment of $1.2 billion was half the level seen in 2016 benefiting from past actions taken to improve the Group's risk profile. The year-on-year improvement was broad-based by client segment and region. Increases in loan impairment in the fourth quarter related to a small number of Commercial Banking clients the Group had been monitoring for some time and a one-off provision in Retail Banking following a change to regulation in Korea.

Other impairment was lower year-on-year following the Group's decision to exit Principal Finance which in 2017 was reported within restructuring and is therefore excluded from the Group's underlying performance.

Profit from associates and joint ventures

Profit from associates and joint ventures of $210 million reflected an improved performance of the Group's joint venture in Indonesia and the continuing good performance of the Group's associate investment in China.

Profit before tax

As a consequence of the many actions taken since 2015 underlying profit before tax of $3.0 billion was 175 per cent higher year-on-year and 71 per cent higher excluding the impact of Principal Finance losses in 2016. Statutory profit before tax of $2.4 billion which is stated after restructuring and other items was $2.0 billion higher.

These actions have resulted in improved operating profit across most client segments including a significant increase in Corporate & Institutional Banking and good growth in Retail Banking, while Commercial Banking returned to profit. By region, improvement across Greater China & North Asia offset the impact of lower income from the Group's Financial Markets hubs located in ASEAN & South Asia and Europe & Americas. The prior year performance in Central & other items (region) was impacted by Principal Finance losses.

	2017 $million	2016 $million	Better/(worse) %
Corporate & Institutional Banking	**1,261**	435	190
Retail Banking	**873**	766	14
Commercial Banking	**282**	(120)	nm
Private Banking	**(1)**	32	nm
Central & other items	**595**	(20)	nm
Underlying profit before taxation	**3,010**	1,093	175

	2017 $million	2016 $million	Better/(worse) %
Greater China & North Asia	**1,942**	1,340	45
ASEAN & South Asia	**492**	629	(22)
Africa & Middle East	**642**	431	49
Europe & Americas	**71**	(148)	nm
Central & other items	**(137)**	(1,159)	nm
Underlying profit before taxation	**3,010**	1,093	175

Group credit quality and liquidation portfolio

The credit quality of the Group overall has improved year-on-year with the focus on better quality origination within a more granular risk appetite driving improvement across all client segments. The Group remains watchful for emerging risks in view of persistent challenging conditions as well as continued geopolitical uncertainty.

The Group's client exposures are well collateralised, well diversified, and remain predominantly short tenor.

Non-performing loans

Gross non-performing loans (NPLs) in the ongoing business were $573 million higher year-on-year driven by increases related to the downgrade in the fourth quarter of a small number of Corporate & Institutional Banking clients partly offset by write-offs and recoveries in Commercial Banking and lower NPLs in Retail Banking. New inflows into NPLs related primarily to a small number of exposures that the Group had been monitoring for some time in the oil and gas support services sector and in India.

Credit grade 12 accounts

Credit grade 12 accounts were stable year-on-year. Increases in the fourth quarter related to the downgrade of a small number of Commercial Banking exposures in Africa & Middle East to reflect the continued challenging conditions there.

Cover ratio

The cover ratio of NPLs in the ongoing portfolio reduced from 69 per cent at 31 December 2016 to 63 per cent at 31 December 2017. The cover ratio including collateral increased from 74 per cent to 79 per cent over the same period, reflecting the higher degree of collateral held against new inflows into NPLs.

Liquidation portfolio

The Group has made significant progress exiting exposures in the liquidation portfolio having reduced gross NPLs by $1.6 billion since 31 December 2016. The Group has since November 2015 reduced RWAs associated with this portfolio from $20 billion to $815 million. The exposures are 86 per cent covered with net NPLs of $653 million remaining to be exited.

	2017			2016		
	Ongoing business $million	**Liquidation portfolio $million**	**Total $million**	Ongoing business $million	Liquidation portfolio $million	Total $million
Impairment						
Underlying loan impairment	**1,200**	**–**	**1,200**	2,382	–	2,382
Restructuring loan impairment	**42**	**120**	**162**	–	409	409
Statutory loan impairment	**1,242**	**120**	**1,362**	2,382	409	2,791
Loans and advances						
Gross loans and advances	**289,007**	**2,248**	**291,255**	258,396	3,854	262,250
Net loans and advances	**284,878**	**675**	**285,553**	254,463	1,433	255,896
Credit quality						
Gross non-performing loans	**6,453**	**2,226**	**8,679**	5,880	3,807	9,687
Individual impairment provisions	**(3,607)**	**(1,573)**	**(5,180)**	(3,355)	(2,421)	(5,776)
Net non-performing loans	**2,846**	**653**	**3,499**	2,525	1,386	3,911
Credit grade 12 accounts[1]	**1,483**	**22**	**1,505**	1,499	22	1,521
Cover ratio (%)	**63**	**71**	**65**	69	64	67
Cover ratio after collateral (%)	**79**	**86**	**81**	74	80	76
Risk-weighted assets	**278,933**	**815**	**279,748**	265,637	3,808	269,445

1 Includes Corporate & Institutional Banking and Commercial Banking

Restructuring and other items

The Group incurred restructuring charges in 2017 of $353 million relating primarily to the ongoing reduction of the liquidation portfolio and exit of the Principal Finance business as well as redundancy costs. Restructuring charges since November 2015 total $3.1 billion and are in line with guidance with the exit of the Principal Finance portfolio and the remaining exposures in the liquidation portfolio left to complete.

In 2017 as part of its annual assessment the Group incurred goodwill impairment of $320 million related to an increase in the discount rate applied to its subsidiary in Taiwan.

In 2017 the Group realised a $78 million net gain on completion of the disposal of equity investments.

	2017		2016	
	Restructuring $million	**Other items $million**	Restructuring $million	Other items $million
Operating income	**58**	**78**	(85)	337
Operating expenses	**(297)**	**–**	(236)	–
Impairment losses on loans and advances and other credit risk provisions	**(162)**	**–**	(409)	–
Other impairment	**(10)**	**(320)**	(63)	(166)
Profit/(loss) from associates and joint ventures	**58**	**–**	(62)	–
Profit before taxation	**(353)**	**(242)**	(855)	171

Balance sheet and capital

Balance sheet

Net loans and advances to customers were up 12 per cent year-on-year to $285.6 billion with strong and broad-based growth across a range of products including in the fourth quarter. Customer deposits of $411.7 billion were up 9 per cent year-on-year as the Group continued to focus on improving the quality and mix of its liabilities. As a result, the Group's customer advances to customer deposits ratio increased to 69.4 per cent compared to 67.6 per cent as at 31 December 2016.

CET1 ratio

The Group is well capitalised with a CET1 ratio at the end of 2017 of 13.6 per cent. The benefit of profits after a deduction for a dividend was offset by a $10.3 billion increase in RWAs primarily relating to the application of loss given default (LGD) floors for certain exposures to financial institutions. A lower increase is expected in 2018 from the application of LGD floors for certain exposures to corporates.

Group Chief Financial Officer's review continued

Balance sheet and capital continued

IFRS 9

The estimated impact of adopting IFRS 9 on 1 January 2018 is an increase in credit provisions of $1.2 billion and, in line with previous guidance, a reduction in the Group's CET1 ratio by approximately 15 basis points. Under transitional rules some components of IFRS 9 are phased in over five years resulting in a negligible day-one impact on the CET1 ratio. More detail on the impact on loan impairment as well as the classification and measurement of financial instruments is set out in note 41 on page 304. The Group will publish a transition report ahead of the first quarter 2018 interim management statement.

Final Basel III reforms

In December 2017 the Basel Committee on Banking Supervision published final details of its Basel III reforms. First announced in 2010 as a response to the global financial crisis these reforms seek to restore credibility in the calculation of RWAs and improve the comparability of banks' capital ratios. These reforms that are expected to be implemented in 2022 include changes to the capital calculation methodology for credit and operational risk and introduce constraints on the estimates banks make when they use their internal models for regulatory capital purposes, and, in some cases, remove the use of internal models. National discretion and how these reforms might be transposed into law make it difficult to reliably estimate the impact but based on the 31 December 2017 balance sheet the Group's early assessment is an increase in RWAs of 10-15 per cent.

	2017 $million	2016 $million	Increase / (decrease) $million	Increase / (decrease) %
Loans and advances to banks	**81,325**	74,669	6,656	9
Loans and advances to customers	**285,553**	255,896	29,657	12
Other assets	**296,623**	316,127	(19,504)	(6)
Total assets	**663,501**	646,692	16,809	3
Deposits by banks	**35,486**	37,612	(2,126)	(6)
Customer accounts	**411,724**	378,302	33,422	9
Other liabilities	**164,484**	182,120	(17,636)	(7)
Total liabilities	**611,694**	598,034	13,660	2
Total equity	**51,807**	48,658	3,149	6
Total equity and liabilities	**663,501**	646,692	16,809	3
Advances to deposits ratio (%)	**69.4**	67.6	–	–
Common equity tier 1 ratio (%)	**13.6**	13.6	–	–
Risk-weighted assets	**279,748**	269,445	10,303	4

Summary

We have made encouraging progress transforming the Group with good momentum in key investment areas contributing to significant improvements in both underlying and statutory profits.

Competition remains strong and certain geopolitical tensions are elevated but economic conditions are improving and emerging regulatory clarity has allowed us to resume paying dividends.

It is encouraging to see the improvement in profitability and the increased balance sheet momentum but there is still a long way to go before returns are at acceptable levels. Transitioning to a higher quality income and more sustainable business takes time but we are evidentially heading in the right direction.

We are investing to enhance controls and improve productivity to make us safer and simpler to do business with. Cost efficiencies are funding the investments in systems and processes that will enable us to engage more confidently and effectively with our clients.

The focus now is on ensuring that we share in the natural sectoral growth in our markets through maintaining and developing ever-closer relationships with our clients, further reducing our costs of funds and realising the benefits of our continuing technology investments.

Andy Halford
Group Chief Financial Officer

27 February 2018

Group Chief Risk Officer's review

A refreshed approach to managing risk

2017 was a year of continued progress for the management of risk in the Group. With stronger origination discipline and targeted growth, the Group has seen improved asset quality across our businesses. Loan impairment was lower, and diversification across industry sectors and geographies increased as the Group continued to add new clients selectively. Our focus on embedding a sustainable risk culture and an effective enterprise risk management approach is helping to build a more resilient bank for the benefit of our colleagues, clients and investors.

We have made significant progress in our work to combat financial crime and have increased focus on our cyber risk management capabilities. We recognise that these are continually evolving threats and we cannot stand still in our fight to protect our business and society more generally. In addition we have developed a framework to refine and strengthen our conduct environment, and this will be a key priority in 2018. Risk is a shared responsibility of everyone in the Group, and is an intrinsic part of every decision that we make.

An update on our key risk priorities

Risk management is a dynamic process. Market-wide and company-specific factors constantly reshape our business environment. We have a number of ongoing initiatives that will further enhance the risk management framework and capability of the Group. Here is an update of the progress against our key priorities in 2017.

- **Strengthen the Group's risk culture** – We have made good progress on embedding a strong risk culture and increased focus on frontline ownership of risk, alongside further development of our Enterprise Risk Management Framework. This facilitates more dynamic risk identification and enables us to establish a clear linkage between strategic decision-making and risk management, as well as identifying and managing correlations across risk types
- **Manage and improve information and cyber security** – High profile security breaches have been a recurring focus in the media headlines and among regulators throughout 2017. We are placing even greater emphasis on improving our defences, creating stronger control frameworks, and expanding intelligence sharing efforts to keep pace with the evolving threats in cyberspace. The Group's deepening network of external partnerships strengthen our own intelligence efforts as well as those across the broader financial services sector. The Group is a founding member of the Cyber Defence Alliance, an external organisation which facilitates information sharing with UK banks and law enforcement; a board member of the Financial Services – Information Sharing & Analysis Center; and a member of the National Cyber-Forensics & Training Alliance, for real-time information sharing and analysis. The Group also operates a Collective Intelligence & Command Centre to coordinate physical and cyber security responses to incidents
- **Enhance the compliance management framework** – We have enhanced our compliance systems and controls, and improved the capability of our compliance resources. We have embedded ownership and responsibility for conduct across our geographic footprint, businesses and functions in a systematic and sustainable manner. We have strengthened our efforts to promote awareness of, and confidence in the Speaking Up Programme including extending our Speaking Up channels to the public

Further details on the Group's Speaking Up Programme can be found in the Directors' Report (page 68)

- **Manage financial crime risks** – We are committed to playing our part in the fight against financial crime. We continued to enhance our controls, systems and processes in 2017 as well as continuing to educate and engage all of our people on financial crime risk and the human and social harm of such crimes. The financial crime landscape continues to evolve, and we recognise the need to be vigilant against new and transforming threats as well as adapting to changes in relevant regulation and sanctions regimes. In 2017 we built a dedicated Cyber Financial Intelligence team in the US, and continued our Correspondent Banking Academy initiative across all of the regions in which we operate. This programme seeks to support our clients in enhancing their financial crime controls, and share international best practices and learning materials. In October 2017 we also held our first Financial Crime Risk Management Academy for non-government organisations as part of our 'De-risking through education' initiative. Our collaborative approach enables us

Mark Smith
Group Chief Risk Officer

to continue providing services which are vital to the world economy in a safe and sound way

+ More information about the Group's commitment to fighting financial crime can be found at sc.com/fightingfinancialcrime

→ **Improve the risk and compliance infrastructure** – The Group has multiple initiatives underway to improve infrastructure for compliance risk management, exposure management, data quality, stress testing, operational risk management and reporting. We have also worked to streamline and simplify our processes to serve clients better and drive internal efficiencies

Our risk profile and performance in 2017

The quality of our loan book has improved in 2017, with a focus on better quality new origination driving a stronger portfolio across all business segments, although we remain watchful for any emerging risks. This is aligned to a more granular risk appetite and enterprise-wide risk management approach. Our capital and liquidity positions remain strong, with all metrics above regulatory thresholds. The Group's client exposures remain predominantly short tenor and our portfolio is well diversified across various dimensions.

We have seen a significant decrease in loan impairment across all businesses, with overall loan impairment down 51 per cent to $1.4 billion in the last 12 months.

Overall gross non-performing loans (NPLs) for the Group have reduced as increases in the ongoing book were more than offset by planned reductions in the liquidation portfolio. Gross non-performing loans (NPLs) for the ongoing business increased from $5.9 billion to $6.5 billion in 2017, driven by a small number of exposures in Corporate & Institutional Banking from oil and gas support services and India. The majority of these counterparties were on early alert for an extended period prior to transferring to NPL and do not indicate any new areas of stress for the overall portfolio.

We continue to focus on early identification of emerging risks so that we can manage any areas of weakness on a proactive basis.

The cover ratio of NPLs in the ongoing business reduced from 69 per cent to 63 per cent, and including collateral improved to 79 per cent from 74 per cent.

Global financial markets experienced low volatility and average Group VaR was 19 per cent lower than the previous year at $26 million (2016: $32 million). The largest operational risk loss recognised as at 31 December 2017 relates to the Group's $17.2 million settlement of a United States class action brought against a number of banks concerning foreign exchange benchmark rates.

› Further details of the 2017 risk performance are set out in the Risk update (pages 120 to 121) and the Risk profile section (pages 122 to 159)

An update to our risk management approach

It is critical that our risk management approach continues to evolve and develop to meet the ever-changing risk landscape facing our business, to ensure it remains relevant and effective in generating safe and sustainable performance and growth for the Group. In 2017 we embarked on a key initiative to build out the Enterprise Risk Management function. This allows the Group to identify and manage risks holistically, ensuring the appropriate governance, oversight and information is in place to run a safe, secure and well-controlled organisation. It also strengthens the Group's capabilities to understand, articulate and control the nature and level of risks we take while still effectively serving our clients.

As part of this initiative, a revised Enterprise Risk Management Framework was approved in December 2017, for implementation in 2018. We are continuing to develop a well-defined, healthy risk culture that is understood across the Group, as well as a clear control framework with sharper delineation of responsibilities between the three lines of defence. Further details on the Group's three lines of defence model are set out in the Enterprise Risk Management Framework section (page 161). We are also formalising the links between our strategy, risk appetite and stress testing to facilitate more dynamic risk identification and develop management processes which clearly integrate risk considerations into strategic decision making.

As part of these changes we have made a number of amendments to our Principal Risk Types. Specifically we have elevated Compliance, Information and Cyber security, Financial crime, and Conduct risk to Principal Risk Types. These were previously incorporated within the risk sub-types under Operational risk. Principal Risk Types are risks that are inherent in our strategy and business model and have been formally defined in the Group's Enterprise Risk Management Framework. The framework provides a structure for the monitoring and control of these risks through the Board-approved Risk Appetite. The Group will not compromise adherence to its Risk Appetite in order to pursue revenue growth or higher returns. The table below shows the Group's Principal Risk Types and how they are managed.

› Further details on Principal Risks are set out in the Risk management approach (pages 165 to 178)

Principal Risk Types	How these are managed
Credit risk	The Group manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors
Country risk	The Group manages its country cross-border exposures following the principle of diversification across geographies and controls business activities in line with the level of jurisdiction risk
Market risk	The Group controls its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Group's franchise
Capital and liquidity risk	The Group maintains a strong capital position including the maintenance of management buffers sufficient to support its strategic aims and holds an adequate buffer of high quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support
Operational risk	The Group controls operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise
Reputational risk	The Group protects the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight
Compliance	The Group has no appetite for breaches in laws and regulations, recognising that whilst regulatory breaches or non-compliance are unwanted, they cannot be entirely avoided
Conduct	The Group strives to maintain the standards in our Code of Conduct and outcomes of our Conduct Framework, by continuously demonstrating that we "Do The Right Thing" in the way we do business
Information and cyber security	The Group seeks to avoid risk and uncertainty for our critical information assets and systems and has a low appetite for material incidents affecting these or the wider operations and reputation of the bank
Financial crime	The Group has no appetite for breaches in laws and regulations related to Financial crime, recognising that whilst incidents are unwanted, they cannot be entirely avoided

1 Pension risk is now a risk sub-type of Market risk and Strategic risk has been integrated as part of the overall Enterprise Risk Management Framework. Further details of updates to our Principal Risk Types are discussed in the Principal Risks section (pages 165 to 178)

Principal uncertainties

The revised Enterprise Risk Management Framework will provide a consolidated way of managing risk, and result in more proactive conversations about strategic risk. We have continued to roll out a more granular and well-defined risk appetite which enables our business to grow in a strong and sustainable manner, but we are aware of principal uncertainties on the horizon that are not fully clear and measurable.

Here is a summary of the principal uncertainties that the Group faces, and the steps that we are taking to manage them.

Principal uncertainties[1]	Risk trend since 2016	How these are mitigated/next steps
Geopolitical events, in particular: increase in trade protectionism, Korean peninsula geopolitical tensions, the Middle East political situation and post-Brexit implications	↑	→ We continuously monitor and assess geopolitical events and, where appropriate, manage the impact to the Group and our clients. → We conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible geopolitical events.
Macroeconomic conditions, in particular: moderation of growth in key footprint markets led by China and sharp interest rate rises and asset corrections	↔	→ We have a Business Risk Horizon framework that provides a 12- to 18-month forward view of the economic, business and credit conditions across our key markets, enabling us to take proactive action. → We monitor economic trends and conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible events.
Climate-related physical risks and transition risks[2]	NEW	→ We are developing an approach for assessing energy utilities clients' power generation assets against a range of physical and transition risks, under multiple climate scenarios and a range of time horizons. We are considering how we extend this to other sectors in 2018. → We have made a public commitment to fund and facilitate $4 billion toward clean technology between 2016 and 2020.
Regulatory reviews and investigations, legal proceedings	↔	→ We have invested in improving compliance controls, including increasing the capacity and capability of compliance resources, enhancing systems and controls, and implementing remediation programmes (where relevant). → We are cooperating with all relevant ongoing reviews, requests for information and investigations and we actively manage legal proceedings, including in respect of legacy issues.
Regulatory changes and tax reforms	↔	→ We monitor regulatory initiatives across our footprint to identify any potential impact and change to our business model. → We have established specific regulatory programmes to ensure effective and efficient implementation of changes required by new, or changes in existing, regulations.
New technologies and digitisation	NEW	→ We continuously monitor developments in the technology space affecting the banking sector and the Group Management Team is exploring in more depth our approach to innovation. → We are engaged in a series of initiatives with the aim of building our capabilities to ensure we remain relevant in a position to capitalise rapidly on technology trends.

↑ Risk heightened in 2017 ↔ Risk remained consistent with 2016 levels

1 Principal uncertainties refer to unpredictable and uncontrollable outcomes from certain events and circumstances which may have the potential to impact our business materially

2 Physical risks refer to the risk of increased extreme weather events while transition risks refer to the risk of changes to market dynamics due to governments' response to climate change

Cyber risk now forms part of our Principal Risk Types which we control and mitigate through distinct risk type frameworks, policies and risk appetite.

Further details on Principal uncertainties, including key changes in respect of 2016, are set out in the RIsk Management Approach (pages 179 to 182)

Conclusion

We continue to make strides in building a sustainable franchise in the interests of all our stakeholders. In order to drive commerce and prosperity, our organisation must take a long-term view by putting the needs of our clients first, supported by the right culture, people and practices. Though there will be headwinds along the way, we will continue with our mission to be an industry leader championing trust, integrity and quality.

Mark Smith
Group Chief Risk Officer

27 February 2018

Stakeholders and responsibilities

Our stakeholders

To drive commerce and prosperity across our footprint, we need to take a long-term view. Listening and responding to stakeholder issues or concerns is critical to achieving this. We strive to maintain open and constructive relationships with a wide range of stakeholders to help us operate as a responsible and sustainable business

We engage in regular dialogue with stakeholders, and track and assess long- and short-term issues based on their impact on our business and level of stakeholder concern. Stakeholder feedback is shared with the senior leaders within the Group and progress is communicated annually through channels such as this report. This helps inform our business strategy and build sound relationships in the markets where we operate.

COMMUNITY ENGAGEMENT

Empowering girls and young women

More than 130 delegates from the public, private and not-for-profit sectors attended our first Beyond Girls' Education Summit in South Africa in 2017. The event provided insights from advocacy, technology and education programmes including Goal, our programme to empower girls through sports and life-skills training, and generated 45 new commitments to help young women move from education to employment.

Our stakeholders

Clients

How we serve and engage

We enable individuals to grow and protect their wealth. We help businesses to trade, transact, invest and expand. We also help a variety of financial institutions – including banks, public sector and development organisations – with their banking needs

Our strategy is dependent on our ability to develop deep, long-term relationships with our clients. We aim to deliver fair outcomes for clients by designing products and delivering services that meet their needs and are appropriate to their circumstances. Where issues arise, we aim to deal with complaints in a fast, fair and efficient way. We have sector-specific procedures and processes in place to handle client complaints in each business segment.

Engagement with clients in 2016, through surveys, client experience forums and third-party studies, identified a need to simplify our processes. As a result, in 2017, we improved the customer experience across our businesses through continued investment in technology innovation and streamlined processes. Client feedback on this indicates we are moving in the right direction.

For more information about our clients, read the Client segment reviews on pages 18 to 21

Regulators and governments

How we serve and engage

We engage with relevant authorities to play our part in supporting the effective functioning of the financial system and the broader economy

We are committed to complying with all legislation, rules and other regulatory requirements applicable to our businesses and operations in the jurisdictions within which we operate. Our compliance with legal and regulatory frameworks across our markets ensures that the Group meets its obligations. In turn, this supports the resilience and effective functioning of the Group and the broader financial system and economy. On a day-to-day basis, our Compliance and Public Affairs functions are responsible for identifying changes to financial services regulation, ensuring that we comply with all requirements, and help to manage relationships.

We actively engage with governments, regulators and policymakers at a global, regional and national level to share insights and technical expertise on key policy issues. This engagement supports the development of best practice and the adoption of consistent approaches across our markets. We comply with all relevant transparency requirements and engage with governments and regulators in many ways, including through ongoing dialogue, submission of responses to formal consultations and by joining and participating in industry working groups.

In 2017, we engaged with policymakers at all levels to exchange information on topics such as prudential rules, Brexit and trade promotion, Fintech, cyber security and fighting financial crime.

Investors

How we serve and engage

We aim to deliver robust returns and long-term sustainable value for our investors

The Group receives capital from equity and debt investors. This supports the execution of our business model. Our investor base includes active traders and long-term stakeholders, those interested solely in financial returns and those who are also concerned with environmental and social issues. As such, we engage with investors about all aspects of our financial, environmental and social performance. Whatever the nature of the investor, we treat them equally and aim to balance their diverse interests and expectations.

We communicate with investors in several ways, including presenting scheduled results and via ad hoc media releases. We also meet investors at the Annual General Meeting and at investor meetings and conferences, while our inclusion in sustainability indices, such as the Dow Jones Sustainability Index and the FTSE4Good, provides investors with independent benchmarking data on our performance in these areas.

During 2017, acting on investor feedback for more access to the people running our businesses, we hosted two investor seminars at our London office. These seminars presented an opportunity to understand better the strategy for our largest geographic region, Greater China & North Asia, and our largest client segment, Corporate & Institutional Banking, and to hear directly from the teams managing them.

For more information about Board engagement with shareholders in 2017, see page 61 in the Corporate governance section

Colleagues

How we serve and engage

We offer colleagues opportunities to learn and progress. We encourage them to improve and innovate, to take ownership of their careers and succeed together

The strength of our diversity

With more than 86,000 colleagues in 63 markets, we are proud to represent the broad range of cultures across the communities we serve. Harnessing the inherent diversity of thoughts, views and experiences across the Group is critical to our business success and fundamental to our purpose. We are committed to creating a work environment that enables our colleagues' diverse strengths to impact our clients and communities.

Our vision is to create a culture of inclusion where talents and individuality are valued and respected, and we are working hard to realise this. Our global Diversity and Inclusion Council ensures we continue our collective focus on creating an organisation where everyone feels supported and empowered.

In 2017, we introduced a standard flexible working practice to ensure all colleagues have the opportunity to choose how they work, whether that is part-time, flexible time, or working from home.

We increased the benefits we offer new parents globally, fully paid maternity leave from a minimum of 40 days to a minimum of 20 weeks, and increasing fully paid parental leave for the spouse or partner increasing from a minimum of two days to two weeks. We also support over 50 country-based employee networks and three Global Networks (Women, Disability and LGBT & Allies). These networks raise awareness and offer professional development, mentoring, networking and connections to our communities.

In 2017, the Board Remuneration Committee agreed a Fair Pay Charter, which sets out the principles that guide all of our reward and performance decision making. One of these principles is our ongoing commitment to rewarding colleagues in a way that is free from discrimination on the basis of diversity, including gender. Full details of our Fair Pay Charter are set out on page 84 in the Directors' remuneration report.

Gender pay gap

We have analysed our gender pay gap for the UK and for four of our major markets. The gender pay gap compares the average pay of men and women, without taking into account some of the key factors which influence pay, including different roles, skills, seniority and market pay rates. Our gender pay gap is caused by the lower number of women in senior roles and in business areas where market rates of pay (both fixed and variable) are highest.

When adjusting the hourly pay gap for men and women carrying out roles at the same level in the same business area across the same markets, the gender pay gap is significantly smaller – ranging from no discernible gap to three per cent.

Equal pay is a more detailed measure of pay equality than the gender pay gap. We also analyse equal pay as part of the annual performance and pay review process globally.

+ Download our gender pay gap report at sc.com/genderpaygap

	UK	Hong Kong	Singapore	UAE	US
Mean hourly pay gap	30%	33%	39%	31%	24%
Mean bonus pay gap	57%	56%	55%	64%	53%

	UK	Hong Kong	Singapore	UAE	US
Jobs at same level and business area	3%	-1%	2%	0%	3%

Stakeholders and responsibilities continued

Our stakeholders

Colleagues continued

The Group does not discriminate based on gender and we have made progress in addressing the gender pay gap, but we are clear that we have more to do. We have a range of actions in place.

We have signed the UK HM Treasury Women in Finance Charter and are committed to women occupying 30 per cent of our senior leadership roles by 2020. Since signing the Charter, we have seen an increase in female representation in our senior management from 25.5 per cent to 25.7 per cent during 2017. At Board level, 30.8 per cent of members are women and our Management Team is comprised of 42.9 per cent women. Two of our four regions and five of our largest markets – Hong Kong, Singapore, India, China and Nigeria – are run by female CEOs.

Alongside improving our flexible working practices and parental leave, we have built requirements into our policies and processes to ensure that managers are making objective and fair decisions, including gender balanced candidate lists for hiring. We review promotion lists and succession plans to ensure we have adequate diverse representation.

We have also introduced training for managers with the objective of minimising unconscious bias. Beyond gender, we are also committed to ensuring our colleagues are reflective of the communities we serve, including nationality, ethnicity, disability, generations and sexual orientation.

All our diversity and inclusion initiatives, including the management focus on increasing the number of women in senior roles in line with our Women in Finance Charter commitment, implementing flexible working practices globally, providing leadership development and mentoring, and extending our parental leave benefits will help us to improve our diversity in senior management roles and across all our business areas.

Transforming our culture

In 2016, we began the process of transforming our culture – ensuring we become truly focused on our clients, more innovative and efficient in a sector undergoing profound change, as well as being an employer of choice across our markets. In 2017, we engaged with over 70,000 colleagues to determine the valued behaviours that clearly set out how we achieve these goals, and ultimately our purpose to drive commerce and prosperity through our unique diversity. In 2018, we will fully embed these valued behaviours in how we select, on-board, recognise and reward people, beginning with integrating them into our performance management process.

Our aim is to create a truly differentiated working environment and we are committed to measuring progress against this goal. We aim to increase the engagement and retention of our colleagues and mitigate against our key people risk of attrition. We have developed a culture dashboard to track progress against these measures.

Developing colleagues

We continue to focus on the development, engagement and wellbeing of our colleagues and we have maintained a strong focus on talent and succession management.

In 2017, we introduced a talent evaluation tool which was completed for over 22,000 of our colleagues and used as an input to mid-year performance and career conversations. At senior levels, we completed succession plans for 16 roles at Management Team level and their direct reports, and development plans are in place for all individuals appearing on these plans. We successfully completed a regional talent development programme for our Africa & Middle East region, which will act as a blueprint for our development of country, region and global business talent pools.

In 2018, our focus is on building line manager capabilities and developing role-based learning curricula, as well as developing our assessment tools to hire more people internally, with an internal target of filling 70 per cent of Band 4 – Grade 7 roles with internal candidates.

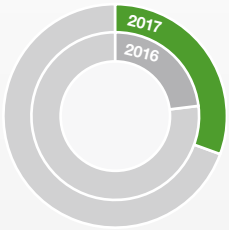
Our efforts to increase the development and career opportunities of our colleagues are reflected in an improvement in our employee Net Promoter Score, which is four percentage points higher year-on-year. We have also started to track satisfaction with development opportunities through our engagement survey and realise there is potential to make more improvements this year.

In 2018, as part of the commitments in our Fair Pay Charter, we will be rolling out a new benefits platform which will empower our colleagues to choose the benefits which most suit their needs. This will accompany our Wellbeing programme, which supports the physical, mental, social and financial health of our colleagues. We have a strong belief that if we treat our colleagues well by looking after all aspects of their wellbeing, they will be happier and more productive at work.

Female representation

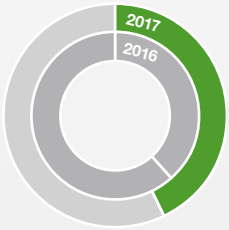
Board

Female 30.8% (2016: 23.1%)



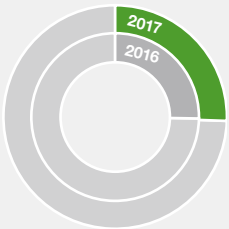
Management Team

Female 42.9% (2016: 38.5%)



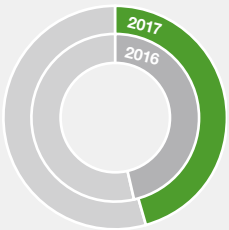
Senior management (Bands 1-4)

Female 25.7% (2016: 25.5%)



All employees

Female 45.8% (2016: 46.4%)

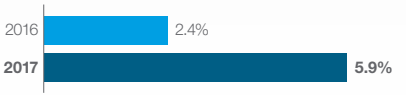


Employee engagement KPI

Employee Net Promoter Score (eNPS)

Aim Increase engagement across the Group by creating a better working environment for our colleagues, that should translate into an improved client experience.

5.9% +146%



The proportion of participating colleagues that are promoters (would recommend the Group as a great place to work) compared to detractors

Analysis In 2017, the first year that the Group introduced this measure, the eNPS was 5.9 per cent, meaning that more participating colleagues would promote the Group than would not.

Diversity and inclusion KPI

Gender diversity in senior roles

Aim Improve gender diversity in the Group's top levels of management by supporting, developing, promoting and retaining senior women colleagues.

25.7% +0.8%

The total number of women in the most senior (band 1-4) roles expressed as a percentage of total band 1-4 roles

Analysis In 2016, we signed the UK HM Treasury Women in Finance Charter and announced an overall target of having women occupy 30 per cent of our top four levels of management by December 2020. The 25.7 per cent result in 2017 was an improvement on 2016 and takes us closer to our target.

Society

How we serve and engage

We strive to operate as a responsible and sustainable business, collaborating with local partners to promote social and economic development

Responsible and sustainable business

This section outlines our response to reporting requirements on environmental and social matters, human rights, and anti-bribery and corruption. We will continue to enhance our reporting on these issues over time.

Our sustainability priorities – contributing to sustainable economic growth, being a responsible company and investing in communities – provide a framework for how we respond to the social and environmental concerns of our stakeholders, and create opportunities to improve livelihoods.

These are supported by 11 Sustainability Aspirations, which set out measurable actions to achieve sustainable outcomes. Aligned to the UN Sustainable Development Goals, the Aspirations were launched in 2017 to help address environmental and social matters identified by stakeholders and colleagues in our key markets. We report progress against the Aspirations in our separate Sustainability Summary.

+ Download our Sustainability Aspirations at sc.com/sustainabilityaspirations

Contributing to sustainable economic growth

We use our core business of banking to promote sustainable development in our markets. This means managing environmental and social risks associated with our lending, and financing key sectors that drive sustainable economic growth.

Our approach to managing environmental and social risks is set out below. Additional information on how we finance the opportunities associated with sustainable development are captured in our Aspirations. They include targets to expand digital and financial inclusion, support infrastructure and clean technology development, and support microfinance institutions.

Managing environmental and social risks

Our most significant environmental and social (E&S) impact comes from the businesses we finance. We have E&S risk management procedures that guide how we identify, assess and manage the risks impacting our clients' operations. We apply sector-specific standards, which draw on the IFC Performance Standards, Equator Principles and global best practice, to the financial services we provide to clients. These are set out in 17 sectoral and three thematic Position Statements that are embedded through our core banking processes.

Mechanisms in our origination and credit processes enable us to identify and assess environmental and social risks in accordance with our Position Statements. In 2017, our dedicated Environmental and Social Risk Management team reviewed 487 transactions that presented potential specific risks against our Position Statements. For all risks identified, we seek to develop effective mitigating measures. Where this is not possible, transactions have been, and will continue to be, turned down.

We work collaboratively with clients, other financial institutions, industry bodies, and civil society groups, to promote, develop and encourage leading E&S standards. In 2017, we engaged with these stakeholders primarily on palm oil and climate change. This dialogue contributed to the update of our Palm Oil Position Statement in 2017.

We continued to advance the commitments set out in 2016 in our Climate Change Position Statement. This includes work with the University of Oxford to develop and implement a framework for assessing energy utilities clients' power generation assets against a range of physical and transition risks, under different climate scenarios and time horizons.

Stakeholders and responsibilities continued

Our stakeholders

Society continued

Additionally, we welcomed the recommendations by the Financial Stability Board's Taskforce on Climate-related Financial Disclosures. We joined a United Nations Environment Programme for Financial Institutions' initiative to develop analytical tools and indicators to strengthen assessment and disclosure of climate-related risks and opportunities.

In 2017, we started a review of all our Position Statements, with updated and revised statements due to be published during 2018.

+ Read our Position Statements at sc.com/positionstatements

Being a responsible company

Being a responsible company is about how we manage our business and promote the behaviours, values and principles that enable us to make the right decisions.

Good conduct management practices are embedded across the Group through our conduct management framework, which sets out our approach to identifying, controlling and governing conduct-related risks. The framework aims to ensure we have appropriate governance in place with a transparent business model, robust infrastructure and exemplary business practices. This creates an environment that supports ethical behaviour. Governance measures support leaders in hiring and recognising colleagues with good conduct, while performance objectives and reward mechanisms for colleagues are directly linked to behaviours and values. Managing the business in this way helps us to achieve fair outcomes for clients, and to operate effective markets.

Colleagues participate in mandatory training on the Group Code of Conduct and in 2017, 99.4 per cent reconfirmed their commitment to the Code as part of our annual process. Failure to adhere to the Code can result in disciplinary action and potentially dismissal.

Our whistleblowing channels are available to anyone – colleagues, contractors, suppliers and members of the public – to raise concerns confidentially and anonymously. Following the re-launch of our Speaking Up programme in late 2016, we have seen an increase in the number of concerns raised, which were investigated accordingly. In 2017, we also introduced Speaking Up Advocates in three pilot countries to help raise awareness and ensure Speaking Up is culturally relevant across our diverse geographic footprint.

+ Download our Group Code of Conduct at sc.com/codeofconduct

Fighting financial crime

Financial crime hinders economic progress and harms communities. We are committed to building and maintaining robust defences to combat money-laundering, terrorist financing, sanctions compliance breaches, bribery, and other forms of corruption.

Our financial crime risk management activities, which include adherence to anti-money laundering and sanctions policies and the application of core controls such as client due-diligence screening and monitoring, are led by a dedicated Financial Crime Compliance (FCC) team. Our anti-bribery and corruption (ABC) policies aim to prevent colleagues, or third parties working on our behalf, from participating in active or passive bribery or corruption, or from making facilitation payments.

In 2017, we strengthened our ABC policies around employing referred candidates, screening suppliers, third-party payments, gifts and entertainment, sponsorship and donations, and risk management of intermediaries. We also extended training for FCC country heads to equip them with better knowledge, skills and tools to manage and oversee ABC risk mitigation activities.

In 2017, 99.3 per cent of colleagues completed ABC training and 99.2 per cent completed anti-money laundering training.

+ For more, visit sc.com/fightingfinancialcrime

Respecting human rights

We are committed to respecting human rights and seek to ensure they are not adversely impacted in our role as an employer, financial services provider and procurer of goods and services. We recognise that our footprint and supply chain give us the opportunity to raise awareness of human rights and modern slavery in a wide range of markets and industries.

Our Position Statement outlines our approach to human rights, reflecting international standards including the International Bill of Human Rights, the UN Guiding Principles, and the UK Modern Slavery Act. This is then embedded across a range of policies and risk management frameworks, including our Group Code of Conduct and Supplier Charter.

In 2017, we reviewed our exposure to modern slavery risks via a cross-function working group, and assessed how these are addressed by our existing controls for colleagues, suppliers and clients. Our 2017 Modern Slavery Statement details the actions we are taking as a result. These include updating contractual language to strengthen supplier obligations to address modern slavery, and incorporating modern slavery awareness into our Correspondent Banking Academy training programme.

+ Read our Supplier Charter at sc.com/supplierscharter and our 2017 Modern Slavery Statement at sc.com/modernslavery

Colleagues who committed to the Group Code of Conduct in 2017

99.4%

Employees who completed anti-money laundering training in 2017

99.2%

Employees who completed anti-bribery training in 2017

99.3%

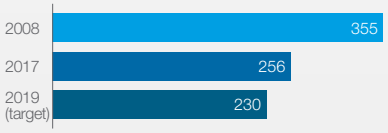
ENVIRONMENTAL PERFORMANCE

Managing our footprint

Our office in Nairobi, Kenya, is trialling a carbon-neutral biofuel for its on-site diesel generators that is made from the abundant, but inedible croton nut. It is one of several initiatives to boost the building's environmental efficiency; others include LED lights and solar photo-voltaic panels to offset power usage, and a water recycling plant to reduce resource use.

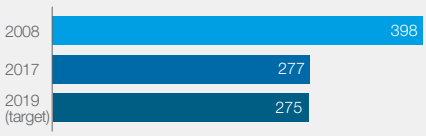
Annual energy use of our property
(kWh/m²/year)

Tropical climate[1]



28% since 2008

Temperate climate[1]



30% since 2008

1. Tropical energy usage relates to cooling; temperate energy usage relates to both heating and cooling

Managing our environmental footprint

We aim to minimise the environmental impact of our operations. Our major impact comes from the resources we consume in serving clients – energy, water and paper – to allow our offices and branches to function, and as such we measure our energy, water, paper and (non-hazardous) waste performance.

We have targets against which we measure and manage our greenhouse gas emissions, and reduction targets for water and energy use. Our reporting criteria sets out the principles and methodology, and our Scope 1 and 2 emissions are independently audited by The Carbon Trust.

Between 2008 and 2017, we reduced energy consumption by 34 per cent by introducing LED lighting, more efficient plant, and by increasing on-site solar generation across our properties. In 2017, greenhouse gas emissions for fuel combustion fell by 42 per cent as we reduced our reliance on diesel generators in those countries with limited access to mains electricity.

We take a responsible approach to sourcing and using water, especially given that its availability is a growing challenge facing our markets. Across the Group, between 2008 and 2017, we reduced water use by 36 per cent by installing low-flow water devices and where appropriate, boreholes and water recycling plants.

We are committed to reducing waste and in 2017 a 'reusable cup' initiative in the Singapore and London offices cut single-use plastic cup use by 100,000 in six months. We avoid sending non-recyclable waste to landfill, instead composting it or using it in energy generation, where possible.

Investing in communities

We seek to promote sustainable economic and social development in our communities. Our programmes focus on health and education. In 2017, we invested $49.8 million in the communities in which we operate. All of our donations are guided by our Sponsorship and Donations Policy.

Seeing is Believing, our flagship global programme to treat avoidable blindness and visual impairment, raised $5.6 million in 2017 through employee fundraising and matching by the Bank. Between 2003 and 2017, Seeing is Believing raised $98.4 million and reached 163.5 million people through medical intervention, screening, training and education.

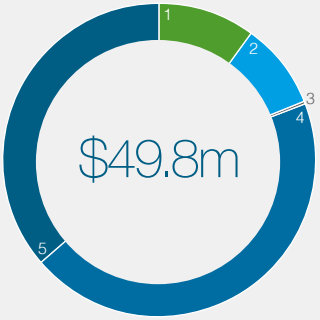
Goal, our programme to empower girls and young women through sport and life-skills training, reflects our belief that education is the foundation for economic opportunity. In 2017, more than 95,000 girls and young women participated in Goal, and the programme reached more than 381,000 girls between 2006 and 2017.

We encourage colleagues to effect positive change in their communities by providing three volunteering days per year, and in 2017, colleagues contributed more than 66,000 days. Through our financial education programmes, we trained more than 117,000 young people and just over 1,500 entrepreneurs in 2017, of whom 90 per cent were women.

Our community expenditure 2017 (%)

1. Leverage[1]	10.0%
2. Management costs	9.0%
3. Gifts in kind (non-cash item)	0.2%
4. Cash contributions	44.5%
5. Employee time (non-cash item)	36.3%

1. Leverage data relates to the proceeds from staff and other fundraising activity



Driving commerce and prosperity through our unique diversity

Building long-lasting relationships in Brazil

One of our biggest success stories in Brazil is our long-standing relationship with LGEBR Treasury Management. They specialise in financial services including: international payments, digital banking, import financing, market trading and legal expertise

How our local market knowledge has helped us build our partnership with LGEBR

We have always used our knowledge of local markets to support LGEBR in developing their brand and grow their customer base in an increasingly competitive market. Over the past 10 years our relationship has strengthened into a strategic partnership built on trust, understanding and an appreciation of local and international economies. Our competitively priced products and services, experienced employees and commitment to a seamless banking experience are just a few of the reasons why LGEBR remain one of our most loyal and valued clients.

Viability statement

Viability

The directors are required to issue a viability statement regarding the Group, explaining their assessment of the prospects of the Group over an appropriate period of time and state whether they have reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due.

The directors are to also disclose the period of time for which they have made the assessment and the reason they consider that period to be appropriate.

In considering the viability of the Group, the directors have assessed the key factors likely to affect the Group's business model and strategic plan, future performance, solvency and liquidity taking into account the principal uncertainties as well as the principal risks.

The assessment has been made over a period of three years, which the directors consider adequate as it is within both the Group's strategic planning horizon and the basis upon which its regulatory capital stress tests are undertaken. The directors will continue to monitor and consider the appropriateness of this period.

The directors have reviewed the corporate plan, the output of the Group's formalised process of budgeting and strategic planning. The corporate plan is evaluated and approved each year by the Board with confirmation from the Group Chief Risk Officer that the Plan is aligned with the Enterprise Risk Management Framework and Group Risk Appetite Statement and considers the Group's future projections of profitability, cash flows, capital requirements and resources, liquidity ratios and other key financial and regulatory ratios over the period, where projections allow. The corporate plan details the Group's key performance measures, of forecast profit, CET1 capital ratio forecast, return on equity forecasts, cost to income ratio forecasts and cash investment projections. The Board has reviewed the ongoing performance management process of the Group by comparing the statutory results to the budgets and corporate plan.

The Group performs enterprise-wide stress tests using a range of bespoke hypothetical scenarios that explore the resilience of the Group to shocks to its balance sheet and business model.

To assess the Group's balance sheet vulnerabilities and so capital and liquidity adequacy, severe but plausible macro-financial scenarios explore shocks that trigger one or more of:

- Global slowdowns, including a China hard landing
- Sharp falls in world trade volumes
- Material and persistent declines in commodity prices
- Financial market turbulence

Under this range of scenarios, the results of these stress tests demonstrate that the Group has sufficient capital and liquidity to continue as a going concern and meet regulatory minimum capital and liquidity requirements.

To assess the Group's business model vulnerabilities, extreme and unlikely scenarios are explored that, by design, result in the Group's business model no longer being viable. Insights from these reverse stress tests can inform strategy, risk management and capital and liquidity planning.

Further information on stress testing is provided in the Risk management approach section (page 162).

The Board Risk Committee (BRC) exercises oversight of prudential risks on behalf of the Board, including amongst others credit, market, capital, liquidity and funding and operational risks.

It reviews the Group's overall risk appetite and makes recommendations thereon to the Board.

The BRC receives regular reports that inform them of the Group's key risks, as well as updates on the macroeconomic environment, geo-political outlook, market developments, and regulatory updates in relation to capital, liquidity and risk. In 2017, the Committee had deeper discussions on a number of key topics including Principal Finance, Aviation Finance, Funds Transfer Pricing, Credit Risk and Control Mitigants, Financial Markets Strategy Risk Management and Controls and Information and Cyber Security.

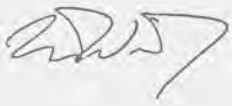
Based on the information received, the directors considered the principal uncertainties as well as the principal risks in their assessment of the Group' viability, how these impact the risk profile, performance and viability of the Group and any specific mitigating or remedial actions necessary.

For further details of information relevant to the directors, assessment can be found in the following sections of the annual report and accounts:

- The Group's Business model (pages 12 to 13) and Strategy (pages 14 to 16)
- The Group's current position and prospects including factors likely to affect future results and development, together with a description of financial and funding positions are described in the client segment reviews and regional reviews (pages 18 to 26)
- An update on the key risk themes of the Group is discussed in the Group Chief Risk Officer's review (pages 33 to 35)
- The BRC section of the Directors' report (pages 69 to 72)
- The Group's Principal uncertainties, sets out the key external factors that could impact the Group in the coming year (page 35 and pages 179 to 182). Note 26 sets out information relating to legal and regulatory matters (pages 259 to 260)
- The Group's Enterprise Risk Management Framework details how the Group identifies, manages and governs risk (pages 160 to 164)
- The Group's Risk profile provides an analysis of our risk exposures across all major risk types (page 122 to 159)
- The capital position of the Group, regulatory development and the approach to management and allocation of capital are set out in the Capital Review (pages 183 to 189)

Having considered all the factors outlined above, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment up to 31 December 2020.

Our Strategic report from pages 01 to 43 has been reviewed and approved by the Board



Bill Winters
Group Chief Executive

27 February 2018

OUR COLLEAGUES

Improving practices in ship recycling

Roger Charles | Director, Environment Social Risk Management | Singapore

Having spent over 15 years working with oil and gas tankers as an engineer, Roger Charles, now a colleague at Standard Chartered, is working to improve practices in one of the world's most hazardous industries: ship recycling.

"The easy thing would be for Standard Chartered to walk away, but we want to improve conditions."

Ship recycling employs an estimated 200,000 workers in Bangladesh, with around a million people directly or indirectly related to the industry. While it's an important economic growth driver in emerging markets, we recognise that there are environmental and social challenges associated with the industry, including hazardous environments for workers. As a large international bank, we want to do what we can to help improve the industry.

"The easy thing would be for Standard Chartered to walk away, but we want to improve conditions, and we understand that, with industries such as this, it's not going to happen overnight," says Roger.

In return for our lending, the shipyards we work with have agreed to follow internationally recognised environmental, health and safe working practices. This includes providing safety training programmes, protective clothing, fair working hours and regular health checks.

So that we can monitor progress, an independent environmental consultancy audits clients annually, and Roger visits clients at least twice a year. His industry experience means he knows what safety and environmental aspects to look out for and, having once forged a career in building ships, he knows his way around one.

One of our clients, PHP, has just achieved compliance with the Hong Kong Convention, a set of internationally recognised ship recycling standards. It's the first step for Bangladesh to become compliant and Roger sees this as a game changer. "I'm proud to be a part of this team of industry experts. The fact that Standard Chartered employs people like me shows it understands that environmental social management underpins good business."

Directors' report

46 Chairman's letter
47 Board of Directors
50 Management Team
53 Corporate governance
83 Directors' remuneration report
95 Additional remuneration disclosures
103 Directors' remuneration policy
107 Other disclosures
115 Statement of directors' responsibilities

Chairman's letter

"It is incumbent on the Board to ensure that the Group's unique culture and values are further strengthened"

This year we have made positive steps on our journey to improve our financial strength, culture and conduct agenda, and ensure these remain on a sustainable footing for the future. This work is ongoing as the external trends impacting the banking sector continue to evolve. The Board has maintained its oversight of the execution of the Group's strategy throughout the year and we remain confident that it will deliver sustainable shareholder value and a stronger organisation for our clients, colleagues, regulators and the communities in which we operate. As part of those discussions the Group's purpose and values were considered and further shaped, which has led to our invigorated purpose statement, 'Driving commerce and prosperity through our unique diversity'. I believe this typifies the essence of what we stand for and who we are. I remain convinced that Standard Chartered is a force for good in the countries and regions in which we operate and it is therefore incumbent on the Board to ensure that the Group's unique culture and values are further strengthened.

Along with other members of the Board I have continued to travel extensively across our markets during the year, visiting many parts of the network, listening to the views and aspirations of our clients and other stakeholders, and seeing first-hand the extent to which the Group is so deeply rooted in the real economy, supporting trade and finance across our many dynamic markets. The opportunities which exist across these markets are substantial and we remain well-placed to deliver for our clients and wider stakeholders. We held four of our Board meetings this year in our markets, Hong Kong, New York, Singapore and Dubai, providing an opportunity for the Board to see how the strategy is translating on the ground and engage directly with our colleagues, shareholders, clients, regulators and others. I hosted our first Global Chairmen's Conference, which was well-attended by independent chairmen and senior independent directors from Group subsidiaries across our markets. More detail on the conference can be found on page 62.

Last year I highlighted my intention to carry out a review of the Board during 2017. In March, we commissioned an externally facilitated review of the Board and its committees to assist in providing external input into their functioning and identify areas to enhance our overall effectiveness. Details of the process, outcomes and actions are set out on page 60.

The Governance and Nomination Committee has been particularly focused on succession planning and strengthening the non-executive director and management pipeline during the course of the year. Details on this and the wider work of the Committee are set out on pages 76 to 79. The composition of the Board has continued to evolve; in July, Kurt Campbell stepped down from the Board after four years, to focus more time to his other business interests; and in November, Ngozi Okonjo-Iweala joined the Board as an independent non-executive director. Ngozi is an internationally renowned economist and a prominent African leader. Details of Ngozi's experience and skills can be found on page 49. A more recent change saw the appointment on 1 February 2018 of Christine Hodgson as Senior Independent Director in addition to her role as Chair of the Remuneration Committee. She took over the role from Naguib Kheraj, who remains as Deputy Chairman and Chair of the Audit Committee.

The Board took the decision at half year to tender the statutory audit contract in 2017 for the year ending 31 December 2020. A thorough tender process took place in the second half of the year, led by the Audit Committee, full details on the process followed during the tender process can be found on page 65.

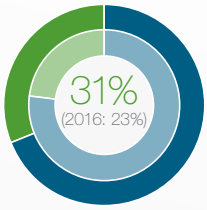
José Viñals
Group Chairman

BOARD COMPOSITION

Gender diversity

Board

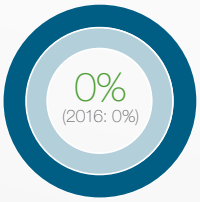
Female 4



Male 9

Executive

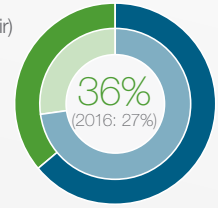
Female 0



Male 2

INED (incl Chair)

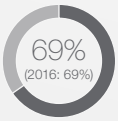
Female 4



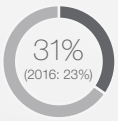
Male 7

Experience

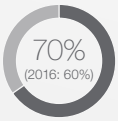
International experience



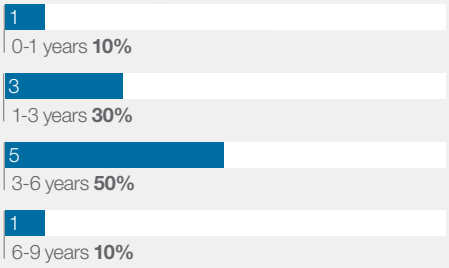
Representation from key markets



Banking, risk, finance, accounting experience amongst INEDs



INED tenure



Further details on the work of the Governance and Nomination Committee can be found on page 76

Board of directors

Committee Key

- Committee Chair shown in green
- (A) Audit Committee
- (Ri) Board Risk Committee
- (V) Brand, Values and Conduct Committee
- (N) Governance and Nomination Committee
- (C) Board Financial Crime Risk Committee
- (R) Remuneration Committee

José Viñals (63)
Group Chairman

Appointed: October 2016 and Group Chairman in December 2016

Experience: José has substantive experience in the international regulatory arena and has exceptional understanding of the economic and political dynamics of our markets and of global trade, and a deep and broad network of decision-makers in the jurisdictions in our footprint.

Career: José began his career as an economist and as a member of the faculty at Stanford University, before spending 25 years at the Central Bank of Spain, where he rose to be the Deputy Governor. José has held many other board and advisory positions including Chair of Spain's Deposit Guarantee Fund, Chair of the International Relations Committee at the European Central Bank, member of the Economic and Financial Committee of the European Union, and Chair of the Working Group on Institutional Investors at the Bank for International Settlements. José joined the International Monetary Fund (IMF) in 2009 and stepped down in September 2016 to join Standard Chartered PLC. He was the Financial Counsellor and the Director of the Monetary and Capital Markets Department and was responsible for the oversight and direction of the IMF's monetary and financial sector work. He was the IMF's chief spokesman on financial matters, including global financial stability. During his tenure at the IMF, José was a member of the Plenary and Steering Committee of the Financial Stability Board, playing a key role in the reform of international financial regulation.

Committees: (N)

Bill Winters, CBE (56)
Group Chief Executive

Appointed: June 2015

Experience: Bill is a career banker with significant frontline global banking experience and a proven track record of leadership and financial success. He has extensive experience of working in emerging markets and a proven record in spotting and nurturing talent.

External appointments: Bill is an independent non-executive director of Novartis International AG.

> Bill Winters also sits on the Management Team

Career: Bill began his career with JP Morgan, where he went on to become one of its top five most senior executives and later co-chief executive officer at the investment bank from 2004 until he stepped down in 2009. Bill was invited to be a committee member of the Independent Commission on Banking, established in 2010, to recommend ways to improve competition and financial stability in banking. Subsequently, he served as an advisor to the Parliamentary Commission on Banking Standards and was asked by the Court of the Bank of England to complete an independent review of the bank's liquidity operations. In 2011, Bill founded Renshaw Bay, an alternative asset management firm, where he was chairman and CEO. He stepped down on appointment to the Standard Chartered PLC Board. Bill was previously a non-executive director of Pension Insurance Corporation plc and RIT Capital Partners plc. He received a CBE in 2013.

Andy Halford (58)
Group Chief Financial Officer

Appointed: July 2014

Experience: Andy has a strong finance background and deep experience of managing complex international businesses across dynamic and changing markets.

External appointments: Andy is a non-executive director at Marks and Spencer Group plc and a member of the Business Forum on Tax and Competitiveness.

> Andy Halford also sits on the Management Team

Career: Andy was finance director at East Midlands Electricity plc prior to joining Vodafone in 1999 as financial director for Vodafone Limited, the UK operating company. Andy was later appointed financial director for Vodafone's Northern Europe, Middle East and Africa region, and later the chief financial officer of Verizon Wireless in the US. He was a member of the board of representatives of the Verizon Wireless Partnership. Andy was appointed chief financial officer of Vodafone Group plc in 2005, a position he held for nine years. As Group Chief Financial Officer at Standard Chartered, Andy is responsible for Finance, Corporate Treasury, Group Corporate Development, Group Investor Relations, Property and Supply Chain Management functions.

Naguib Kheraj (53)
Deputy Chairman

Appointed: January 2014 and Deputy Chairman in December 2016

Experience: Naguib has significant banking and finance experience.

External appointments: Naguib is Chairman of Rothesay Life, a specialist pensions insurer, a member of the investment committee of the Wellcome Trust and a member of the Finance Committee of the Oxford University Press. Naguib spends a substantial amount of his time as a senior advisor to the Aga Khan Development Network and serves on the boards of various entities within its network.

Career: Naguib began his career at Salomon Brothers in 1986 and went on to hold senior positions at Robert Fleming, Barclays, JP Morgan Cazenove and Lazard. Over the course of 12 years at Barclays, Naguib served as group finance director and vice-chairman and in various business leadership positions in wealth management, institutional asset management and investment banking. Naguib was also a Barclays' nominated non-executive director of ABSA Group in South Africa and of First Caribbean International Bank. He also served as chief executive officer of JP Morgan Cazenove. Naguib is a former non-executive director of NHS England and served as a senior advisor to Her Majesty's Revenue and Customs and to the Financial Services Authority in the UK.

Committees: (A) (Ri) (R) (N) (C)

David Conner (69)
Independent Non-Executive Director

Appointed: January 2016

Experience: David has significant global and corporate, investment and retail banking experience, strong risk management credentials and an in-depth knowledge of Asian markets.

External appointments: David is a non-executive director of GasLog Ltd.

Career: David spent his career in the financial services industry, living and working across Asia for 37 years, for both Citibank and OCBC Bank. He joined Citibank in 1976 as a management trainee and went on to hold a number of Asia-based senior management roles, including chief executive officer of Citibank India and managing director and marketing manager at Citibank Japan, before leaving Citibank in 2002. David joined OCBC Bank in Singapore as chief executive officer and director in 2002. He implemented a strategy of growth and led the bank through a period of significant turbulence. David stepped down as chief executive officer in 2012 but remained as a non-executive director on the board of OCBC Bank, before leaving the group in 2014.

Committees: Ri A N C
David is also a member of the Combined US Operations Risk Committee of Standard Chartered Bank

Christine Hodgson (53)
Senior Independent Director

Appointed: September 2013 and Senior Independent Director in February 2018

Experience: Christine has strong business leadership, finance, accounting and technology experience.

External appointments: Christine is chair of Capgemini UK plc, sits on the board of The Prince of Wales' Business in the Community and is chair of The Careers & Enterprise Company Ltd, a government-backed company established to help inspire and prepare young people for the world of work.

Career: Christine held a number of senior positions at Coopers & Lybrand and was corporate development director of Ronson plc before joining Capgemini in 1997, where she held a variety of roles including chief financial officer for Capgemini UK plc and chief executive officer of technology services for North West Europe. Christine was previously a trustee of MacIntyre Care and was a non-executive director of Ladbrokes Coral Group plc before stepping down in May 2017.

Committees: R A V N C

Jasmine Whitbread (54)
Independent Non-Executive Director

Appointed: April 2015

Experience: Jasmine has significant business leadership experience as well as first-hand experience of operating across our markets.

External appointments: Jasmine is chief executive of London First and a non-executive director of BT Group plc.

Career: Jasmine began her career in international marketing in the technology sector and joined Thomson Financial in 1994, becoming managing director of the Electronic Settlements Group. After completing the Stanford Executive Program, Jasmine set up one of Oxfam's first regional offices, managing nine country operations in West Africa, later becoming international director responsible for Oxfam's programmes worldwide. Jasmine joined Save the Children in 2005, where she was responsible for revitalising one of the UK's most established charities. In 2010, she was appointed as Save the Children's first international chief executive officer, where she led the merger of 14 separate organisations into one management line of 15,000 people across seven regions and 60 countries, while aligning the federation behind a single mission and strategy. Jasmine stepped down from Save the Children in December 2015.

Committees: V R N

Gay Huey Evans, OBE (63)
Independent Non-Executive Director

Appointed: April 2015

Experience: Gay has extensive banking and financial services experience with significant commercial and UK regulatory and governance experience.

External appointments: Gay is a non-executive director of ConocoPhillips and Bank Itau BBA International plc and is deputy chair of the Financial Reporting Council.

Career: Gay spent over 30 years working within the financial services industry, the international capital markets and with the financial regulator. Gay spent seven years with the Financial Services Authority from 1998 to 2005, where she was director of markets division, capital markets sector leader, with responsibility for establishing a market-facing division for the supervision of market infrastructure, oversight of market conduct and developing markets policy. From 2005 to 2008, Gay held a number of roles at Citibank, including head of governance, Citi Alternative Investments, EMEA, before joining Barclays Capital where she was vice chair of investment banking and investment management. She was previously a non-executive director at Aviva plc and the London Stock Exchange Group plc. She received an OBE for services to financial services and diversity in 2016.

Committees: C Ri

Om Bhatt (66)
Independent Non-Executive Director

Appointed: January 2013

Experience: Om has extensive commercial and retail banking experience, financial services and leadership acumen, with deep knowledge and experience of India, one of our largest markets.

External appointments: Om is an independent non-executive director of Hindustan Unilever Ltd, Tata Consultancy Services, Tata Steel Ltd, Tata Motors and Chairman of Greenko Energy Holdings.

Career: Om had a career spanning 38 years with the State Bank of India (SBI), India's largest commercial bank, where he held a number of roles beginning with the lead bank department, which pioneered financial inclusion. He led the project team that pioneered SBI's technology initiative in the 1990s, undertook assignments at SBI's Washington and London offices and held general management roles between 2004 and 2006, becoming managing director of SBI in 2006, culminating in his appointment as chairman of the State Bank Group until he stepped down in 2011. Om was chairman of the Indian Banks' Association and was previously an independent non-executive director of Oil and Natural Gas Corporation.

Committees: Ri V

Dr Louis Cheung (54)
Independent Non-Executive Director

Appointed: January 2013

Experience: Louis has a wide breadth of knowledge and experience of financial services, particularly in a Greater China context.

External appointments: Louis is managing partner of Boyu Capital Advisory Co, a China-focused private equity investment firm, independent non-executive director of Fubon Financial Holding Company and a Fellow and Council Member of the Hong Kong Management Association.

Career: Louis was a global partner of McKinsey & Company and a leader in its Asia Pacific financial institutions practice prior to joining Ping An Insurance Group in 2000. Louis worked in several senior roles at Ping An, including chief financial officer, before becoming group president in 2003 and executive director from 2006 to 2011.

Committees: R

Dr Byron Grote (69)
Independent Non-Executive Director

Appointed: July 2014

Experience: Byron has broad and deep commercial, financial and international experience.

External appointments: Byron is a non-executive director of Anglo American plc, Tesco PLC and is deputy chairman of the supervisory board at Akzo Nobel NV. He is also a member of the European Audit Committee Leadership Network.

Career: From 1988 to 2000, Byron worked across BP in a variety of commercial, operational and executive roles. He was appointed as chief executive of BP Chemicals and a managing director of BP plc in 2000 and had regional group-level accountability for BP's activities in Asia from 2001 to 2006. Byron was chief financial officer of BP plc from 2002 until 2011, subsequently serving as BP's executive vice president, corporate business activities, from 2012 to 2013 with responsibility for the group's integrated supply and trading activities, alternative energy, shipping and technology. Byron was a non-executive director at Unilever plc and Unilever NV before stepping down in 2015.

Committees: A R

Dr Han Seung-soo, KBE (81)
Independent Non-Executive Director

Appointed: January 2010

Experience: Dr Han is a distinguished economist and has a strong geopolitical background, with valuable knowledge of Asia and its economies.

External appointments: Dr Han sits on a number of advisory boards and is currently the UN Secretary-General's special envoy for Disaster Risk Reduction and Water, special advisor to the High Level Panel on Water co-convened by the UN and World Bank, chair of the High-Level Experts/Leaders Panel on Water and Disaster, chair of the Water Advisory Group at the Asian Development Bank and co-chair of the International Finance Forum of China. Dr Han is non-executive director at Doosan Infracore Co Ltd and Senior Advisor with the Kim & Chang law firm in Korea.

Career: Dr Han is a former Prime Minister of the Republic of Korea. He has a distinguished political, diplomatic and administrative career, serving as deputy prime minister and minister of finance, foreign affairs and industry and trade before serving as prime minister from 2008 to 2009. He also served as Korean ambassador to the US, chief of staff to the president, president of the 56th Session of the United Nations (UN) General Assembly, special envoy of the UN Secretary-General on Climate Change and chairman of the 2009 Organisation for Economic Cooperation and Development Ministerial Council Meeting.

Committees: V

Dr Ngozi Okonjo-Iweala (63)
Independent Non-Executive Director

Appointed: November 2017

Experience: Ngozi has significant geopolitical, economic, risk and development experience and expertise at a governmental and intergovernmental level.

External appointments: Ngozi holds a number of prestigious international advisory positions including Lazard and the Asian Infrastructure Investment Bank. She is Chair of GAVI, the Global Alliance for Vaccines and Immunisations. In addition she holds advisory panel and chair positions at a range of global institutions, including charitable foundations, non-governmental organisations and inter-governmental organisations. Ngozi is a member of the G20 Eminent Persons Group reviewing Global Financial Governance and is an ambassador of the Open Government Partnership.

Career: A development economist, Ngozi spent 25 years working at the World Bank in various positions. After leaving in 2003, she served as the Finance Minister of Nigeria from 2003 to 2006. She returned to the World Bank in 2007, serving as a Managing Director until 2011, when she was appointed to the role of Minister of Finance and Coordinating Minister of Economy in the Nigerian government, a position she held until 2015. During her time in government she spearheaded Nigeria's successful programme to obtain debt relief and is credited with developing reforms that helped improve governmental transparency to stabilise and grow the Nigerian economy.

Committees: V

Liz Lloyd, CBE (46)
Group Company Secretary

Appointed: Liz was appointed Group Company Secretary in January 2016.

Liz joined Standard Chartered in 2008, initially within Group Compliance, focused on regulatory risk and regulatory relationships, before being appointed as Group Head of Public Affairs, responsible for coordinating the Group's policies and positioning on all political and regulatory matters. In 2013, she was appointed Chief Executive Officer of Standard Chartered Bank Tanzania, a position she held until October 2015. She received a CBE in 2008.

Management Team

Bill Winters, CBE (56)
Group Chief Executive

Andy Halford (58)
Group Chief Financial Officer

Tracy Clarke (51)
Regional CEO, Europe & Americas

Appointed: Tracy was appointed CEO, Europe and Americas in October 2015.

Career: Tracy joined Standard Chartered in 1985 and has held a number of roles in Retail, Commercial and Corporate Banking, in addition to Group functions, both in the UK and in Hong Kong. From 2013 until 2015, Tracy led a broad portfolio including Legal and Compliance, Human Resources, Corporate Affairs and Brand and Marketing. In her role as CEO Europe and Americas she is responsible for the Corporate & Institutional Banking, Private and Retail Banking businesses in the US, Latin America, UK, Jersey, Germany, France, Nordics and Turkey.

Tracy was appointed as a Director of Standard Chartered Bank in January 2013 and became Regional CEO Europe & Americas in October 2015.

External appointments: Tracy is an independent non-executive director of Sky plc and sits on the board of England Netball. She is also a director of City UK.

Benjamin Hung (53)
Regional CEO, Greater China & North Asia and CEO Retail Banking

Appointed: Ben was appointed Regional CEO, Greater China & North Asia on 1 October 2015 and CEO, Retail Banking on 30 November 2017.

Career: Ben was previously CEO for the Greater China Region. He joined Standard Chartered in 1992 and has held a number of senior management positions spanning corporate, commercial and retail banking in the UK and Hong Kong. During 2008 to 2014, he was the CEO of Standard Chartered Bank (Hong Kong) Ltd. Ben was previously a board member of the Hong Kong Airport Authority, the Hong Kong Hospital Authority and a Council Member of the Hong Kong University.

External appointments: Ben is a member of the Financial Services Development Council, sits on the Exchange Fund Advisory Committee and is a member of the General Committee of the Hong Kong General Chamber of Commerce.

Anna Marrs (44)
Regional CEO, ASEAN & South Asia and CEO, Commercial & Private Banking

Appointed: Anna was appointed CEO, Commercial & Private Banking on 1 October 2015 and is leading on the restructure of an expanded Commercial Clients business and the build out of the Private Bank. Anna took on the additional role of Regional CEO, ASEAN & South Asia in November 2016.

Career: Anna joined Standard Chartered as Group Head of Strategy and Corporate Development in January 2012. Prior to this she was a partner at McKinsey & Company's Banking Practice in its Global Banking Practice and is a recognised expert in banking strategy. Prior to McKinsey she ran a financial information and technology company, having started her career with a hedge fund in New York.

External appointments: None.

Sunil Kaushal (52)
Regional CEO, Africa & Middle East

Appointed: Sunil was appointed Regional CEO, Africa & Middle East on 1 October 2015. Prior to this role, Sunil was Regional CEO, South Asia.

Career: Sunil has nearly 30 years of banking experience in diverse markets and has been with Standard Chartered for almost 20 years, holding senior roles across the Wholesale and Consumer Bank. Sunil has rich experience across the Group's footprint, having served as the Head of Corporate Banking in UAE, Head of Originations and Client Coverage in Singapore, Global Head Small and Medium Enterprises and New Ventures in Singapore and Chief Executive Officer of Standard Chartered Bank (Taiwan) Ltd. Before joining Standard Chartered in 1998, Sunil held various banking positions at a number of leading international financial institutions.

External appointments: None.

Simon Cooper (50)
CEO, Corporate & Institutional Banking

Appointed: Simon joined the Group as CEO, Corporate & Institutional Banking in April 2016.

Career: Simon was previously group managing director and chief executive of Global Commercial Banking at HSBC. He has extensive experience across our markets and client segments. Simon joined HSBC in 1989 and held a number of senior roles there, including deputy chairman and chief executive officer, Middle East and North Africa; chief executive officer, Korea; and head of Corporate and Investment Banking, Singapore. He has significant experience in the areas of corporate finance, corporate banking and transaction banking.

External appointments: Simon is a member of the advisory board of the Lee Kong Chian School of Business.

Judy Hsu (54)
CEO, Singapore and ASEAN Markets (Malaysia, Vietnam, Thailand and Rep Offices)

Appointed: Judy Hsu was appointed CEO Singapore in October 2015 and was appointed CEO Singapore and ASEAN Markets (Malaysia, Vietnam, Thailand and Rep Offices) in October 2017.

Career: Judy joined Standard Chartered in December 2009 as the Global Head of Wealth Management and led the strategic advancement of the Bank's wealth management business. Prior to this, Judy spent 18 years at Citibank where she held various leadership roles in its Consumer Banking Business in Asia. Her last role in Citibank was Regional Head of Retail Bank for Asia Pacific and Country Business Manager for International Personal Banking in Singapore.

External appointments: Judy is a member of The Institute of Banking and Finance Council and sits on the Statutory Board of Workforce Singapore.

Mark Smith (56)
Group Chief Risk Officer

Appointed: Mark was appointed as Group Chief Risk Officer and a Director of Standard Chartered Bank in January 2016. Mark is responsible for managing Credit, Market and Operational Risk across the Group and ensuring the broader risk framework is effective. He also has responsibility for the Group's Compliance function.

Career: Before joining Standard Chartered, Mark was the chief risk officer Europe, Middle East and Africa and global head, Wholesale Credit and Traded Risk for HSBC. He had a long and successful career at HSBC, having joined Midland Bank as a graduate trainee prior to its acquisition by HSBC. Other roles at HSBC included chief operating officer, Global Corporate & Institutional Banking and he has worked in London and Hong Kong.

External appointments: None.

David Fein (57)
Group General Counsel

Appointed: David joined the Group in September 2013 as Group General Counsel, advising the Board and the Court of the Bank on all material legal matters. He oversees Standard Chartered's Legal function, Group Corporate Secretariat and Shared Investigative Services. David also serves as Chairman of Seeing is Believing, the Group's flagship philanthropic effort dedicated to eliminating avoidable blindness.

Career: David has held various senior roles in the US Government, including as US Attorney for the District of Connecticut and as Associate Counsel to the President. He has extensive experience fighting financial crime and a track record of forming and supporting public-private partnerships.

External appointments: David is a member of the board of directors of Guiding Eyes for the Blind.

Dr Michael Gorriz (57)
Group Chief Information Officer

Appointed: Michael was appointed Group Chief Information Officer when he joined Standard Chartered in July 2015.

Career: An industry award winner, Michael joined from Daimler AG where he was most recently vice president and CIO with responsibility for the smooth operation of all Daimler systems and the management of IT projects globally. He has held various CIO roles within the Daimler group and has spent many years working across our footprint.

External appointments: None.

Management Team continued

Doris Honold (51)
Group Chief Operating Officer

Appointed: Doris was appointed Group Chief Operating Officer in October 2015, supporting the Group Chief Executive in defining and executing the business strategy, reinforcing exemplary control and governance, ensuring strategic functional alignment and enabling efficient business growth.

Career: Doris joined the Group in March 2007, and has served as the Group Head of Market Risk and the Chief Operating Officer for Wholesale Banking. Doris started her career at Dresdner Bank in Frankfurt. She held several market risk leadership roles in Frankfurt, Tokyo and London, before taking over global responsibility for Dresdner Kleinwort's market risk function.

External appointments: None.

Tracey McDermott, CBE (48)
Group Head of Corporate, Public and Regulatory Affairs

Appointed: Tracey was appointed Group Head of Corporate, Public and Regulatory Affairs in March 2017 and assumed responsibility for Brand and Marketing in November 2017.

Career: Tracey joined the Group in March 2017 from the Financial Conduct Authority (FCA). She joined the Financial Services Authority (FSA) in 2001 and went on to hold a number of senior roles at the FSA and more recently the FCA, including Director, Supervision and Authorisations and Director, Enforcement and Financial Crime. Tracey was appointed to the Board of the FCA in April 2013 before being appointed acting Chief Executive of the FCA. She was also a member of the Financial Policy Committee of the Bank of England and a Non-Executive Director of the PRA from September 2015 until June 2016. Tracey received a CBE in 2016 for services to financial consumers and markets.

External appointments: Tracey is a board member of UK Finance and an Honorary Professor at the Centre for Commercial Law Studies, Queen Mary University of London.

Pam Walkden (57)
Group Head, Human Resources

Appointed: Pam was appointed as Group Head, Human Resources in April 2016.

Career: Pam joined the Group in 1991 and has held a number of key roles across the organisation including Group Head of Corporate Affairs, Group Head of Internal Audit, Group Head of ALM and Group Treasurer, where she was responsible for the management of the Group's balance sheet. In 2014, she became Group Business Head, Regions working closely with the Global Business Heads and Regional CEOs. She then took on the role of interim Group Chief Risk Officer from July 2015 to February 2016 before assuming the role of Group Head, Human Resources.

External appointments: Pam is a lay member of The Royal Veterinary College Ethics and Welfare Committee.

Corporate governance

Board and committee structure

Standard Chartered PLC

The Board is collectively responsible for the long-term success of the Group and for ensuring leadership within a framework of effective controls. The Board sets the strategic direction of the Group, approves the strategy and takes the appropriate action to ensure that the Group is suitably resourced to achieve its strategic aspirations. The Board considers the impact of its decisions and its responsibilities to all of the Group's stakeholders, including the Group's employees, shareholders, regulators, clients, suppliers, the environment and the communities in which it operates.

Audit Committee
Oversight and review of financial, audit, internal financial control and non-financial crime issues.
Read more on page 63

Board Risk Committee
Oversight and review of principal risks including credit, market, capital and liquidity, operational, country, reputational, compliance, conduct, information and cyber security and financial crime risks.
Read more on page 69

Brand, Values and Conduct Committee
Oversight of the Group's brand, culture, values, conduct, government and regulatory relations, sustainability priorities and processes for managing reputational risk.
Read more on page 73

Governance and Nomination Committee
Oversight and review of the Board and executive succession, overall Board effectiveness and corporate governance issues.
Read more on page 76

Board Financial Crime Risk Committee
Oversight and review of all financial crime compliance matters.
Read more on page 80

Remuneration Committee
Oversight and review of remuneration, share plans and other incentives.
Read more on page 83

Group Chief Executive

Responsible for the management of all aspects of the Group's businesses, developing the strategy in conjunction with the Chairman and the Board, and leading its implementation.

Management Team

The Management Team comprises the Group Chief Executive and the Group Chief Financial Officer; four regional CEOs; client segment CEOs; and our global function heads. It has responsibility for executing the strategy. Details of the Group's Management Team can be found on pages 50 to 52.

Matters reserved for the decision of the Board and delegated authorities

The Board discharges some of its responsibilities directly and delegates certain other responsibilities to its committees to assist it in carrying out its function of ensuring independent oversight and stewardship. The Board also delegates authority for the operational management of the Group's business to the Group Chief Executive for further delegation by him in respect of matters that are necessary for the effective day-to-day running and management of the business. The Board holds the Group Chief Executive accountable in discharging his delegated responsibilities.

A clear schedule of matters reserved for the Board and terms of reference for each of its committees are reviewed annually against industry best practice and corporate governance provisions and guidance, including the Prudential Regulation Authority (PRA) Supervisory Statement on Board Responsibilities.

The Governance and Nomination Committee, in keeping with the provisions of the UK Corporate Governance Code, is chaired by the Group Chairman.

All the Board committees are comprised of independent non-executive directors and play an important role in supporting the Board. In addition to comprising four independent non-executive directors, the Board Financial Crime Risk Committee's membership includes three independent external advisor members. In 2017 Sir Iain Lobban was appointed to act as an independent advisor to the Board and its committees on cyber security and cyber threat management.

+ The full schedule of matters reserved for the Board, along with written terms of reference for the Board's committees can be viewed at sc.com/termsofreference

Code compliance

The UK Corporate Governance Code 2016 (the Code) and the Hong Kong Corporate Governance Code contained in Appendix 14 of the Hong Kong Listing Rules (HK Code) are the standards against which we measured ourselves in 2017.

The directors are pleased to confirm that Standard Chartered PLC (the Company) complied with all of the provisions set out in the Code and the HK Code for the year under review.

Throughout this corporate governance report we have provided an insight of how corporate governance operates within the Group and our application of the principles set out in the Code and the HK Code.

The Group confirms that it has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than required by Appendix 10 of the Hong Kong Listing Rules. Having made specific enquiry of all directors, the Group confirms that all directors have complied with the required standards of the adopted code of conduct.

+ Copies of the Code and the Hong Kong Corporate Governance Code can be found at frc.org.uk and hkex.com.hk respectively

Board composition, roles and attendance in 2017

		Attendance		
	AGM	Scheduled	Ad hoc	Responsibilities
Chairman J Viñals	✓	8/8	1/1	Responsible for leading the Board, the development of the Group's culture and ensuring its effectiveness in all aspects of its role. Promotes high standards of integrity and governance across the Group and ensures effective communication between the Board, management, shareholders and wider stakeholders.
Deputy Chairman N Kheraj	✓	8/8	1/1	Provides support and guidance to the Chairman as required and, in coordination with the Chairman, acts as an ambassador for the Board and Group in its relationships with governments, regulators, employees, and clients. Deputises for the Chairman at Board, general shareholder, or other meetings when the Chairman is unable to attend.
Executive directors				
Group Chief Executive W T Winters	✓	8/8	1/1	Responsible for the management of all aspects of the Group's businesses, developing the strategy in conjunction with the Chairman and the Board and leading its implementation.
Group Chief Financial Officer A N Halford	✓	8/8	1/1	Responsible for Finance, Corporate Treasury, Group Corporate Development, Group Investor Relations, Property and Supply Chain Management functions.
Independent non-executive directors				
C M Hodgson	✓	8/8	1/1	**Senior Independent Director*:** Provides a sounding board for the Chairman and discusses concerns that are unable to be resolved through the normal channels or where such contact would be inappropriate with shareholders and other stakeholders. Chairs the Governance and Nomination Committee when considering succession of the Chairman.
O P Bhatt	✓	8/8	1/1	Provide an independent perspective and constructive challenge, and monitor the performance and delivery of the strategy within the risk appetite and controls set by the Board.
Dr L Cheung	✓	8/8	1/1	
D P Conner	✓	8/8	1/1	
Dr B E Grote	✓	8/8	1/1	
Dr Han Seung-soo, KBE	✓	8/8	1/1	
G Huey Evans, OBE	✓	8/8	1/1	
Dr N Okonjo-Iweala (appointed 1 November 2017)	N/A	2/2	1/1	
J M Whitbread	✓	8/8	1/1	
Directors who stepped down during 2017				
Dr K M Campbell (stepped down 26 July 2017)	✓	4/4	N/A	

* As Senior Independent Director, Christine Hodgson is available to shareholders if they have concerns that cannot be resolved through the normal channels or where such contact would be inappropriate. She may be contacted via the Group Company Secretary at 1 Basinghall Avenue, London EC2V 5DD.

In 2017, the Group held one general meeting, our Annual General Meeting, on 3 May 2017, which was attended by all of the directors. All directors were proposed for annual (re) election and all were successfully (re)elected.

+ The roles of the Chairman and Group Chief Executive are quite distinct from one another and are clearly defined in detailed role descriptions which can be viewed at sc.com/roledescriptions

Board meetings

To enable the Board to use its time most effectively, it maintains a scheduled programme of meetings and a rolling agenda. There is sufficient flexibility in the programme for specific items to be added to any particular agenda to ensure that the Board can focus on the key matters at the appropriate time. The Board also schedules a number of informal sessions and interactions, which allows Board members to discuss areas of the business, strategy and the external environment with members of the Management Team and/or external advisors. Generally, members of the Management Team and other senior executives are invited to attend part of the meetings to ensure effective interaction with the Board. During the year, the Chairman met privately with the Senior Independent Director and the independent non-executive directors on a number of occasions to assess their views and discuss matters arising.

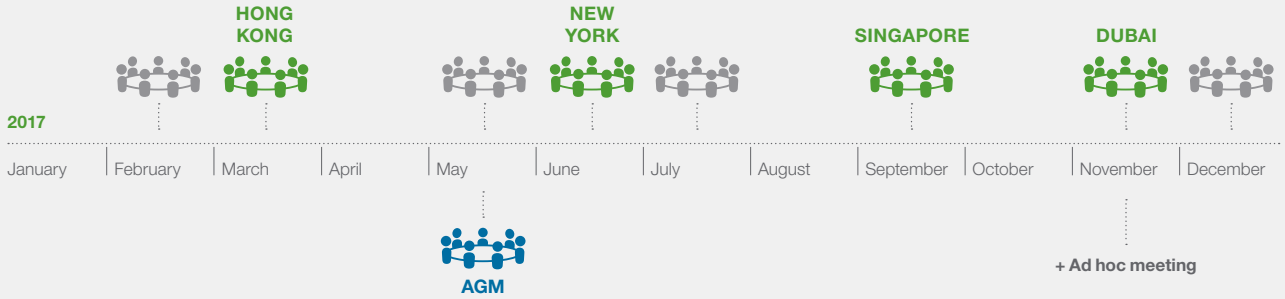
Performance against delivery of the agreed key financial priorities is reviewed at every meeting with particular reference to the detailed Group management accounts.

The Group Chief Executive and Group Chief Financial Officer comment on current trading, business performance, the market, employees and regulatory and external developments at each meeting, and present comparative data and client insight. In addition, the Group Chief Risk Officer periodically attends meetings to update the Board on the key risks.

Detail of the key activities considered by the Board in 2017 is set out on page 56. Some of these items were considered at each meeting and others reviewed periodically throughout the year

To the extent applicable, information required by paragraphs 13(2)(c), (d), (f), (h) and (i) of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is available in Other disclosures on pages 107 to 114

In 2017, the Board held eight scheduled and one ad hoc meeting, including four meetings held outside the UK in Hong Kong, New York, Singapore and Dubai.

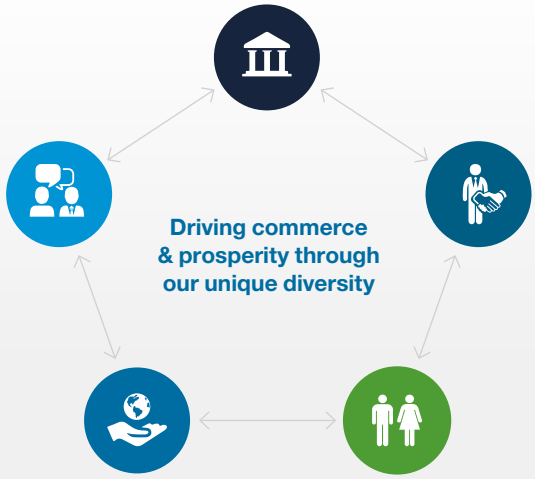


Board activities in 2017

The key activities considered by the Board during 2017 are set out on page 56.

The Board recognises the value of maintaining close relationships with its stakeholders and the importance of these relationships in delivering the strategy and the Group's purpose. The Group's key stakeholders and their differing perspectives were identified and taken into account as part of the Board's strategy and five-year corporate plan discussions in November. These discussions centred not only on delivering increased value for shareholders but also assessed the impact on the Group's wider stakeholders. Details of the Group's key wider stakeholders and the value of the strategy for them is set out below.

Delivering value for shareholders and wider stakeholders



→ Our regulators' perspective
- Robust capital base /strong liquidity position
- Standards for conduct

→ Our shareholders' perspective
- Strong performance
- Increased income, profit and return on investment

→ Our employees' perspective
- Fair and competitive remuneration
- Engaged and diverse workforce

→ Our communities' perspective and the environment
- Positive social and economic contributions
- Strong community outreach and sustainability programme

→ Our clients' perspective
- Differentiated products, preferred bank
- Digitally enabled and positive experience

Board activities in 2017

Group strategy

- Reviewed and approved the five-year corporate plan, as a basis for preparation of the 2018 budget
- Discussed progress of the costs and investment initiatives and programmes
- Reviewed and scrutinised the strategic and operational performance of the business across client segments, product groups and regions, which included details of their priorities, progress and opportunities
- Monitored and assessed the strength of the Group's capital and liquidity positions
- Received regular corporate development updates
- Reviewed the Group's corporate structure
- Monitored the delivery of the IT and Operations strategy for the Group

Risk management

- Received regular risk reports from the Group Chief Risk Officer
- Reviewed and approved changes to the Group's Risk Appetite so as to align to the Principal Risk Types as recommended by the Board Risk Committee
- Approved the Enterprise Risk Management Framework as recommended by the Board Risk Committee
- Considered the identified cyber risks and discussed the Group's approach to cyber risk management and the Board's responsibilities in a cyber crisis. This included specific input and guidance on cyber threats facing the banking industry from the Board's independent external advisor on cyber security and cyber threat management
- Approved a significant new accounting policy, IFRS 9 on recommendation of the Audit Committee
- Reviewed the Group's levels of insurance cover, noted the renewal process and approved the renewal of the Group's insurance policies

People, culture and values

- Discussed progress on a review and refresh of the Group's brand and culture, including a focus on the new purpose statement
- Reviewed and approved the refreshed Group valued behaviours to support the Group's new purpose
- Noted the Group's submission to the Banking Standards Board's 2017 Assessment
- Received an update on progress in executing an integrated talent and succession management plan across the Group
- Reviewed the Group's People Strategy and its key priorities
- Discussed the results of the My Voice employee engagement survey, the Group's talent pool and leadership development programmes
- Endorsed the refresh of the Group's Code of Conduct
- Received an annual report on the Group's Speaking Up Programme

Budget and performance oversight

- Approved the Group's 2018 budget
- Monitored the Group's financial performance
- Noted that management had made presentations to the Bank of England in respect of the 2017 stress test submission
- Approved the full year and half year results and considered the key internal and external factors in determining payment of a final and interim dividend

Governance

- Approved the appointment of Ngozi Okonjo-Iweala as an independent non-executive director
- Reviewed and approved the Group's Modern Slavery Statement and received assurance in respect to the appropriate controls
- Approved the separation of the Deputy Chairman and Senior Independent Director roles and the subsequent appointment of Christine Hodgson as Senior Independent Director
- Considered the Group's contingency plans around the UK withdrawal from the EU and approved the establishment of a subsidiary based in Germany
- Reviewed the process undertaken by the Audit Committee to tender the Group's statutory auditor and on recommendation of the Committee, approved the appointment of EY to take effect for the year ending 31 December 2020
- Noted progress against the 2016/17 Board effectiveness action plan and discussed the observations and themes arising from the 2017 Board and Committee effectiveness review and approved the 2017/18 action plan
- Received an update on the impact of the Senior Managers Regime on the Group and the implementation of its requirements
- Approved changes to the Board Diversity Policy
- Received Board committee updates on key areas of focus

External environment

- Received internal and external briefings and input across a range of topics, including:
  - the macroeconomic and financial environment in the UK
  - China's economic outlook and political reform landscape
  - US economic and political issues and overview of US and global markets
  - UAE economic and political themes
- Discussed the opportunities to capitalise on China's Belt and Road initiative
- Considered the evolving macroeconomic headwinds and tailwinds and the impact on financial performance
- Considered the competitive and market position across the Group's footprint

Shareholder and stakeholder relationships

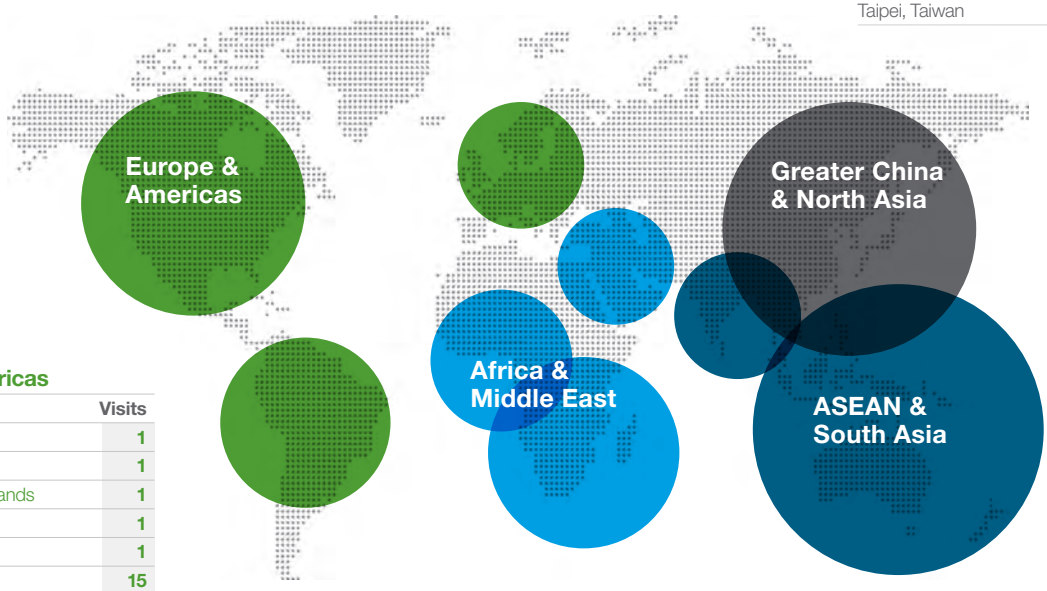
- Engaged with investors, held meetings with brokers, discussed the views of institutional shareholders and responded to retail shareholders' questions at the Annual General Meeting
- Some Board members as part of their overseas travel participated in community engagement activities and projects
- Engaged with the PRA on the findings of the 2017 Periodic Summary Meeting Letter
- Engaged with the Financial Conduct Authority (FCA) on the findings and assessment of the Group following the completion of the 2016 Firm Evaluation Letter
- Engaged with key clients and regulators (Monetary Authority of Singapore and Hong Hong Monetary Authority) as part of the Board overseas visits
- Discussed periodic updates from Investor Relations which included receiving updates on the share price, performance metrics and investor and analyst sentiment
- Noted regulatory developments, throughout the year including in respect to the ongoing investigations conducted by certain US authorities

Visits across our markets

The Group's culture of transparency and openness ensures that independent non-executive directors have wide-ranging access to management and information which assists in maintaining high levels of engagement and oversight. The exposure our independent non-executive directors have to the Group is in part demonstrated through the visits that they make both as a Board and independently throughout our markets. These trips are invaluable as a way for the independent non-executive directors to gain an on-the-ground understanding of the opportunities and risks we face and to validate the Group strategy. In addition the overseas Board meetings and adjoining engagement programmes provide a significant opportunity for the Board to meet with the Group's senior management, clients, employees, communities, regulators, shareholders, subsidiary board members and other stakeholder groups throughout our network.

The external advisor members to the Board Financial Crime Risk Committee joined the Board on a number of the overseas Board meeting programmes, held in Hong Kong, New York, Singapore and Dubai.

Independent non-executive directors, Board Financial Crime Risk Committee external advisor members and Group Chairman's visits to our markets in 2017



Greater China & North Asia

Destination	Visits
Beijing, China	3
Hong Kong	15
Seoul, Korea	4
Shanghai, China	4
Tokyo, Japan	1
Taipei, Taiwan	1

Europe & Americas

Destination	Visits
Bogotá, Colombia	1
Brasilia, Brazil	1
Stanley, Falkland Islands	1
Frankfurt, Germany	1
Saint Helier,Jersey	1
New York, US	15
São Paulo, Brazil	1

Africa & Middle East

Destination	Visits
Amman, Jordan	1
Dubai, UAE	14
Accra, Ghana	2
Manama, Bahrain	1
Lagos, Nigeria	2

ASEAN & South Asia

Destination	Visits
Jakarta, Indonesia	2
Karachi, Pakistan	2
Islamabad, Pakistan	1
Kuala Lumpur, Malaysia	1
Singapore	14

External directorships and other business interests

Board members hold external directorships and other outside business interests. We recognise the benefits that greater boardroom exposure provides our directors. However, we closely monitor the number of directorships our directors take on to satisfy ourselves that any appointment will not adversely impact their role at Standard Chartered and that all of our Board members are compliant with the PRA requirements and other shareholder advisory groups' guidance on 'over-boarding'. These requirements impose a limit on the number of directorships both executive and independent non-executive directors are permitted to hold. Details of the directors' external directorships can be found in their biographies on pages 47 to 49.

Before committing to an additional appointment, directors confirm the existence of any potential or actual conflicts; that the role will not breach their limit as set out by the PRA; and provide the necessary assurance that the appointment will not adversely impact their ability to continue to fulfil their role as a director of the Group. The Board's executive directors are permitted to hold only one non-executive directorship. Of our executive directors, Andy Halford is a non-executive director of Marks and Spencer Group plc, listed on the FTSE 100, and Bill Winters is a non-executive director of Novartis International AG, listed on SIX Swiss Exchange.

Time commitment

Our independent non-executive directors commit sufficient time in discharging their responsibilities. In general, we estimate that each independent non-executive director spent approximately 35 to 50 days on Board-related duties, and considerably more for those who chair or are members of multiple committees.

Director induction

All directors receive a full, formal and tailored induction on joining the Board to ensure that they are provided with the knowledge and material to add value from an early stage. All inductions are supplemented with a detailed handbook, which includes information on a broad range of matters relating to the role of being a director on a UK board, as well as detail of applicable legislation, regulation and related procedures and best practice. Each induction is facilitated through a series of in-depth group and one-to-one briefing sessions in the UK and across our markets. These sessions include meetings with senior management, clients, major shareholders, regulators, colleagues and other stakeholders as well as involvement in local social responsibility activities. The Group Company Secretary also provides support throughout the induction process. The induction programmes are usually completed within the first six to nine months of a director's appointment. The programmes are regularly reviewed and take into account directors' feedback to ensure they are continually improved.

DIRECTOR INDUCTION

José Viñals

José Viñals' induction began in October 2016, following his appointment to the Board as Chairman designate, with a well-managed two month handover period from outgoing Chairman, Sir John Peace. José's formal induction programme, the detail of which was shared in last year's report, was extensive and tailored to maximise his knowledge and understanding of multiple subject matters. It included a combination of face-to-face meetings with, and briefings from senior management across the client segments, product groups, regional businesses and functions, as well as numerous meetings with shareholders and other stakeholders. José travelled extensively around our markets during 2017, where he was able to gain an on-the-ground understanding of the market, the business, our colleagues and wider stakeholders. José completed his formal programme of induction in the summer, and is now highly engaged and focused on his ongoing development.

José Viñals | Group Chairman

Ongoing development plans

Training and development of our directors does not end following their induction. Ongoing and continual development of our directors is crucial to ensure that the Board remains highly engaged, effective and well informed. In addition, mandatory training and ongoing engagement plans are a key element of each director's fit and proper assessment as required under the Senior Managers Regime. During the year, all directors received a combination of mandatory training, briefings, presentations, guest speakers and papers on a range of subjects to ensure that each director's contribution to the Board remains well-informed and up to date. In addition the committee members received specific training relevant to the work of their committee, for details of these topics see the relevant committee pages.

Directors' formal ongoing training took the form of refresher training on their statutory duties as a director of a UK and Hong Kong listed company, with a particular focus on identifying and managing conflicts of interest; an update on UK regulatory and governance responsibilities and obligations. The table on page 59 gives further detail on who received additional briefings.

Support is provided to the directors by the Group Company Secretary and the Group Corporate Secretariat team. Directors also have access to independent professional advice at the Group's expense where they judge it necessary to discharge their responsibilities as directors.

Directors' induction and ongoing development in 2017

	Induction training[1]	Directors' duties and regulatory updates	Visits to our markets and meetings with local management	Macroeconomic and financial environment in the UK[2]	China's economic outlook & political and reform landscape[2]	US economic and political issues & overview of US and global markets[2]	UAE economic and political themes[2]
J Viñals	✓	✓	✓	✓	✓	✓	✓
W T Winters		✓	✓	✓	✓	✓	✓
A N Halford		✓	✓	✓	✓	✓	✓
O P Bhatt		✓	✓	✓	✓	✓	✓
Dr K M Campbell (stepped down 26 July 2017)		✓	✓	✓	✓	✓	
Dr L Cheung		✓	✓	✓	✓	✓	✓
D P Conner		✓	✓	✓	✓	✓	✓
Dr B E Grote		✓	✓	✓	✓	✓	✓
Dr Han Seung-soo, KBE		✓	✓	✓	✓	✓	✓
C M Hodgson		✓	✓	✓	✓	✓	✓
G Huey Evans, OBE		✓	✓	✓	✓	✓	✓
N Kheraj		✓	✓	✓	✓	✓	✓
Dr N Okonjo-Iweala (appointed 1 November 2017)	✓	✓	✓				✓
J M Whitbread		✓	✓	✓	✓	✓	✓

1 Applicable to directors who received induction training during 2017

2 These briefings took the form of a combination of presentations, Board dinners and discussions

✓ Director attended the session

✓ Director did not attend the session but received the update by circulation of papers

DIRECTOR INDUCTION

Ngozi Okonjo-Iweala

Ngozi Okonjo-Iweala | Independent Non-Executive Director

Ngozi Okonjo-Iweala, who joined the Board in November 2017, has an extensive and thorough induction plan which was shared with her ahead of her appointment. Ngozi began her induction with a day in London ahead of her first Board meeting, where she had a number of meetings with executive directors, the Group Company Secretary, external Counsel and senior management from a range of Group functions. These sessions were focused on providing context and understanding of the key agenda items for discussion at the overseas Board meeting in early November.

Ngozi's induction was tailored to complement her significant experience in the areas of geopolitics, economics, risk and development, whilst also focusing on those aspects which are new to her, including the Group's strategy and execution progress; the Group global structure; our key markets; current performance; risk management framework; our colleagues and stakeholders; our unique history, culture and values; detail on significant legal matters; and detail on the regulatory and legislative framework in which the Group operates, including the UK and Hong Kong corporate governance regimes and the obligations of being a director of a UK and Hong Kong listed company.

Ngozi's induction has been designed to ensure she is provided with the necessary context to contribute to the work of the Brand, Values and Conduct Committee. This programme is currently underway and it is anticipated that Ngozi will complete her formal induction programme within the first six to nine months of her appointment.

Board effectiveness

The evaluation of the Board and committee effectiveness was conducted in accordance with the UK Corporate Governance Code and the PRA's expectations. The Governance and Nomination Committee had oversight of the process. It was facilitated by Ffion Hague of Independent Board Evaluation (IBE). Neither Ffion Hague nor IBE has any other connection with Standard Chartered.

Board and committee effectiveness review process

- **Conducted tender process:** A longlist of seven providers was drawn up, each having built a solid reputation in the market for facilitating effectiveness reviews. Each firm was sent a Request for Proposal after which a formal assessment process was undertaken by a panel made up of the Group Chairman, the Deputy Chairman and the Group Company Secretary, resulting in IBE being selected
- **Brief and Board observation:** A comprehensive brief was provided to IBE by the Chairman and the assessment team observed the Board and its six committees in February and March. Access to Board and committee papers was provided
- **One-to-one interviews:** The IBE assessment team conducted detailed interviews with every Board member and a number of senior management, external advisors, brokers, auditor, regulators and shareholders
- **Evaluation and report compiled:** The report was compiled by the assessment team, based on the views gathered by those interviewed and observations from the Board and committee meetings
- **Discussion with the Board and Committee Chairs:** The draft conclusions were discussed with the Chairman and subsequently with the whole Board at which Ffion Hague was present. Following the Board discussion, feedback on the committee reports were discussed with each of the relevant committee Chairs before being shared more widely with the committee members
- **Agreed action plan:** Following the Board discussion an action plan for 2017/18 was agreed. Action plans for each committee were subsequently discussed and agreed by the committee chairs
- **Shared findings with PRA:** A summary of the findings were shared with the PRA

Observations from the effectiveness review

At the time of the review José Viñals had been the Chairman for four months and had chaired only two meetings. The review was intended to provide a baseline of performance against which the Board's progress could be measured over the coming years.

The broad message from the directors was that the Board had undergone some considerable change over the past three years and the appointment of José as Chairman was seen favourably by the directors who regarded the Board's direction of travel as very positive. The induction programme received by directors on joining the Board was highly rated for being comprehensive and offering access to every part of the business and to any member of senior management.

However, there was an appreciation that there was more to do before the Board reached optimal performance. This included: increasing time for strategic discussion and focus; standing back sufficiently to see the broad issues and the greatest priorities; ensuring all existing and new members have sufficient development and opportunity to make an even contribution; and enhancing linkages between the Board and its committees.

Committees

The Board's six committees were also observed as part of the review and feedback provided to the committee chairs. The committees were highly regarded in the feedback and viewed as effective in fulfilling their remits. A copy of the final report was made available to committee members.

Action plan 2017/18

- Create even more space for regular strategic discussion
- Hold a learning and development session for committee chairs in order to share good practice and enhance their overall effectiveness, setting the right tone for open discussion
- Invite local subsidiary independent non-executive directors to attend parts of the Group Board/committee meetings when in country
- Ensure the overseas Board programmes continue to provide sufficient time for effective interaction with a range of stakeholders, including local management, clients, colleagues and regulators
- Ensure that Board papers consistently set out all options for the Board to provide constructive challenge

External effectiveness review in 2017

February/March
Brief and Board observation
- Brief provided
- Observation of Board and committees
- Access to papers

March/April
One-to-one interviews
- Detailed interviews with Board and other stakeholders

April/May
Evaluation and report
- Initial report compiled

May
Discussion with the Board and Committee Chairs
- Draft conclusions discussed with Chairman
- Board discussion

May
Agreed action plan
- An action plan for 2017/18 was agreed and shared with the Board

June
Shared findings with PRA
- Summary of findings shared with the PRA

Directors' performance

In addition to the Board and Committee effectiveness reviews José Viñals met with each of the directors during 2017 to evaluate their individual performance. The performance reviews are used as the basis for recommending the re-election of directors by shareholders and to assist the Chairman in assessing whether each director continues to contribute effectively and demonstrate their commitment to the role, including time commitment for board and committee meetings and other duties.

Chairman's performance

The Senior Independent Director met with the independent non-executive directors, at a private meeting without the Chairman present, to evaluate the Chairman's performance, taking into account the views of the executive directors. The feedback was collated and consolidated feedback was given to José Viñals.

Independence of directors

The Chairman is committed to ensuring that the Board is comprised of a majority of independent non-executive directors. In determining whether a non-executive director is independent, the Board considers each individual against the criteria set out in the UK Corporate Governance Code, the Hong Kong Listing Rules and also considers their contribution and conduct at Board meetings, including how they exercise judgement and independent thinking.

In line with the Code, Dr Han's re-appointment was subject to particular review and scrutiny, given he has served on the Board for more than six years. The Board is satisfied that Dr Han and each of its non-executive directors bring robust, independent oversight. All of the directors will stand for (re)election at the 2018 AGM with the support of the Board.

Engagement with investors

Our approach

We aim to deliver robust returns and long-term sustainable value for our shareholders. Trusted and open relationships with our investors are important to us and we believe strengthened by ensuring we consistently and openly seek feedback.

The Chairman and other Board directors maintain direct contact with investors and advisory voting bodies and receive regular updates from the Investor Relations team including reports on market and investor sentiment.

During the year we maintained a comprehensive programme of engagement with investors and other key stakeholders, including investor advisory bodies and credit rating agencies and provided updates on progress made to secure our foundations and the steps being taken to reposition the Group for improved returns. In 2017, we met with over 284 separate institutions in 769 investor meetings across 11 of our markets.

José has spent a significant portion of his first full year as Chairman engaging with shareholders representing more than 50 per cent of the share register, including hosting 13 of them at his annual governance event. Christine Hodgson, Chair of the Remuneration Committee also spent a significant amount of time during the year engaging shareholders on remuneration matters.

Bill Winters and Andy Halford are the primary spokespeople for the Group and throughout the year engaged extensively with existing and potential investors during individual and group meetings either on roadshows or at investor conferences. In addition, each member of the Management Team responsible for a client segment or geographic region has met with investors to promote greater awareness and understanding of the strategy in their respective areas as well as receive investor feedback firsthand.

Institutional shareholders programme

The Group maintains a diverse, high quality and predominantly institutional shareholder base. The Investor Relations team has primary responsibility for managing day-to-day communications with these shareholders and provides support to the Chairman, Group Chief Executive, Group Chief Financial Officer, other Board members and senior management in conducting a comprehensive engagement programme.

+ All presentation material and webcast transcripts are made available on the Group's website and can be viewed at www.investors.sc.com

Debt investor programme

Our Treasury team has primary responsibility for managing the Group's relationships with debt investors and the three major rating agencies with country chief executives and chief financial officers leading on subsidiary ratings. In 2017, management met with debt investors across Europe, North America and Asia and maintained a regular dialogue with the rating agencies. It is important that the Group, as an active issuer of senior unsecured and non-equity capital maintains regular contact with debt investors to ensure continued appetite for the Group's credit. The Group's credit ratings are an important part of the external perception of our financial strength and creditworthiness.

+ Further information can be viewed at www.investors.sc.com

Retail shareholders programme

The Group Company Secretary oversees communication with retail shareholders. Our AGM held on 3 May 2017 was attended by all of the directors and provided an opportunity for them to meet with existing retail shareholders, hear their views and respond to their questions. The Chairs of the Audit, Remuneration and Governance and Nomination Committees were available to answer questions. It was well-attended and all of the proposed resolutions were passed with shareholder support for each ranging from 86.78 to 99.99 per cent.

+ The results of the voting on each resolution at the 2017 AGM can be viewed at www.investors.sc.com

What we did in 2017

February
- 2016 Full year results
- 6 Roadshows

March
- 1 Roadshow
- 3 Conferences

April
- Q1 Interim management statement
- 1 Conference

May
- AGM
- 1 Conference
- 1 Seminar

June
- 1 Conference

August
- 2017 Half year results
- 6 Roadshows

September
- 5 Conferences
- 6 Roadshows

October
- Chairman's governance event
- 2 Roadshows

November
- Q3 Interim management statement
- 3 Conferences
- 1 Seminar

December
- 2 Conferences
- 1 Roadshow

Board committees

The Board places significant reliance on its committees by delegating a broad range of responsibilities and issues to them. It therefore remains crucial that effective linkages are in place between the committees and the Board as a whole, not least as it is impracticable for all independent non-executive directors to be members of all of the committees. Mechanisms are in place to facilitate these linkages, including ensuring that there are no gaps or unnecessary duplications between the remit of each committee and overlapping membership between Board committees.

In addition the committees strive to ensure that appropriate linkages are in place with the subsidiary board committees. This is achieved in a variety of ways:

- During the year the Audit Committee held an annual call hosted by the Audit Committee Chair and attended by the chairs of subsidiary audit committees. The Group Chairman, Deputy Group Chief Financial Officer, Group Head of Internal Audit, Group Head, Compliance, lead audit partner of the Group's statutory auditor and the Group Company Secretary also participated in the call. It provided the opportunity to share, amongst other things, the Committee's primary areas of focus during the previous 12 months, the Committee's focus in respect to the 2016 annual accounts and its priorities and areas of focus for the year ahead
- The Chairs of the Board Financial Crime Risk Committee and Board Risk Committee jointly hosted an annual call with the chairs of the subsidiary board risk committees, and for where the Group's subsidiaries do not have a risk committee, the chairs of their board audit committees. The Group Chairman, Group Chief Risk Officer and Group Company Secretary also participated in the call. It provided the opportunity for both Chairs to share the main areas of focus for both Committees over the previous 12 months and the priorities for the year ahead
- Throughout the year, the Board received regular updates from the committee chairs on each of the committee's activities and areas of focus together with minutes of their meetings (with the exception of the Governance and Nomination Committee). In addition to the Board Risk Committee's update the Group Chief Risk Officer also provided formal risk reporting to the Board
- This year saw the first Global Chairmen's Conference take place in Dubai. It was hosted by José and focused on strengthening the linkages between the Group Board and its subsidiaries. However, it also explored improving linkages and sharing knowledge between the Group's committees, particularly the Audit and Risk Committees and the subsidiary committees. More detail about the format of the conference and the topics discussed is set out below

"Strengthening the linkages between the Board and its subsidiaries"

Global Chairmen's Conference

José Viñals hosted the Group's first Global Chairmen's Conference around the November Board meeting in Dubai. It was an opportunity for the Board and the Management Team to hear directly from the Group's subsidiary Chairmen and independent directors on a range of issues important to them, with the aim of jointly developing initiatives that will lead to the strengthening of linkages between the Board and its subsidiaries.

The conference was highly interactive and consisted of a series of presentations and panel sessions on a range of topics including:

- An update on the Group's strategy and progress in its execution from the Group Chief Executive Officer
- A presentation on transforming our culture which included a summary of the My Voice global employee survey from the Group Head, Human Resources and insights from the Chair of the Brand, Values and Conduct Committee and the Chairmen of Standard Chartered Bank Cameroon and Cote d'Ivoire
- A session on best practice sharing and the effectiveness of linkages between the Board and Committees. This included contributions from the Group Company Secretary, the Group Audit Committee Chair, the Group Risk Committee Chair, the Standard Chartered Bank Singapore Audit Committee Chair and the Standard Chartered Bank Uganda Chairman
- The Chairs of Standard Chartered Bank Malaysia, Kenya and Hong Kong gave perspectives of serving and chairing a subsidiary board; the Global Head of Digital Banking provided an update on the roll out of the Group's digital initiatives
- There was also a panel discussion facilitated by the Regional CEO for ASEAN and South Asia on the Group's frontier risks

Audit Committee

"Ensuring that the interests of shareholders are properly protected in relation to financial reporting and financial internal control is fundamental to the Committee's role"

The Committee has exercised its authority delegated by the Board for ensuring the integrity of the Group's published financial information by discussing and challenging the judgements made by management and the assumptions and estimates on which they are based. The Committee has exercised judgement in deciding which of the issues we considered in the financial statements as being significant and this report sets out the material matters that we have considered in these deliberations.

In addition to discharging its responsibilities as set out in its Terms of Reference in accordance with the requirements of the UK Corporate Governance Code 2016, we have spent a significant amount of time discussing the root causes of control weaknesses and regulatory breaches and the resulting remediation and mitigating action taken by management. We have also discussed the Group's relationships with its regulators in light of compliance issues that have arisen. In 2017, there was a particular focus on IFRS 9 Financial Instruments and the oversight of the multidisciplinary project to implement the systems capabilities required for IFRS 9.

We have reviewed and discussed the work undertaken by Group Internal Audit (GIA) against a backdrop of numerous significant projects and programmes so as to understand and fully challenge where GIA has been focusing and how it maximises value from GIA resource so as to be as productive as possible. We discussed resourcing for GIA and the GIA Plan.

The Committee meets privately with the external auditors without management present. The Committee also meets periodically with one of the Group's UK regulator, the Prudential Regulation Authority (PRA). When visiting overseas markets Committee members meet with local and regional internal audit and compliance teams, the Group's statutory auditors and, where possible, local regulators.

A significant activity during 2017 was the external audit tender, which was conducted by the Audit Committee. On 9 November 2017, the Group announced its intention to appoint Ernst & Young LLP (EY) for the year ending 31 December 2020, subject to shareholders' approval at the Annual General Meeting (AGM) in 2020. Details of the audit tender process can be found on page 65 of this report.

The Committee receives reports on the Group's Speaking Up programme and I am responsible for ensuring and overseeing the integrity, independence and effectiveness of the Group's policies and procedures on whistleblowing and ensuring colleagues who raise concerns are protected from detrimental treatment. In discharging this responsibility I have met with management and reviewed and provided input on management's proposed enhancements to the operating model of the Group's Speaking Up programme. Further details of the Committee's work in this regard can be found on page 68.

Naguib Kheraj
Chair of the Audit Committee

Committee composition

	Scheduled meetings	Ad hoc
N Kheraj (Chair)	**7/7**	2/2
D P Conner[1]	**7/7**	1/2
C M Hodgson	**7/7**	2/2
Dr B E Grote	**7/7**	2/2

1 David Conner was unable to attend one ad hoc meeting due to time zone differences

Other attendees at Committee meetings in 2017 included: Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group Head of Internal Audit; Group General Counsel; Group Head Compliance; Group Treasurer; Group Statutory Auditors; Group Company Secretary.

The Chair of the Board Financial Crime Risk Committee, Gay Huey Evans and the Chair of the Brand, Values and Conduct Committee, Jasmine Whitbread also attended one of the Committee meetings in 2017.

As part of, and in addition to, each scheduled Committee meeting, the Committee had private members-only meetings.

The Committee members have detailed and relevant experience and bring an independent mindset to their role. The Board is satisfied that Christine Hodgson has recent and relevant financial experience and that all other Committee members have a broad experience and knowledge of financial reporting in international business. Details of their experience can be found on pages 47 to 49. All the Committee members are independent.

Committee responsibilities

The Committee's role is to review, on behalf of the Board, the Group's internal financial controls. It is also responsible for oversight and advice to the Board on matters relating to financial reporting and has exercised oversight of the work undertaken by Group Compliance, Group Internal Audit and the Group's statutory auditor, KPMG LLP (KPMG).

+ The Committee has written terms of reference that can be viewed at www.sc.com/termsofreference

Activities in the year

Financial reporting

- Satisfied itself that the Group's accounting policies and practices are appropriate
- Reviewed the clarity and completeness of the disclosures made within the published financial statements
- Considered any changes in disclosures arising from best practice in applying the UK Finance Code for Financial Reporting Disclosure, Financial Reporting Council (FRC) publications on aspects of UK reporting, and bilateral discussions between the PRA and UK Finance (formerly the British Bankers Association)
- Monitored the integrity of the Group's published financial statements and formal announcements relating to the Group's financial performance, reviewing the significant financial judgements and accounting issues

Significant accounting judgements considered during 2017 included:

Key area	Action taken
Impairment of loans and advances	Reviewed and considered, on a quarterly basis, reports detailing the composition and credit quality of the loan book, concentrations of risk, emergence periods, provisioning levels and the judgement exercised in individual and portfolio impairment provisions. In respect of high-risk credit grade exposures the Committee was also briefed on business plans including remedial actions, management assessment of the recoveries and collateral available.
Goodwill impairment	Reviewed management's annual assessment of impairment covering key assumptions (including forecasts, discount rate, significant changes from the previous year), headroom availability and sensitivities to possible changes in key assumptions. The realignment of cash-generating units was also reviewed. The Committee discussed the impairment in respect of Taiwan and noted sensitivities that may cause further impairment.
Valuation of financial instruments held at fair value	Received reports and updates at each reporting period detailing the key processes undertaken to produce and validate valuations of financial instruments, including changes in methodology from prior years and significant valuation judgements in respect of level 3 instruments and the use of non-market-based unobservable inputs.
Taxation	Reviewed and considered management's judgements and assumptions with respect to tax risks and are satisfied these are reasonable and adequate disclosure in the financial statements has been made. This included the Group's effective tax rate, the quantum and basis of recognition of deferred tax assets (including the impact of the recent changes in US Tax legislation) and the UK bank levy charge for the year.
Provisions for legal and regulatory matters	Considered advice presented on the current status of significant legal and regulatory matters, and considered management's judgements on the level of provisions and the adequacy of disclosure, as set out in notes 24 and 26 on pages 258 and 259.
Impairment of investments in associates and joint arrangements	Reviewed and considered management's impairment assessments on the Group's investments in PT Bank Permata and China Bohai Bank, covering key assumptions and potential sensitivity to changes.
Recoverability of Parent Company's investment in subsidiaries	Discussed and received confirmation from management that they had adequately assessed the recoverability of investments in subsidiaries, together with any intercompany indebtedness.

The Committee can confirm that the key judgements and significant issues reported are consistent with the disclosures of key estimation uncertainties and critical judgements as set out in note 1 on page 208.

IFRS 9

- Received regular updates and assurance on the progress of the IFRS 9 implementation programme, the year end transitional disclosures and considered and recommended to the Board the significant new accounting policies under IFRS 9

Going concern and viability statements

- Reviewed management's process, assessment and conclusions with respect to the Group's Viability Statement, including principal risks and uncertainties and key assumptions. Ensured that the Viability Statement is consistent with the Group's Strategic report and other risk statements disclosure. Further details of which can be found on page 43

Fair, balanced and understandable

- The Committee considered, satisfied itself and recommended to the Board, that the processes and procedures in place ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy and the business risks it faces. The statement is underpinned by the Committee's, and the Board's, belief that all important elements have been disclosed; and that the descriptions of the Group's business as set out in the Strategic report are consistent with those used for financial reporting in the Group's financial statements

FOCUS ON

Audit tender

The Company complies with the Statutory Audit services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee responsibilities) Order 2014.

On 9 November 2017, the Group announced its intention to appoint EY for the year ending 31 December 2020, subject to shareholders' approval at the AGM in 2020.

The process, which ran from June to November 2017, was led by the Committee and in compliance with statutory requirements and guidance issued by the FRC.

Short list

The three eligible 'Big Four' firms were invited to tender and two of those firms submitted proposals. Proper consideration was given to firms outside the 'Big Four'. However, in view of the size, complexity and geographical footprint of the Group, the Committee concluded that none would have the requisite resources to provide an effective service.

Process

Naguib as Audit Committee Chair, started the process by meeting with the senior partners or chairs of the firms, and they provided either two or three candidates for the lead role for the Group to consider. Part of the evaluation of the potential lead partners involved taking references from current and former clients. The process allowed each of the audit firms equal access to senior management members across key businesses, geographies and functions. The firms also met with Naguib and the Group Chairman before submitting written proposals.

Management were involved in the assessment process through meetings with the firms and providing feedback and scorecards, which were presented to the Committee after they had received presentations from the firms. As part of the process the views of the Group's subsidiary audit committees were sought and provided.

Assessment criteria

In the context of a large listed global company operating in a complex and regulated industry, the assessment criteria was set out in a detailed Request for Proposal and included:

- The firms' team and credentials
- Geographic coverage and transition arrangements
- Understanding of the business and industry
- Service approach
- Quality assurance
- Independence
- Corporate and social responsibility
- Litigation
- Fees (to ensure sufficient to deploy resources globally)

As part of the process external stakeholders were engaged, including the PRA and the Group's top 20 shareholders.

Presentations

The firms made oral and written presentations to the Committee, with senior members of management in attendance, in October 2017. This was followed by the Committee completing scorecards against the decision criteria stipulated in the Request for Proposal, receiving feedback from the management meetings to take into consideration and an open discussion as part of the final deliberations.

Recommendations and final decision

The Committee recommended two firms to the Board, with an identified first and second choice, and at its meeting on 9 November 2017 the Board resolved that it intends to appoint EY for the year ending 31 December 2020, subject to shareholders' approval at the AGM in 2020. In making the decision the Board noted that EY had set themselves apart and made them the best choice to take over the audit engagement by demonstrating that they had:

- Well-established practices and a geographic partnership structure rooted in the Group's key markets
- A deep understanding of the Group's business and the challenges it faces
- A culture that complements the Group's
- In-depth previous experience with other large multinational clients and Global and Domestically Systemically Important Institutions (GSIB/DSIB)
- Technical and regulatory knowledge
- A clear service approach to executing the audit and transition

Transition

KPMG will remain the Group's auditor until 2019. Over the intervening period EY and the Group will start the transition process, including independence in respect of non-audit services and banking relationships globally.

Audit tender process

24 February 2017
Announced in our 2016 Annual Report and Accounts our intention to change auditor, by year ending 31 December 2021

August 2017
Announced in the half year results that the tender process would commence in the second half of 2017 and letters to the Group's top 20 shareholders sent

August to November 2017
Tender process conducted

30 October 2017
Audit firms presentations to the Committee

9 November 2017
The Group announced its intention to appoint EY

May 2020
Shareholders' approval to be requested at the AGM

31 December 2020
First year end of EY audit

Activities in the year continued

Deeper discussions into specific topics	→ **Data Quality:** Discussed an overview of the Group's approach to the management of data quality for regulatory, conduct and business purposes → **Third-Party Risk Management Programme:** Discussed an update on the progress being made → **Major Disputes and Significant Cross Border Orders:** Discussed significant cross border orders and major disputes facing the Group → **Non-Financial Crime Related Government Investigations:** Reviewed updates on non-financial crime related government investigations facing the Group. Such investigations relating to financial crime compliance are reported separately to the Board Financial Crime Risk Committee → **Markets in Financial Instruments Directive II (MiFID II):** Discussed an overview of MiFID II, the impact of the regulation on the Group and the status of implementation plans → **External review of Compliance Resourcing:** Discussed the findings of an external review of Compliance resourcing commissioned by management to identify ways to improve compliance effectiveness and efficiency
Group Statutory Auditor	Overseen the work undertaken by KPMG as the Group's statutory auditor. In particular: → Discussed the risks covered by KPMG's audit planning, seeking and receiving assurance that these risks have been properly addressed in the audit strategy and plan reviewed by the Committee → Enquired and satisfied itself that KPMG has allocated sufficient resources to address these risks → Sought and received assurance that no undue pressure has been asserted on the level of audit fees to ensure that there is no risk to audit work being conducted effectively and independently → Performed an annual review of the performance and effectiveness of KPMG. Input was received from Committee members, chairs of Group subsidiary audit committees, the Group's Management Team, country chief executive officers, regional/country chief financial officers, members of the Group Finance Leadership Team and country heads of audit. The results of the input were discussed by the Committee. Overall, it was felt that KPMG is considered to be effective, objective and independent in its role as Group statutory auditor → Received overviews from KPMG's local regional partners from Taiwan, Bangladesh and Singapore which provided insight into the challenges faced in the Group's markets from a statutory audit perspective and providing the Committee with the local audit partner's assessment of the Group's control systems and infrastructure in these markets, the quality of the Group's management from a control perspective and a benchmark of the Group's control environment against local and international peers. The overviews also provided insight into local regulatory developments and the Group's standing with local regulators KPMG has been the Group's statutory auditor for over 25 years. In accordance with the Audit Practices Board requirement, the lead audit engagement partner was rotated in 2015, having held the role for five years. The lead engagement partner has a background of auditing banks and understands the markets in which the Group operates.
Non-audit services	→ Responsible for setting, reviewing and monitoring the appropriateness of the provision of non-audit services, applying the Group's policy on the award of non-audit services to the external auditor, while taking into account the relevant ethical guidance → Satisfied itself that all the requirements of the non-audit services policy have been met → In 2017, the Group spent $1.4 million on non-audit services provided by KPMG and $5.4 million on audit-related services such as quarterly and half year reviews, and regulatory reporting Further details on non-audit services provided by KPMG can be found in note 38 on page 283, and the Group's approach to non-audit services on page 113.
Internal controls	→ Discussed reports from Group Internal Audit (GIA) that provide GIA's view on the system of internal controls across all risk types, business and country functions, including summary highlights of the most significant matters being monitored by GIA and areas of thematic interest that have arisen as part of the audits and warrant the Committee's attention. The Board Risk Committee, the Board Financial Crime Risk Committee and the Brand, Values and Conduct Committee discuss separate reports from the Group Head of Internal Audit on GIA's appraisal of controls across key risks subject to each Committee's oversight. Collectively the reports received by these Committees provide assurance that there are effective internal controls within the Group → Discussed KPMG's observations of Group's controls arising from KPMG's audit for the year ended 2016 and management's responses to the findings together with proposed timelines for addressing the findings. The observations raised by KPMG did not suggest any fundamental concerns over the control framework or procedures Considered reports requested by the Committee from management in respect of the control environment concerning: → **Group Technology and Operations control environment:** In light of GIA's findings, discussed the status of planned enhancements to the control environment within Group Technology and Operations, receiving assurance as to the initiatives underway to address common audit findings → **Private Banking Trust Business:** Discussed the challenges and control issues experienced and management's plans to remediate the issues → **Control Environment – Africa Deep Dive:** Received and discussed a progress report on the implementation of action plans discussed in 2016 following control environment issues, identified by GIA

Activities in the year continued

Group Internal Audit

- → Received and discussed a supplemental report from GIA providing additional information on significant areas referred to in the GIA report including:
  - Summaries of the control environment grade from audits over the last 12 months
  - Management Control Approach (MCA) opinions. Quarterly MCA scorecards enable GIA to provide management with summaries of their areas of responsibility in order to support good risk and control governance and give recognition where key risks are well understood, controls are regularly reviewed for effectiveness and control weaknesses have been identified and are being rectified. This is separate to the opinion given in the GIA report on the state of the Group's control environment
  - Group high-risk issues identified since the last report to the Committee
  - Open Group high-risk issues and overdue audit issues
  - Audit reports issued since the last report to the Committee

Key areas of focus that were brought to the Committee's attention included:

- Activities that GIA identified as being on the periphery of the Group's main business activities
- An audit of 16 regional cash settlement system infrastructures in line with the recommendations in the SWIFT Security Guidance published in March 2016
- GIA's view of the Group's Project Management Framework and the implementation of an improvement plan
- GIA's monitoring and review of a number of regulatory change projects including the Volcker Rule, Margin Reform, IFRS 9, MiFID II and BCBS239
- The findings of a review commissioned by GIA and undertaken by Deloitte of GIA's approach and coverage of Credit Risk and the implementation of the review's recommendations
- GIA's conclusions following a review of Group Governance of the Banking Reform Act Individual Accountability Framework
- The findings of a review of GIA undertaken by the PRA and the subsequent action taken to address the findings

During 2017, for the most significant matters being monitored by GIA, business and/or regional management has been invited to attend meetings to provide updates on the steps being taken to enhance the control environment and address internal audit findings.

- → Reviewed the resourcing and proposed work plans for GIA and is satisfied that these are appropriate in light of proposed areas of focus, expertise and skills that are required
- → Assessed the role and effectiveness of the GIA function, including reviewing and monitoring GIA's progress against its annual audit plan and the review and monitoring of post-audit actions
- → Received a report from the Head of GIA Quality Assurance
- → Conducted an annual review of and approved GIA's charter
- → The Committee is satisfied with the independence of the GIA function. Throughout the year, Naguib has met regularly with the Group Head of Internal Audit and has also met with the Chief Operating Officer, GIA, the Regional Head, Audit, Europe and Americas, and, together with David Conner and Byron Grote, with the local audit team in Singapore

Group compliance

- → Regular Compliance reporting to the Committee describes the work being undertaken by Compliance and any significant compliance and regulatory risks facing the Group, together with key actions being taken to address or mitigate these risks. In particular, the Committee received updates on:
  - The Group's compliance with the Volcker Rule (which prohibits banking entities from engaging in proprietary trading and sponsorship of, or investment in, covered funds). Discussed the findings of GIA's second annual report on the Group's Volcker enhanced compliance programme and resulting management actions in response to the findings
  - The status of the Group's compliance with the European Union Market Abuse Regulations (MAR) and the progress and challenges faced by the Group concerning the implementation plan to comply with the MAR surveillance requirements and the resulting management actions
  - The programme of work by the Group to implement the requirements of MiFID II which came into effect in January 2018
  - Progress reports on Compliance projects, designed to deliver functional improvement
  - Reviewed proposed work plans and required resourcing of Group Compliance and is satisfied that the work plan has appropriate focus and that Compliance has both the required resource in terms of skill and expertise to deliver against the work plan
  - Reviewed and discussed the functional agenda and annual plan for Group Compliance

As Committee Chair, Naguib has met regularly throughout the year with the Group Head, Compliance.

FOCUS ON

Speaking Up programme

The Group's Speaking Up programme (Programme) has been designed to comply with the Group's UK lead regulators, the PRA and the Financial Conduct Authority Whistleblowing Rules that came into effect on 7 September 2016.

Our whistleblowing channels, (sc.com/speakingup) are available to anyone – colleagues, contractors, suppliers and members of the public – to raise concerns confidentially and anonymously. Following the re-launch of our Speaking Up programme in late 2016, we have seen a sustained increase in the number of concerns raised, which were investigated accordingly.

The Group has implemented an enhanced operating model for Speaking Up, with the introduction of Speaking Up Advocates in three pilot countries (UK, UAE and Singapore).

The Advocates, who are volunteers from the business and support functions, have been specifically trained to support disclosures and provide insight into local cultural barriers to Speaking Up. The Committee has discussed:

- Speaking Up referral rates, target dates for closures and themes arising
- Regular reports on the Group's Speaking Up programme and the inaugural annual report on the operation and effectiveness of the Programme that was subsequently tabled to the Board. The report provided the Committee with assurance that the Group achieved compliance with the Whistleblowing Rules prior to its effective date and subsequent ongoing compliance
- The Group's participation in an industry working group to design benchmarks for whistleblowing programmes
- Management plans to enhance further employee confidence in the Programme with the aim of positioning the Group as a leader amongst peer institutions

The Whistleblowing Rules have been successfully embedded in the Group, evidenced by the doubling of Speaking Up referral rates since the Programme's re-launch.

Over the course of the year, Naguib met regularly with the Group Head, Speaking Up and also met with a number of Speaking Up Advocates in several of the Group's jurisdictions.

Interaction with management

As Committee Chair, when visiting the Group's markets, Naguib has met privately with the Permata Bank audit committee chair and KPMG's regional partner in Korea. When visiting Malaysia, Naguib met with the Chair of the Malaysian board and the CEO and in conjunction with Christine Hodgson, Naguib met with the Hong Kong CEO and independent non-executive directors.

As part of the overseas Board programme in Singapore Naguib, David Conner and Byron Grote also visited the IFRS 9 team and met with the local Group Internal Audit and Compliance functions. In Singapore, Naguib also met with the Regional CEO, ASEAN & South Asia and CEO, Commercial & Private Banking, the Group Chief Information Officer and the CEO, Retail Banking.

Following the Singapore Board programme, Naguib and José met with the country management team in Indonesia.

Naguib also participated in the Group's Global Chairmen's Conference held in Dubai. Attendees at the Conference included the Group's subsidiary chairmen. Naguib was one of the panellists for the discussion on subsidiary and PLC linkages for audit and risk committees and discussed the key areas of focus for the Audit Committee in 2017 and looking forward into 2018.

Interaction with regulators

On an annual basis, the Committee meets with the PRA without members of management being present. The purpose of such meetings is to enable a discussion between the Committee and the PRA concerning areas of focus for both the Committee and the PRA. As Committee Chair, Naguib also attends a trilateral meeting with KPMG and the PRA.

Committee effectiveness review

In 2017, an externally facilitated Committee effectiveness review was undertaken as part of the externally facilitated Board effectiveness review. The broad message was that the Committee is regarded as thorough and effective and it is felt that the financial governance of the Group is conducted with diligence and rigour. The main theme arising from the review was that whilst the Committee appreciates management's intention to keep the Committee well informed, it would assist in the Committee's discussions if the papers could summarise the key points of longer papers from the outset.

Ongoing training and development

Committee members have ongoing training and development programmes which, in 2017, included training on:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- MiFID II
- The General Data Protection Regulation

Board Risk Committee

"Good risk management is not static but responds to internal and external pressures and is intrinsically linked to strategy"

The Committee's role is to exercise oversight on behalf of the Board of Group-wide risks,* and to provide assurance to the Board that the overall framework for complying with the Risk Management Principles and the Board approved Risk Appetite Statement is operating effectively.

We recognise that good risk management is not static but responds to internal and external pressures and is intrinsically linked to strategy. The Committee has discharged its responsibilities through receiving a combination of routine and regulatory reporting, requesting reports on specific matters from management and ensuring that the management information to the Committee is not just data but also provides analysis and enables the Committee to have deeper discussions.

As evidenced by declining impairments, the quality of the Group's loan portfolio has improved. However, some segments of the portfolio remain under stress and we have sought and received assurance that management continues actively to manage those segments particularly given the unpredictable nature of the external environment.

Given high profile cyber security breaches and the rising level of cyber threat across many industries, the Committee has increased its focus on the steps being taken by the Group to improve its defences, create stronger control frameworks and improve intelligence sharing.

Through its work the Committee has considered and challenged whether there are any gaps in risk coverage and sought and received assurance concerning the mitigating action being taken to address any such gaps. We have examined the effectiveness of the Group's risk management and how risk management has responded to internal and external pressures.

We have also discussed the progress that has been made on embedding a stronger risk culture across the Group. Among other ways, this was covered in the Committee's review and discussion of a revised Enterprise Risk Management Framework to be implemented in 2018, discussions on operational risk events and consideration of Group Internal Audit reports. More details of the Group's approach to risk management and the revised Enterprise Risk Management Framework are provided on page 160 and the Group's risk profile on page 122.

The following pages provide an overview of the Committee's activities during the year.

David Conner
Chair of the Board Risk Committee

Committee composition

	Scheduled meetings	Ad hoc
D P Conner (Chair)	**8/8**	1/1
O P Bhatt[1]	**7/8**	0/1
G Huey Evans, OBE	**8/8**	1/1
N Kheraj	**8/8**	1/1

1 Om Bhatt was unable to attend one scheduled meeting and one ad hoc meeting due to travel commitments

Other attendees at Committee meetings in 2017 included: Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group Head of Internal Audit; Group General Counsel; Group Treasurer; Group Statutory Auditors; Group Company Secretary

As part of, and in addition to, each scheduled Committee meetings, the Committee had private members-only meetings.

The Committee's membership is comprised of independent non-executive directors who have a deep and broad experience of banking and the risk factors affecting the Group. Details of their experience can be found on pages 47 to 49.

Committee responsibilities

The Committee is responsible for the oversight and review of prudential risk. It reviews the Group's overall Risk Appetite Statement and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems, considering the implications of material regulatory change proposals, reviews reports on principal risks to the Group's business and ensuring effective due diligence on material acquisitions and disposals.

* In the few instances where it does not have primary oversight for a given type of risk, the Committee interacts closely with other board committees where the remit of these other committees clearly cover risk related matters. For example, the Audit Committee has oversight of the Group's internal financial controls and regulatory compliance; the Board Financial Crime Risk Committee has oversight of the responsibilities in relation to financial crime compliance matters; and the Brand, Values and Conduct Committee has oversight of the processes by which reputational risk is managed.

+ The Committee has written terms of reference that can be viewed at www.sc.com/termsofreference

FOCUS ON

Enterprise Risk Management Framework

The Committee's responsibilities include reviewing the appropriateness and effectiveness of the Group's Enterprise Risk Management Framework. In assessing the effectiveness of risk management, the Committee has considered the Group's risk culture.

The Group's Enterprise Risk Management Framework provides the architecture for the overall management of all risks. The Group's Code of Conduct sets the standards for individual behaviour.

In 2017, the Group embarked on a key initiative to build out the Enterprise Risk Management function. As part of this initiative, a revised Enterprise Risk Management Framework for implementation in 2018 was discussed by the Committee. This Framework will facilitate more dynamic risk identification and develop management processes which clearly integrate risk consideration in strategic decision making. The Group's Principal Risk Types are risks which are inherent to the Group's business and strategy and these have been formally defined in the Group's Enterprise Risk Management Framework.

Further details of the Group's risk management approach are set out on pages 33 and 120

Activities in the year

Risk Appetite

- Paid attention to and challenged the formulation of the Group's Risk Appetite Statement in order to assure itself that it is effective in setting appropriate boundaries in respect of Principal Risk Types
- Considered and recommended to the Board for approval the Group's Risk Appetite Statement. Conduct, Compliance, Financial Crime and Information and Cyber Security were elevated to Principal Risk Types. The scope of Country Cross Border risk has been broadened to cover Country Risk and Pension risk is now a risk sub-type of Market risk. Strategy risk has been integrated as part of the overall Enterprise Risk Management Framework and Capital and Liquidity risk has been consolidated as one Principal Risk Type
- Monitored actual exposures relative to Risk Appetite limits utilising regular risk information reports provided by management
- Tracked a wide range of risk metrics that are periodically reported to the Committee

Further details of the Group's Risk Appetite are set out on page 161.

Principal Risk Types

The Committee's review of the Group's Principal Risk Types included deeper discussions on the following topics:

- **Operational risk:**

The approach to operational risk appetite aims to control operational losses (financial and reputational) so that they do not cause material damage to the Group's franchise.

The Committee:

- Reviewed and recommended to the Board the revisions to the Operational Risk Appetite and revised risk description for Significant Business Interruption and received updates on Operational Risk Events requiring root cause reviews including trend analysis and themes
- Undertook an Operational Risk Deep Dive which enabled a discussion of the Group's Operational Risk profile, continuing risk and emerging risks
- Discussed the application of the Operational Risk Framework to the Group's Corporate Finance business and proposed enhancements including embedding the Group's conduct framework
- Discussed Property risk in the context of issues arising and significant activities concerning the potential for damage to or loss of physical assets and potential for loss or damage relating to health and safety or physical security

- **Capital and Liquidity risk:**
  - Considered and discussed the Group's capital and liquidity position and the regulatory environment including the approval of the Group's Internal Capital Adequacy Assessment Process (in order to satisfy itself that the Group's approach to capital planning is comprehensive, rigorous and consistent with both the current regulatory requirements and the likely anticipated outlook) and the Group's Individual Liquidity Adequacy Assessment Process (which considers the Group's liquidity position, its framework and whether sufficient liquidity resources are being maintained to meet liabilities as they fall due)
  - Considered and approved a request from management that the Risk Appetite set by the Board for 2017 for Liquidity Coverage Ratio be temporarily tightened

Further details concerning the Group's Liquidity Coverage Ratio is set out on page 151 and details concerning Capital are set out on page 183.

- **Credit risk:**
  - Discussed the key findings from the credit and assurance reviews undertaken during the year and the proposals to widen the remit of the of the Enterprise Risk Review function

- **Country risk:**
  - Discussed an overview of Group's Nigeria business and portfolio and the key risks following the economic slowdown and subsequent subdued recovery

Activities in the year continued

Principal Risk Types continued	→ **Information and Cyber Security** – The Committee received updates on the Group's Information and Cyber Security programme and discussed: – Key initiatives being undertaken to enhance the Group's security posture – The regulatory and compliance landscape – Internal and external cyber risk associated events and the cyber risk landscape facing the financial services industry Sir Iain Lobban, who is one of the external advisor members of the Board Financial Crime Risk Committee and an independent advisor to the PLC Board on cyber and security threats, joined the Committee meetings for these discussions together with the Group Chief Information Officer and the Chief Information Security Officer. → **Reputational risk:** Whilst the Brand, Values and Conduct Committee is responsible for providing oversight of the processes by which the Group identifies and manages reputational risk, the Committee discussed the reputational risk management approach that has been developed and designed to drive consistency in risk assessment. A separate bi-annual report to the Brand, Values and Conduct Committee provides Group Internal Audit's perspective on culture, conduct and reputational risk management.
Stress testing	→ Provided oversight and challenge for stress testing scenario design and test execution and reviewed the outcomes of the Bank of England Stress Test (comprising an Annual Cyclical Scenario and Biennial Exploratory Scenario) which the Group, along with the other largest UK banks, was required to undertake → Encouraged management to use the stress test results to enhance business decisions in order to improve capital efficiencies and risk management Further details of stress testing are set out on page 162.
Internal controls	→ Discussed reports from the Group Head of Internal Audit that provide summaries of Group Internal Audit's appraisals of controls across key risks subject to the Committee's oversight, together with key risk issues identified by Group Internal Audit's work and management actions put in place to address the findings The Audit Committee, Board Financial Crime Risk Committee and the Brand, Values and Conduct Committee discuss separate reports from the Group Head of Internal Audit on Group Internal Audit's appraisal of controls across key risk types subject to each Committee's oversight. Collectively the reports received by these Committees provide assurance that there are effective internal controls within the Group.
Remuneration as a risk management tool	Considered advice provided by the Group Chief Risk Officer to the Remuneration Committee concerning the risk factors to be taken into account by the Remuneration Committee in determining the incentive structure for the Group Chief Executive, the executive directors and such other senior executives as appropriate. Such advice assists the Remuneration Committee in its assessment as to whether the Group's remuneration policy, practices and procedures are consistent with and promote sound and effective risk management and do not encourage risk-taking that exceeds the level of tolerated risk of the Group. Further details concerning the Group's approach to using remuneration as a risk management tool are set out in the Directors' remuneration report.
Deeper discussions into specific topics	In discharging its responsibilities, the Committee has requested and held deeper discussions on the following topics: → **Principal Finance:** Reviewed and discussed the key process and controls enhancements in the Group's Principal Finance business and considered an analysis of the Principal Finance business portfolio in relation to declining valuations → **Aviation Finance:** Reviewed and discussed the Group's Aviation Finance Operating Lease and Debt portfolios, the strategy for the business, key risks and the steps being taken to address past challenges and developments in the market environment → **Derivatives in the Retail Business:** Discussed an overview of the Group's Wealth Management structured product business and sales governance approach together with the Group's client exposures to structured products → **Funds Transfer Pricing:** Discussed enhancements to the Group's Funds Transfer Pricing policy → **Internal Ratings Based (IRB) Portfolios – Models Status and Performance:** Discussed a report concerning the performance of the Group's IRB models and key model developments → **Risk Based Review of the Group's investment in China Bohai Bank:** A risk based review discussion that included an evaluation as to whether such risks were industry specific and determined whether there were any substantial concerns which warranted potential management actions → **Sensitivity to a strengthening United States Dollar (USD) and rising US interest rates:** Received management's view on the key economic and sensitivities to the USD and increasing US interest rates and discussed the resulting key areas of vulnerabilities and opportunities for the Group → **Brexit Governance:** Received an overview of the capital cost and benefits including financial projections and details of the proposed governance structure and control framework of the Group's new German subsidiary → **Financial Markets Strategy, Risk Management and Controls:** Discussed the strategy, associated controls and the end-to-end process for derivatives

Risk information provided to the Committee

The Committee is authorised to investigate or seek any information relating to an activity within its Terms of Reference and receives regular reports on risk management and tracks a wide range of risk metrics through a risk information report. This report provides an overview of the Group's risk profile against the Group's Risk Appetite Statement. The Group Chief Risk Officer's report covers the macroeconomic environment, geopolitical outlook, material disclosures and ongoing risks. The Committee also receives a Treasurer's report which covers market developments, liquidity, capital, recovery and resolution planning together with rating agency updates.

The Committee has the authority to request and receive relevant information consistent with the requirements of BCBS239 that will allow the Committee to fulfil its governance mandate relating to risks to which the Group is exposed, and alert senior management when risk reports do not meet its requirements.

Risk management disclosures

The Committee has reviewed the risk disclosures in the Annual Report and Accounts and the Half Year Report and has also reviewed and approved the disclosures regarding the work of the Committee.

Interaction with the Group Chief Risk Officer

As Committee Chair, David Conner meets individually with the Group Chief Risk Officer and the Committee has also met privately with the Group Chief Risk Officer without other members of management being present. These meetings allow open discussion of any matters relating to issues arising from the Committee's formal discussions.

Interaction with management

The Committee is mindful of the need to hold management directly accountable when issues have arisen and have been reported by the Group Chief Risk Officer. Senior management has attended Committee meetings for deeper discussions in such instances.

Committee Chair engagement

David has also met with the Chief Information Security Officer and when visiting the Group's markets, has met with the Regional Chief Risk Officer, Europe and Americas, the Regional Chief Risk Officer, Africa and Middle East and the Chief Risk Officer of PT Bank Permata Tbk. David and Byron Grote also met with the Regional Chief Risk Officer of Greater China and North Asia in Hong Kong. David has also met with the Head of Operational Risk, the Global Head, Risk Review function and the Treasurer. As Committee Chair, David also participated in the Group's Global Chairmen's Conference. The Conference was held in Dubai and attendees included the Group's subsidiary chairmen. David was one of the panellists for the discussion on subsidiary and PLC linkages for audit and risk committees and discussed key risk themes and the operation of the Committee in 2017 and looking forward into 2018. David encouraged subsidiary risk committees to ensure business heads were present at Committee meetings to take ownership during the presentation of risk reports. Further details of the Global Chairmen's Conference can be found on page 62 of this report.

Interaction between Board committees on risk related issues

In the few instances where it does not have primary oversight for a given type of risk, the Committee interacts closely with other board committees where the remit of these other committees clearly covers risk related matters. For example, the Audit Committee has oversight of the Group's internal financial controls and regulatory compliance; the Board Financial Crime Risk Committee has oversight of the responsibilities in relation to financial crime compliance matters; and the Brand, Values and Conduct Committee has oversight of the mechanisms by which reputational risk is managed. The interaction assists the Committee in ensuring that it is well informed on discussions held, and the close collaboration of the committee chairs helps to ensure that there are no gaps and any potential for unnecessary duplication is avoided. As part of the strengthening of these linkages and ongoing development, the Chair of the Remuneration Committee, Christine Hodgson attended one of the Committee meetings in 2017.

Interaction with regulators

As Committee Chair, David meets periodically with one of the Group's UK lead regulators, the Prudential Regulation Authority (PRA). In addition, and on an annual basis, the Committee meets with the PRA without members of management being present. The purpose of such meetings is to enable a discussion between the Committee and the PRA concerning prudential focused topics.

Risk function resourcing

The Committee has sought and received assurance that the risk function is adequately resourced to perform its function effectively. The Committee's discussions included the risk function's overall structure, key changes to the function in 2017 and the key areas of focus for 2018, including the delivery of efficiency and effectiveness improvement initiatives, managing attrition and engaging talent, succession planning and building greater diversity of gender and experience.

Committee effectiveness review

In 2017, an externally facilitated Committee effectiveness review was undertaken as part of the externally facilitated Board effectiveness review. The broad message was that the Committee is viewed as being probing and effective and the Board members have confidence that the Committee is managing risk in a sensible and diligent manner. There were two main themes arising from the review. The first concerned the need for the Committee to strike the right balance in Committee discussions and requests for management information so as to avoid blurring the line between management responsibilities and the Committee's ability to exercise oversight in accordance with its terms of reference. The second theme concerned the need for reports to the Committee to avoid lengthy narratives.

Ongoing training and development

Committee members have ongoing training and development programmes which over the course of the year included training on:

- Cross Border Country Risk
- The Group's Stress Testing project development
- An independent assessment of the Group's Information and Security maturity aimed at providing an independent perspective of the Group's ability to adapt to the evolving Information Cyber Security threat landscape and risk

Brand, Values and Conduct Committee

"Conduct is considered by the Committee as a cornerstone of our culture"

The focus of the Committee this year continued with strengthening the Group's culture – understanding where we are today, where we aspire to be, what needs to change and how we can best measure progress. Ongoing diagnosis of our culture included examining the results of our employee engagement survey, as well as other industry standard tools and measures. Setting out where we want to be began with exploring and affirming the Group's purpose 'Driving commerce and prosperity through our unique diversity'.

The Committee considered our brand promise as integrally linked to culture. We reviewed in-depth and country-specific studies, to reveal what our clients and employees expect from us, as we strive to strengthen our client focus and performance culture. Considering these inputs and in light of the Group's strategy, the Committee was well-positioned to review the new valued behaviours we expect throughout the Group. We then assessed the implementation plan for this refreshed direction, debated and agreed a set of metrics that will help us assess the progress the Group is making in line with this direction over time.

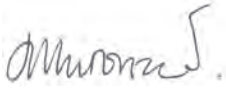
Conduct is considered by the Committee as a cornerstone of our culture. Conduct has also continued as a focus of attention in its own right, with an ongoing assessment of how the Group's Conduct agenda is being reinforced and communicated to all employees. This year, we have noted the significant efforts by senior leaders to set the tone from the top and lead by example. In the year ahead, the Committee expects to review a detailed set of metrics specifically focused on conduct, to complement the wider metrics we examine on culture.

The Committee has also focused its attention to how the Group identifies and manages reputational risk. In line with our brand promise, Here for good, we sought and received assurance on how the Group's Position Statements (which guide our approach to providing financial services to clients who operate in sensitive business sectors or face specific issues) align to the Group's Risk Appetite. We discussed how reputational risk reporting to the Committee could be enhanced, in order for a comprehensive overview of the reputational risk landscape to be fully considered.

The Committee benefited from insightful exchanges with local management in Hong Kong and Singapore, as part of overseas Board visits. A valuable perspective was also provided by the Group Head of Internal Audit, who attends two Committee meetings each year, to provide appropriate assurance on culture, conduct and reputational risk management.

The Committee's focus on the Group's culture, brand, valued behaviours, conduct, reputational risk management and sustainability priorities will continue in 2018, as well as the practice of receiving market insights and additional perspective on matters within the Committee's remit.

I would like to thank Kurt Campbell, who stepped down in the year, for his contribution to the Committee and welcome Ngozi Okonjo-Iweala, who joined the Committee on 1 November 2017. Ngozi brings a wealth of experience on geo-political, economic and sustainability matters, which will be of value to our work in the year ahead.



Jasmine Whitbread
Chair of the Brand, Values and Conduct Committee

Committee composition

	Scheduled meetings
J M Whitbread (Chair)	4/4
O P Bhatt	4/4
Dr Han Seung-soo, KBE	4/4
C M Hodgson	4/4
Dr N Okonjo-Iweala (appointed on 1 November 2017)	1/1
Directors who stepped down during 2017	
Dr K M Campbell (stepped down on 26 July 2017)	2/2

Other attendees at Committee meetings in 2017 included: Group Chairman; Group Chief Executive; Group Head, Human Resources; Group Head Corporate, Public and Regulatory Affairs and Group Company Secretary

The Chair of the Board Risk Committee attended one of the Committee meetings in 2017.

Details of the Committee member's experience can be found on pages 47 to 49.

Committee responsibilities

The Committee has responsibility for reviewing the Group's brand, culture, valued behaviours and conduct, as well as the processes by which the Group identifies and manages reputational risk, sustainability priorities and the approach to main government and regulatory relationships.

+ The Committee has written terms of reference that can be viewed at www.sc.com/termsofreference

Activities in the year

Brand and culture	Discussed the progress being made on the review of brand and culture, as an integrated programme of work, details of which are set out below.

FOCUS ON

Culture and valued behaviours

2017 has been a dynamic year for the Group's work on culture.

The Group's purpose 'Driving commerce and prosperity through our unique diversity' was launched in September and new valued behaviours were defined to support the Group's desired brand and culture. The Committee discussed progress reports on how cultural change is embedding throughout the Group; and received regular status updates on the overall plan of work (setting out the various workstreams underway with clear timelines and responsible persons). The Committee reviewed and provided input on cultural metrics which have been developed and enhanced significantly, to ensure a comprehensive and balanced overview.

Focus was placed on reviewing the Group's purpose, with the Committee counselling that it needed to be aspirational, enduring, resonate with stakeholders and be inextricably linked to the Group's strategy. The valued behaviours were also reviewed and emphasis was placed on the need for these to resonate well with employees and translate easily into expected behaviours.

The Committee reviewed the global results from the 2017 employee engagement survey and corresponding areas of focus for teams and managers. A deeper analysis was undertaken into the UK specific survey findings, alongside the Banking Standards Board 2017 assessment report. The Regional CEO of Europe and Americas attended this discussion to provide context.

Brand refresh, marketing plan and Group sponsorships	The Committee reviewed: → The Group's 2017 marketing plan and confirmed its support of the focus to enhance the client value proposition and deepen client relationships. As part of this, the Committee was keen to understand how the Group's thought leadership initiatives are being developed, given these differentiate the Group and provide value to clients → The Group's sponsorship portfolio, including the Liverpool Football Club sponsorship, and encouraged that consideration be given as to how this sponsorship can be constantly leveraged to ensure maximum benefit for the Group → The creative concepts for the Group's brand refresh, considering how these align to the work underway on brand and culture. The Committee counselled on the importance of the brand refresh being authentic, differentiating, enduring and aligned to how the Group wishes to be regarded by clients and other stakeholders
Conduct	The Committee reviewed: → How conduct is being embedded throughout the Group's three lines of defence, the first line (countries, businesses and functions); the second line (Compliance) and the third line (GIA) Received updates on: → The Group's Conduct Management Framework, proposed conduct metrics, the Group Conduct Management policy and conduct training/guidance materials → The steps being taken to transition the management of conduct risk from a programme of work to a sustainable model Reviewed and provided feedback on: → The refreshed Group Code of Conduct (the Code). As part of this, the Committee noted the communication programme which would emphasise individual and management accountability; and was assured to see the high re-commitment rate to the Code. Further details on the Code can be found on page 40
Reputational risk management	Reviewed the processes by which the Group manages reputational risk in an effective and transparent manner, consistent with the Board approved Group Risk Appetite Statement and: → Received status reports on enhancements to the Group's approach including the reputational risk policy and framework, risk measurement and reporting, Risk Appetite, stress testing, governance, resources and training → Sought and received assurance on how the Group's Position Statements are aligned to the Group's Risk Appetite → Discussed how reporting on reputational risk management could be enhanced to ensure that a comprehensive overview of the Group's reputational risk profile is received

Activities in the year continued

Sustainability	Reviewed a number of matters under the Group's Sustainability agenda including: → The Group's approach to environmental and social risk management, which included the work underway to refresh the Group's Position Statements. The Committee welcomed the review being undertaken by management to ensure that the topics and sectors being covered by the Position Statements are aligned to the Group's business portfolio and are reflective of the Group's Risk Appetite → The risk acceptance parameters drafted to accompany the Group's refreshed Palm Oil Position Statement → The Group's community expenditure for the full year 2016, noting that the level of Employee Volunteering (EV) engagement remained high, comprising 40 per cent of the Group's expenditure in 2016. Further details on EV can be found on page 41 Received updates on: → Climate change, palm oil and human rights, noting the Group's position and how this compares with peers → Developments within the Group's community strategy to ensure that it aligns with the Group's purpose, reflects the Group's strategy, engages employees and resonates with clients and other stakeholders
Government and regulatory relationships	→ Reviewed the Group's approach to its main government and regulatory relationships across our key markets, focusing on the quality of these relationships and engagement in place → Provided input on the areas of priority for 2018 → Received an update on resources in place to manage these relationships → Acknowledged that given the Group's diverse geographic footprint, there are typically a number of supervisory matters or investigations ongoing at any time
Market insights and additional perspective	Market insights received during overseas Board visits to Hong Kong and Singapore included: → An informal discussion between the Committee and members of the Hong Kong management team to discuss brand, culture and reputation. This discussion brought the matters of brand and culture to life from a country perspective and provided useful context for the Committee's deliberations → The provision of context from the Singapore CEO on brand and culture in Singapore, including an update on the various initiatives underway to drive cultural change. The Committee was supportive of the steps being taken to promote a strong service culture in Singapore → The Group Head of Internal Audit provided context on GIA's work in relation to culture, conduct and reputational risk management

Committee effectiveness review

In 2017, the effectiveness of the Committee was assessed as part of the externally facilitated Board effectiveness review. It was acknowledged that the Committee is operating effectively and some suggestions were made to enhance effectiveness. These suggestions included the need for the Committee to provide more communication to non-Committee members on the activities of the Committee; and to ensure that the Committee's remit is not too broad. These suggestions will be kept under review by the Committee.

Committee chair engagement

Outside of the formal Committee meetings, Jasmine had various interactions and engagement with management and employees across the Group. In particular, Jasmine participated in the Group's Global Chairmen's Conference. This Conference was held in Dubai and attendees included the Group's subsidiary chairmen. Jasmine was one of the panellists for the discussion on culture. She shared her experience of the Committee's role in reviewing the Group's purpose and how the Board sets the tone for culture and conduct from the top.

Jasmine also met with the Head of Diversity and Inclusion (D&I) to provide input to the Group's refreshed D&I strategy. One-to-one meetings were then organised with each Committee member and the Head of D&I so that additional perspectives and insights on D&I could be obtained and discussed. D&I will be discussed by the Committee in early 2018.

Governance and Nomination Committee

"The Committee invested a significant amount of its time this year strengthening the Board's succession planning"

The Governance and Nomination Committee has been active this year in addressing a number of priorities which I set out when taking over as Chairman of the Committee at the end of 2016. In March an independent, externally facilitated review of the Board and its committees was commissioned to gain a comprehensive insight into their performance and to set a baseline, early in my tenure, against which the Board can be measured in future years. Details of the overall process, the observations and the actions identified are set out earlier in the report on page 60.

The Committee invested a significant amount of its time this year strengthening the Board's succession planning alongside overseeing the Group's senior talent succession plans. Ngozi Okonjo-Iweala, who joined the Board in November, emerged from this process as a valuable addition to the Board. Ngozi has significant geo-political, economic, risk and development experience and expertise at a national governmental level and within international organisations, which will provide valuable insight to the Board discussion.

As part of the Committee's discussions on the Board's composition and structure, it considered in detail the rationale for separating the roles of Deputy Chairman and Senior Independent Director and recommended to the Board that the roles were separated. Christine Hodgson was appointed as Senior Independent Director with effect from 1 February 2018 taking over from Naguib Kheraj, who remains as Deputy Chairman and Chair of the Audit Committee. Christine Hodgson also remain as Chair of the Remuneration Committee.

The importance and benefits of a diverse Board, in terms of gender, skills, knowledge, experiences and geographical coverage, are central to the Committee's discussions when considering succession planning. The Board Diversity Policy has assisted us in driving progress in this area in recent years, including giving a greater focus to the benefits of gender diversity and achieving the appropriate mix of individuals with geographical knowledge. During the year the Committee reviewed the policy, taking into account the many reports which have been published in this area, and recommended a number of changes, not least a change in target for the proportion of women on the Board, having surpassed the previous target of 25 per cent earlier in the year. More details on the changes to the policy and progress made against our objectives in the year are set out on page 79.

This year, the Committee has also given greater prominence to the oversight of material trends, initiatives and proposals relating to the corporate governance of the Group, as well as the Group's approach to subsidiary corporate governance across the Group's four regions, satisfying ourselves as to the rigour and process being applied.

Externally, the Committee has been active, monitoring and contributing to the Government's corporate governance reform agenda. The Committee provided input into the Group's response to the Department for Business, Energy and Industrial Strategy's (BEIS) Green Paper and has had subsequent discussions on the actions, ongoing work streams and potential implications for the Group. We look forward to continued engagement on some of these initiatives, particularly through the Financial Reporting Council's consultation on the UK Corporate Governance Code in the year ahead.

José Viñals
Chair of the Governance and Nomination Committee

Committee composition

	Scheduled meetings	Ad hoc
J Viñals (Chair)	**3/3**	1/1
N Kheraj	**3/3**	1/1
C M Hodgson	**3/3**	1/1
J Whitbread	**3/3**	1/1
D Conner	**3/3**	1/1

Other attendees at Committee meetings in 2017 included: Group Chief Executive; Group Head, Human Resources; Group Company Secretary

Biographical details of the Committee members can be viewed on pages 47 to 49

Committee responsibilities

The Committee has responsibility for keeping the composition of the Board and its committees under review and leads the process for Board appointments, taking into account the Board's current and future skills, knowledge, experience and diversity.

The Committee also considers any material changes to corporate governance regulation and legislation affecting the Group, has oversight of the Group's approach to subsidiary corporate governance and keeps under review the leadership needs of, and succession plans for, the Group's senior executives.

+ The Committee has written terms of reference that can be viewed at www.sc.com/termsofreference

Activities in the year

Board and senior talent succession planning	→ Considered the current and future composition of the Board, including skills, experience, knowledge, time commitment and gender diversity. Discussed where significant knowledge and experience gaps exist, immediately and in the longer term as part of a continuing process of shaping the Board into the future → Agreed the need to identify a diverse pool of independent non-executive directors for the short, medium and longer term and systematically reviewed throughout the year a number of candidate long lists → Agreed the need for an additional independent non-executive director with regional perspective and experience along with international financial experience → Engaged the executive search firm Egon Zehnder*, to assist the Committee in the search, resulting in the emergence of Ngozi Okonjo-Iweala as a sought after candidate → Significant discussion of potential candidates amongst the Committee and more widely with the Board led to the Committee's recommendation of Ngozi Okonjo-Iweala to the Board as an independent non-executive director. Provided oversight of the detailed Executive and Management Team succession plans → Reviewed the emergency cover plans for key Board and committee chair roles, to ensure that appropriate individuals with the necessary skills have been identified to cover roles on an emergency and interim basis should the need arise * Egon Zehnder is a signatory to the Voluntary Code of Conduct for executive search firms and was a supplier of senior resourcing to the Group during the year
Board structure	→ Considered and discussed the governance, the rationale and timing for separating the roles of Deputy Chairman and Senior Independent Director, taking into account feedback from the independent externally facilitated Board effectiveness review and recommended to the Board that the two roles are held by two individuals → Discussed potential candidates for the Senior Independent Director role amongst the Committee and more widely with the Board, taking into account the need for the individual to have the attributes required of a Senior Independent Director → Recommended to the Board that Christine Hodgson be appointed Senior Independent Director
Board effectiveness review	→ Provided oversight of the process of the independent, externally facilitated review of the Board and its Committees, including the selection process, which resulted in the selection of Ffion Hague's Independent Board Evaluation to facilitate the review → The themes and recommendations from the report were explored by the Board in conjunction with Ffion Hague, and the overall process observed by the Committee → Considered and discussed the themes and recommendations from the Committee's report and discussed the proposed action plan for 2017/18
Board Diversity Policy	→ Reviewed the impact of the Board Diversity Policy in driving progress in this area and particularly its role in embedding the importance of diversity into the succession planning process → Considered the progress made in meeting the Board Diversity Policy's objectives, including how the Board has performed in achieving its stated aim in respect to gender diversity. Detail on progress made is set out on page 79 → Took account of recent regulation and recommendations in reviewing the Board Diversity Policy whilst continuing to take a broad view of diversity → Considered and recommended to the Board two changes to the Board Diversity Policy, details of which can be found on page 78

Activities in the year continued

Conflicts of interest	→ Conducted an annual review on the directors' existing and previously authorised potential situational conflicts of interest, and considered whether any circumstances would necessitate the authorisation being revoked or amended
Subsidiary governance	→ Received updates from the four Regional CEOs on the Group's approach to Corporate Governance. Received assurance of the effective oversight and compliance with the Subsidiary Governance Policy → Discussed current linkages between banking subsidiaries and the Group and the escalation of key risks through the structure → Consideration was given to the formal and informal enhancements made to improve the flow of information, including the committee chairs hosting calls throughout the year, the introduction of the first Global Chairmen's Conference held in Dubai during November (more detail can be found on page 62) and engagement with the subsidiaries by directors as they travel across the Group's markets → Commented on other practical ways to enhance and further strengthen the links, communication and information flows between the Group and the subsidiaries
Corporate governance reform agenda	→ Reviewed the key themes to emerge from the BEIS Green Paper on Corporate Governance and commented on the Group's response to the accompanying consultation ahead of submitting to BEIS → Received updates on the developing UK Corporate Governance landscape, noting the range of guidance material and proposals being formulated and their potential impact → Discussed and sought early views on the proposals made to strengthen the wider stakeholder voice in the boardroom, in particular relating to the mechanisms proposed to strengthen the voice of employees
Terms of reference	→ Conducted a thorough review of the Committee's Terms of Reference during the year, taking into account the responsibilities, obligations and best practice in the UK and Hong Kong

FOCUS ON

Implementation of the Board Diversity Policy

The Board's Diversity Policy (the Policy) recognises the Group's distinctive footprint and long history for embracing a diverse board membership. The Policy encapsulates the Board's strongly held belief that a highly effective Board is about chemistry and behaviours, underpinned by robust processes and aims to maintain that diverse outlook. Aligned to this broad objective, the Policy has five specific objectives which the Board is committed to in order to further enhance progress in this area:

- → Increasing the representation of women on the Board with an aim to have a minimum of 33 per cent female representation
- → Ensuring that our Board reflects the diverse markets in which we operate
- → Ensuring that the Board is comprised of a good balance of skills, experience, knowledge, perspective and varied backgrounds
- → Only engaging search firms who are signed up to the Voluntary Code of Conduct for Executive Search firms
- → Reporting annually on the Executive pipeline below the Board and the Board's diversity, including progress being made on reaching the Board's gender target

There were two changes to the Policy objectives made in November 2017: the Board gender target was increased to a minimum of 33 per cent female representation; and a new objective was introduced, aimed at ensuring the Board reflects our diverse markets.

The Policy is implemented through the Governance and Nomination Committee, which considers the Policy's objectives as part of its overall succession planning discussions as well as part of its selection and recommendation of individual candidates.

Detail of the Board's diverse composition, including detail of gender representation, experience and tenure on the Board along with individual biographies of the Board members are set out on pages 47 to 49 of this report.

+ A copy of the full Board Diversity Policy can be viewed at sc.com/boarddiversitypolicy

FOCUS ON

Implementation of the Board Diversity Policy continued

The table below sets out the progress made against the four Policy objectives which were in place during 2017.

Board Diversity Policy objectives	Progress update
Increasing the representation of women on the Board and having 25 per cent female representation on the Board by 2017. We remain supportive and engaged in increasing this proportion further to 33 per cent.	→ Since 2014, when the gender target for the representation of women on the Board was introduced, female representation has increased from 10 per cent to 31 per cent today. Given the positive progress which has been made, the Committee took the decision to increase the target in November 2017
Ensuring that the Board is comprised of a good balance of skills, experience, knowledge, perspective and varied backgrounds.	→ The Committee has invested a significant amount of time in 2017 identifying potential future independent non-executive directors for the medium to longer term, in order to introduce new skills and perspective, whilst maintaining the right balance of experience and knowledge and continuing to reflect the diversity of our markets. A new objective was added to the Board Diversity Policy to ensure our markets are adequately reflected → The appointment of Ngozi Okonjo-Iweala further strengthens the mix of skills on the Board, bringing geo-political, economic, risk and development experience and expertise → Ngozi's appointment has also brought experience and representation from Africa
Only engaging search firms who are signed up to the Voluntary Code of Conduct for Executive Search firms.	→ The Committee has continued only to engage search firms signed up to the Voluntary Code of Conduct → In 2017 the Committee engaged the executive search firm, Egon Zehnder to assist in identifying potential independent non-executive director candidates with the intention of building a rich pool of individuals upon which to draw. Egon Zehnder is signed up to the industry's voluntary code and is committed to supporting our ambitions of increasing female representation and widening the Board's diversity more generally
Reporting annually on the Executive pipeline below the Board and the Board's diversity, including progress being made on reaching the Board's gender target.	→ The Committee has oversight of the Management Team succession process and the senior management successors to the Management Team. Good progress has been made during the year in identifying and developing key successors

Committee effectiveness review

In 2017, an externally facilitated Committee effectiveness review was undertaken as part of the external Board effectiveness review. The broad message was that the Committee is functioning well, with good process and open discussions. Some suggestions and feedback were made, to enhance further its effectiveness, including a more regular timetable of meetings and enhanced communication and information flow back to non-Committee members. These will be kept under review by the Committee through 2018.

Board Financial Crime Risk Committee

"As a global trade bank, Standard Chartered stands on the frontline of the fight against financial crime"

The words 'financial crime' do not do justice to the real-world, human impacts of this issue. What they mean is how, through money laundering and terrorist finance, the financial system can act as the lifeblood of some of today's most damaging crimes; from human trafficking to terrorism, the drug trade to corruption.

As a global trade bank, Standard Chartered stands on the frontline of the fight against financial crime. It is our ambition to make the financial system a more hostile and unforgiving environment for criminals and terrorists by working in common cause with others who have a stake in the solution. That is imperative to protect our clients, the communities in which we operate and ultimately the integrity of the financial system.

The Group recognises that, at times, its past efforts to prevent financial crime fell short. This is a continual journey, and in April 2017, the New York State Department of Financial Services noted that the Group has made "substantial progress" towards remediating past issues, and that the Group remains "fully committed" to finishing the job.

In discharging its responsibilities, the Committee has overseen the progress being made by the Group in meeting the objectives of its strategic, multi-year remediation programmes: the US Supervisory Remediation Programme and the Financial Crime Risk Mitigation Programme (which spans all of the Group's geographies and business areas).

At the same time, the financial crime landscape is continuing to evolve rapidly. That is why over the past year the Committee's role has shifted from one focused primarily on oversight of remediation activities to include a bigger role in threat assessment and preparedness. It is in that context that we have discussed the Group's leading efforts to fight cyber-financial crime, as well as wider threats that the financial system faces.

I am pleased to say that the Group's work is making an impact. In 2017, the Group has identified and prevented criminal activity in a number of threat areas: intercepting monies derived from cyber-attacks, identifying networks of accounts suspected of human trafficking for the sex industry, likely terror funding posing as charitable efforts, and thwarting attempts to breach sanctions' requirements.

We have discussed how the Group responds to these threats, in a sustainable way. We support the work of the Group to continue to enhance systems, processes and technology, and how the Group works in partnership with clients, law enforcers and regulators. Central to this effort is the continuing importance of employee engagement with regard to the seriousness of financial crime risk and ensuring that they are empowered to make the right decisions, appropriately supported by training and specialist expertise.

When I travelled to Hong Kong, the US and Pakistan this year, I saw up close the awareness of the issues and how we are seeking to embed a meaningful response into the operations and mindset of the Group. It is clear to me that everyone in the Group has a important contribution to make.

Finally, I would like to thank Lazaro Campos, and Jasmine Whitbread, who both stepped down from the Committee during the year, for their valuable contributions to the Committee's work.

Gay Huey Evans, OBE
Chair of the Board Financial Crime Risk Committee

Committee composition

	Scheduled meetings
G Huey Evans, OBE (Chair)	**4/4**
D P Conner	**4/4**
C M Hodgson	**4/4**
N Kheraj	**4/4**
Directors who stepped down during 2017	
J M Whitbread (stepped down on 30 September 2017)	**3/3**
External advisor members	
B H Khoo	**4/4**
Sir Iain Lobban	**4/4**
F Townsend	**4/4**
External advisor members who stepped down during 2017	
L Campos (stepped down on 30 March 2017)	**1/1**

Other attendees at Committee meetings in 2017 included: Group Chairman; Group Chief Executive; Group Chief Risk Officer; Group Head of Internal Audit; Group General Counsel; Global Head, Financial Crime Compliance; Group Head Compliance; Group Company Secretary

As part of, and in addition to, each scheduled Committee meeting, the Committee has private members-only meetings.

The Committee's membership is comprised of four independent non-executive directors and three independent external advisor members who are neither directors nor employees of the Group but who provide a valuable external perspective and have extensive experience in counter-terrorism, cyber security and international security. Details on the independent non-executive directors can be found in their biographies on pages 47 to 49.

Committee responsibilities

The Committee provides oversight of the effectiveness of the Group's policies, procedures, systems, controls and assurance arrangements designed to identify, assess, manage, monitor and prevent and/or detect money laundering, non-compliance with sanctions, bribery, corruption and tax crime by third parties.

+ The Committee has written terms of reference that can be viewed at www.sc.com/termsofreference

Activities in the year

Financial Crime Risk Mitigation Programme	→ Exercised ongoing oversight of the Group's Financial Crime Risk Mitigation Programme (FCRMP), which is a Group-wide initiative to identify and embed best practices in the field of financial crime compliance → Discussed and challenged progress reports as to the status of the FCRMP and discussed the findings of the independent testing that has been undertaken on the FCRMP → Discussed an update from the Group Chief Information Officer on the FCRMP technology project deliverables
US Supervisory Remediation Programme	→ Exercised oversight of the activity required to comply with the requirements of the US Deferred Prosecution Agreements (DPAs) and enhance its sanctions compliance programme. More information about the DPAs can be found in note 26 on page 259
Assessment of financial crime risks	→ Discussed updates on potential emerging threats, and major initiatives → Discussed reports on the financial crime risks faced by the Group across a number of the Group's client segments and geographies and sought and received assurance on the actions taken and being taken to strengthen controls in relation to these risks in a number of the Group's markets
Financial crime risk control environment	→ Discussed Group Internal Audit's view on the Group's control environment relating to Financial Crime Risk. Such discussions include the grading of audit reports across the Financial Crime Compliance Risk themes, gaps and deficiencies that have been identified and sought and received assurance concerning management's response and resulting management actions → Discussed the continuing importance of employee engagement with regard to the seriousness of financial crime risk and how this can be embedded in a sustainable way as part of business as usual
Financial crime future threats	→ Discussed the Financial Crime Compliance Global Threat Assessment, prepared by management to identify and evaluate the most significant financial crime threats faced by the Group, and to develop a set of key recommendations in response to these threats, to be implemented through 2017 and 2018 The Financial Crime Compliance Global Threat Assessment recognises that Financial Crime is a Principal Risk and will be used to identify the most effective response by the Group, as required under the Enterprise Risk Management Framework.
Group Risk Appetite Statement in relation to financial crime	→ Considered, discussed and recommended to the Board the Group's Risk Appetite Statements in relation to financial crime risk → Reviewed metrics to measure against financial crime Risk Appetite
Financial crime compliance speaking up	The ability of employees to disclose genuine concerns, including breaches of regulatory requirements, is essential to the maintenance of the Group's values. The principles and requirements relating to Speaking Up are detailed in the Group Speaking Up Policy and, specifically for Financial Crime, the Group Anti-Money Laundering and Counter Terrorist Financing Policy. → Received and discussed a report on escalations relating to Financial Crime. One route for Financial Crime Speaking Up escalations is through Suspicious Activity Reports (SARs). The number of SARs demonstrates a good level of employee awareness regarding the need to raise concerns Further details of the Group's Speaking Up programme can be found on page 68.
Client Tax Fraud/Evasion Frameworks	→ Discussed an update on the client tax fraud/evasion frameworks and the steps that the Group has taken in preparation for the UK Corporate Offence of failing to prevent tax evasion that is included on the Criminal Finances Bill 2016
Financial Crime Compliance Resourcing	→ Discussed a report from management on the findings of an external review of Financial Crime Compliance resourcing commissioned by management to identify ways to improve financial crime compliance effectiveness and efficiency
Financial Crime Compliance Related Matters	→ Received updates on significant financial crime compliance-related matters
Financial crime compliance information sharing initiatives	→ Received updates on the principal partnerships in which the Group participates that aim to protect the integrity of the global financial system and improve the effectiveness of the contributions of financial institutions to fighting financial crime

Information provided to the Committee

Regular reports and updates are provided to the Committee by the Global Head of Financial Crime Compliance, the Group General Counsel and the Group Head of Internal Audit. The Global Head of Financial Crime Compliance also makes regular reports to the Committee in his capacity as the Group's Money Laundering Reporting Officer.

Two of the four Committee meetings in 2017 were held as part of the overseas Board visits to Hong Kong and Singapore. Holding Committee meetings as part of the overseas Board visits enable the Committee members to engage with local management and local Financial Crime Compliance teams outside of formal Committee meetings.

Committee effectiveness review

In 2017, an externally facilitated Committee effectiveness review was undertaken as part of the externally facilitated Board effectiveness review. The broad message was that the Committee has made significant progress and is fulfilling its remit with diligence and due process. The themes arising included the need for the Committee to continue to focus on the Group's overall strategic aim with regard to Financial Crime Compliance whilst avoiding getting caught up in too much detail.

Ongoing training and development

Committee members have ongoing training and development programmes which in 2017, included:

- An overview of the Group's surveillance systems enhancements
- A discussion with the Head, Financial Crime Compliance, Americas on Cyber Financial Intelligence
- Financial Crime Compliance in and challenges facing the Greater China and North Asia region from the point of view of frontline employees
- Financial Crime Compliance regional overview with the Head of Financial Crime Compliance, Greater China and North Asia
- Financial Crime Compliance Regional Management discussion covering governance, people and conduct risk
- Hong Kong related issues with the Head of Financial Crime Compliance, Greater China and North Asia and Private Banking offshore tax compliance

The independent non-executive Committee members also attended the Group's Global Chairmen's Conference held in Dubai. Further details of the Conference can be found on page 62.

The Committee advisor members participated in the Corresponding Banking Academy hosted by the Group in Dubai and joined in a panel discussion concerning the evolving collaboration between banks and law enforcement agencies and the US regulatory environment.

FOCUS ON

Financial Crime Compliance Information Sharing Initiatives

The Financial Crime Compliance Information Sharing partnerships that the Group participates in bring together multiple parties from the public and private sectors (such as regulators, law enforcement and other global banks) with the aim of developing a collaborative approach to tackling money laundering. The Group believes that by aligning financial institutions, regulators and law enforcement more closely, it can create a meaningful shift in the way we disrupt financial crime. The Group also continues to support and engage with a number of industry bodies; such as the Wolfsberg Group, the US Bank Secrecy Act Advisory Group and the Association of Certified Anti-Money Laundering Specialists.

For the third consecutive year, the Group has received a FinCEN Law Enforcement Award recognition letter for its contributions to significant criminal prosecutions. The Group also identified and prevented criminal activity in a number of threat areas; for example, intercepting monies derived from spear phishing, identification of networks of accounts suspected of money 'mule' activity and human trafficking for the sex industry, likely terror funding posing as charitable efforts, thwarted attempts to breach sanctions requirements, and the attempted movement of monies believed to be derived from corruption.

Directors' remuneration report

"Recognising continued progress on the execution of our strategy and enhancing fair pay for all of our colleagues"

Key highlights

- Financial and strategic performance in 2017 delivered a Group scorecard outcome of 66 per cent of the maximum
- Executive directors' annual incentives were 61 per cent of fixed remuneration
- 2017 Group discretionary incentives were $1,146 million
- We have developed a Fair Pay Charter to support our objective of delivering fair and competitive remuneration to all colleagues globally

We are making good progress against our strategy, securing the foundations to reposition the Group and improve our financial performance. Capital and liquidity are strong and the Group has delivered an increase of $1,917 million in underlying Profit Before Tax. Overall, the Group scorecard was assessed at 66 per cent of the maximum and is set out in detail on page 87.

When determining the 2017 remuneration outcomes, the Committee has continued to recognise both the importance of rewarding and incentivising employees to execute the long-term goals and of taking a global approach to remuneration. We are an international employer with wage inflation pressures in many of the emerging markets in which the Group operates.

Group-wide remuneration in 2017

The Committee determined that total discretionary incentives in 2017 should be $1,146 million. This includes annual incentives, long-term incentives and incentives paid to eligible leavers, representing an increase of 10 per cent on 2016. The increase reflects improved financial performance and progress against the Group's strategic objectives as set out in the scorecard. Incentive awards are based on Group and business area performance, assessed using balanced scorecards, and individual performance, which is determined based on each employee's individual achievement, conduct, values and behaviour. The total incentives of the Group are 5 per cent lower than in 2013.

Directors' remuneration in 2017

In May 2016 shareholders approved a new directors' remuneration policy, which is aligned to the Group strategy. Under the policy, executive directors were eligible in 2017 for a maximum annual incentive of 80 per cent of fixed remuneration and a maximum long-term incentive award of 120 per cent of fixed remuneration. The Committee determined that Bill Winters and Andy Halford should receive total annual and long-term incentives of 181 per cent of fixed remuneration (178 per cent in 2016).

The annual incentive outcome for both Bill and Andy was 61 per cent of fixed remuneration based on an assessment of the scorecard and personal performance against their objectives. Long-term incentive plan (LTIP) awards will be granted in March 2018 to Bill and Andy, delivered in ordinary shares with a value of 120 per cent of fixed remuneration at the time of award. These awards will be subject to the satisfaction of long-term performance measures, which are assessed after three years.

Committee composition

	Attendance at scheduled meetings
C M Hodgson (Chair)	6/6
Dr L Cheung[1]	5/6
Dr B E Grote	6/6
N Kheraj	6/6
J M Whitbread	6/6

1 Louis Cheung was unable to attend one meeting due to travel commitments

Other attendees for relevant parts of Committee meetings include: Chairman; Group Chief Executive; Group Head, Human Resources; Global Head, Performance, Reward and Conduct; Head, Executive Compensation & Reward Governance; Group Company Secretary; Group Chief Financial Officer; Group Chief Risk Officer; Group General Counsel.

+ The Committee has written terms of reference that can be viewed at www.sc.com/termsofreference

Committee role and focus

The Committee has oversight of the reward policies for Standard Chartered employees. It is responsible for setting the principles and governance framework for remuneration decisions.

In particular, the Committee:

- Determines and agrees with the Board the framework and policy for the remuneration of the Group Chairman, Group Chief Executive, Chief Financial Officer and other designated senior executives
- Approves proposals to award high remuneration packages to new recruits
- Oversees the remuneration of material risk takers
- Ensures that the remuneration policies are appropriate and consistent with effective risk management
- Approves the Group discretionary incentives each year
- Approves the Group's Fair Pay Charter principles, which guide reward decisions for all employees

Contents

Directors' remuneration report
84 Our Fair Pay Charter
85 Directors' remuneration summary
86 The Remuneration Committee
87 2017 directors' remuneration
92 2018 policy implementation for directors
93 Group-wide remuneration in 2017
95 Additional remuneration disclosures
103 Directors' remuneration policy

During the year, feedback was received from shareholders on the targets in the 2017-19 LTIP. The Committee recognises that the return on equity (RoE) target range in the 2017-19 LTIP is not an acceptable end goal but a staging point in the planned improvement. Target setting is thoroughly reviewed every year. The performance measures for 2018-20 LTIP awards will remain one-third RoE (plus Common Equity Tier 1 (CET1) underpin), one-third relative total shareholder return (TSR) and one-third strategic measures. The targets for the 2018-20 LTIP awards were considered carefully, to ensure they are realistic, challenging and relevant to the Group's strategy over the three-year performance period. The RoE target range for the 2018-20 LTIP is 6 per cent to 9 per cent. More detail on the 2018-20 LTIP awards can be found on page 89.

LTIP awards and underpin shares granted to Andy Halford in March 2015 will not pay out in March 2018 as the performance measures have not been met. Bill Winters did not participate in the March 2015 LTIP.

Directors' remuneration in 2018

After a review of fixed remuneration for 2018, it was determined that there will be no change for Bill Winters. For Andy Halford it was noted there had been no change to his fixed remuneration since his appointment in June 2014. Taking into account his development in the role over that time and benchmarking data for global peers, the Committee awarded a salary increase to Andy of just under 5 per cent, from £850,000 to £890,000 with effect from 1 April. No change was made to his fixed pay allowance (FPA). There is therefore an increase to his fixed remuneration of 3 per cent. In making the decision, the Committee also took into account the average salary increase made to the broader employee population since 2014, which was, on average, 4 per cent each year. The Committee will continue to review fixed remuneration annually.

The structure of directors' remuneration will remain unchanged in 2018. We will propose a new remuneration policy to shareholders at the 2019 AGM.

Our Fair Pay Charter

Attracting, retaining and incentivising high-quality employees is essential to delivering on our purpose and executing the strategy. In support of this the Committee has overseen the development of a Fair Pay Charter during 2017. The Charter sets out the principles we will use to determine and deliver pay for all employees globally, including senior management and executive directors. We have already implemented many of these principles and further progress is planned for 2018. The Charter and more details on the activity planned during 2018 is set out below. I will update shareholders on our progress in next year's report.

I look forward to meeting with shareholders during 2018 and hearing your views.

Christine Hodgson
Chair of the Remuneration Committee

Our Fair Pay Charter

1. We commit to pay a living wage in all our markets by 2020 and seek to go beyond compliance with minimum wage requirements
2. We provide an appropriate mix of fixed and variable pay and a core level of benefits to ensure a minimum level of earnings and security to colleagues and to reflect the Group's commitment to wellbeing
3. We support colleagues in working flexibly, in ways that balance both business needs and their personal circumstances, and provide colleagues with the opportunity to select the combination and level of benefits that is right for them
4. Pay is well administered with colleagues paid accurately, on time and in a way that is convenient
5. We provide a competitive total fixed and variable pay opportunity that enables us to attract, motivate and retain colleagues based on market rates for their role, location, performance, skills and experience
6. The structure of pay and benefits is consistent for colleagues based on their location and role, with a clear rationale for exceptions
7. We are committed to rewarding colleagues in a way that is free from discrimination on the basis of diversity, as set out in our Group Code of Conduct
8. We ensure pay decisions reflect the performance of the individual, the business they work in and the Group, and recognise the potential, conduct, behaviours and values demonstrated by each individual
9. We set clear expectations for how colleagues are rewarded and the principles guiding decisions, including clear personal objectives and feedback
10. We provide clear communication of pay and performance decisions, and seek feedback and input from colleagues on our pay structures and outcomes

In developing the Charter the Committee has sought to create a framework which supports our objective of delivering fair and competitive remuneration to all colleagues globally. The Charter reflects our existing remuneration approach in many areas, but also sets some new, stretching goals which will take a number of years to reach. The Group has already started work to implement these new objectives and more is planned for 2018:

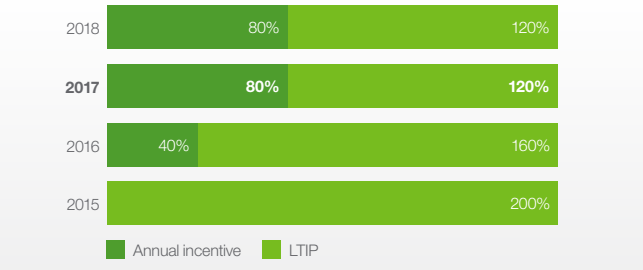
- During 2017 we introduced a global flexible working policy to support our colleagues in managing the boundaries between home and work life, supporting individuals who sometimes need to work remotely, vary the time of their working day, or consider part-time hours or job shares. We also increased our minimum standards of parental leave globally. These changes have already had an impact in increasing employee engagement and boosting productivity
- In support of our commitment to reward colleagues in a way that is free from discrimination, equal pay assurance is part of our annual performance management and remuneration review. During 2017, we implemented a globally consistent process for conducting equal pay assurance, supported by improved analytics. Outcomes from our 2017 equal pay review by gender were reviewed by the Management Team and the Committee
- Our current approach is to pay colleagues' salaries at a market competitive level for their individual role, skills and experience. In our Charter we commit to ensure that all colleagues receive salaries at or above the living wage in each of our respective markets by 2020. 96 per cent of colleagues are based outside of Europe & Americas, in many locations where living wages are not currently clearly defined. During 2018 we will review our approach to setting living wages in each of our markets to support this Charter commitment
- We currently provide all colleagues with benefits, based on the practice in each local market. In 2018, we will start a four-year programme to redesign our benefits offering in each country. Treating everyone fairly (regardless of seniority, age or personal circumstances) is one of the key aims, as is giving employees more choice on a wide range of benefits to suit their individual needs

Directors' remuneration summary

Phased rebalancing of the annual and long-term incentive opportunity under the directors' remuneration policy

In 2017, the annual incentive opportunity was a maximum of 80 per cent of fixed remuneration, compared to a maximum of 40 per cent of fixed remuneration in 2016. The value of the 2018-20 LTIP opportunity was 120 per cent of fixed remuneration compared to a 2017-19 LTIP opportunity of 160 per cent of fixed remuneration. In 2015, the executive directors received no annual incentive and 200 per cent of fixed remuneration as a 2016-18 LTIP award. This phased rebalancing was put in place to increase the focus on long-term performance in the early years of the Group's turnaround. There is no change to the maximum incentive opportunity or mix for 2018.

Maximum annual incentive and LTIP opportunity as a percentage of fixed remuneration (defined as salary, FPA and pension)

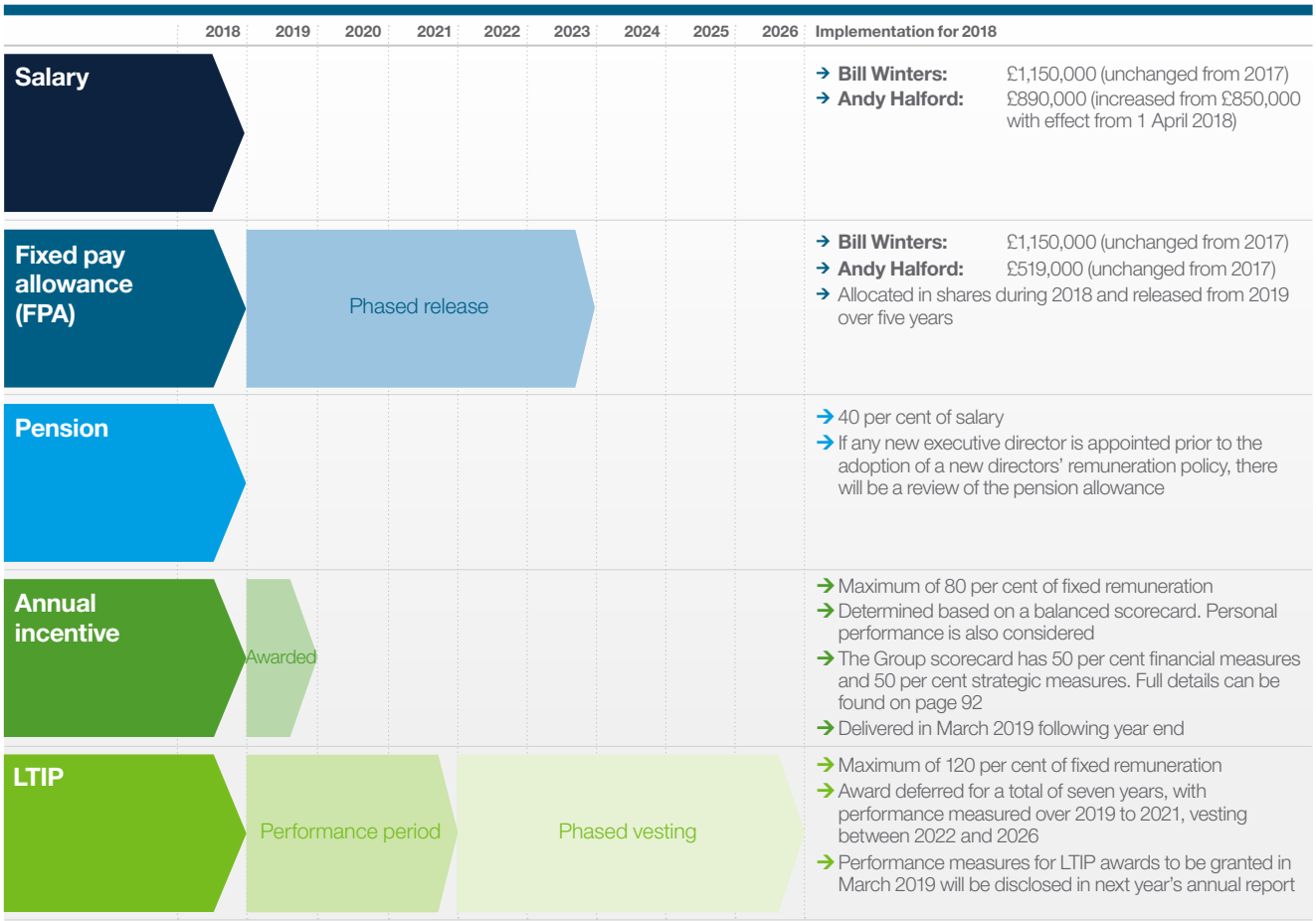


Variable remuneration awarded in respect of 2017

The annual incentive for 2017 is based on the Group scorecard outcome of 66 per cent of the maximum and the executive directors' personal performance in their respective areas of responsibility. Executive directors will also receive an LTIP award of 120 per cent of fixed remuneration, subject to an RoE target (with CET1 underpin), a relative TSR target and a combination of strategic measures focused on the delivery of the strategy. Detailed information on the determination of individual variable awards can be found on pages 87 to 89.

	W T Winters		A N Halford	
	2017	2016	**2017**	2016
Annual incentive (£000)	**1,678**	497	**1,039**	308
Annual incentive as a percentage of fixed remuneration	**61%**	18%	**61%**	18%
LTIP award (value of shares subject to performance conditions) (£000)	**3,312**	4,416	**2,051**	2,734
LTIP award as a percentage of fixed remuneration	**120%**	160%	**120%**	160%
Total variable remuneration as a percentage of fixed remuneration	**181%**	178%	**181%**	178%

Executive directors' remuneration structure in 2018



The Remuneration Committee

Advice to the Committee

The Committee was assisted in its considerations by PricewaterhouseCoopers LLP (PwC), who were formally re-appointed by the Committee as its remuneration advisor in August 2017 following a review of potential advisors and the quality of advice received. It is the Committee's practice to undertake a detailed review of potential advisors every three to four years.

PwC is a signatory to the voluntary Code of Conduct in relation to remuneration consulting in the UK. PwC also provides professional services in the ordinary course of business including assurance, advisory and tax advice to the Group. The Committee considered PwC's role as an advisor to the Group, and determined that there was no conflict or potential conflict arising. The Committee is satisfied that the advice the Committee receives is objective and independent. The total fee paid to PwC (on an agreed per diem fee basis) was £218,933, which includes advice to the Committee relating to executive directors' remuneration and regulatory matters. Management's advice to the Committee was also supported by the provision of market data from PwC (included in the above fee) and Willis Towers Watson.

The Group Chief Financial Officer and Group Chief Risk Officer provided the Committee with regular updates on finance and risk matters respectively. The Committee recognises and manages any conflicts of interest when receiving views from executive directors or senior management on executive remuneration proposals and no individual is involved in deciding his or her own remuneration.

Summary of the themes identified in the 2017 Committee effectiveness review and agreed actions

As part of the effectiveness review for the entire Board and committees, it was recognised that the Committee is operating effectively. Suggestions to enhance its effectiveness further included a request from non-Committee members to be provided with additional data on the activities of the Committee given that remuneration is an area of external focus. Throughout 2017, an update on the activities of the Committee has been provided to the Board following each meeting.

It was also considered important that the Committee keep the Group's remuneration structure as simple as possible to ensure that it is well understood throughout the organisation. During the year, the Committee considered various matters relating to remuneration design and structure to ensure that there is a clear and strong link between performance and remuneration.

Priorities for the Committee in 2018

Specific priorities for the Committee in 2018, in addition to its usual scheduled activities, will be to:

- Review the remuneration policy (for executive directors and all employees)
- Continue to monitor political and regulatory developments including the UK Government and the Financial Reporting Council's (FRC) proposals on corporate governance, including developments relating to the CEO pay ratio. Where applicable, review the remuneration policies to ensure they are consistent with effective risk management and the prevailing regulatory requirements
- Review implementation of the Fair Pay Charter and monitor compliance with the principles
- Monitor market trends to ensure the Group's remuneration remains competitive, whilst robustly managing overall costs and improving productivity
- Continue to assess the alignment between Group incentives and the delivery of the strategy

+ The Committee has written terms of reference that can be viewed at www.sc.com/termsofreference

Shareholder voting and shareholder engagement

The table below shows the votes cast[1] at the Annual General Meeting (AGM) in May 2017 on remuneration-related matters. The binding vote on the directors' remuneration policy at the May 2016 AGM received a for vote of 94 per cent.

	For	Against	Withheld
Advisory vote on the 2016 remuneration report	**541,879,007 (86.78%)**	**82,559,025 (13.22%)**	**11,162,668**

1 Number of votes is equal to number of shares held

The 2016 remuneration report was well supported, with shareholders providing positive feedback on the proportion of variable remuneration subject to long-term performance conditions. Positive feedback was provided on the focus on conduct, particularly with regard to eligibility for variable remuneration. Taking shareholders' views into account, the level of pension allowance for existing executive directors will be reviewed when the directors' remuneration policy is next renewed. The Committee noted feedback from shareholders on the RoE target range in the 2017-19 LTIP and considered this carefully in making decisions on 2018-20 awards.

Activities in the year	12 January	31 January	20 March	26 July	3 October	29 November
Update on financial and risk performance and risk, control and conduct matters	✓	✓		✓	✓	✓
Fixed remuneration for executive directors and other senior management	✓					✓
Variable remuneration for executive directors, other senior management and Material Risk Takers (MRTs)	✓	✓				✓
Annual and long-term incentive performance measures and targets	✓	✓	✓		✓	✓
Structure of remuneration for executive directors and the Management Team	✓			✓	✓	✓
Group-wide discretionary incentives, performance and pay review including approach to risk adjustment	✓			✓	✓	✓
Review data relating to offers for new senior employees, including fixed and variable remuneration				✓	✓	✓
The Fair Pay Charter, review of Group remuneration policies, review of gender pay gap and equal pay analysis				✓	✓	
External feedback from shareholders and regulators, emerging regulatory and shareholder trends and AGM outcomes	✓	✓	✓	✓	✓	✓
Review of Committee's independent advisors and Committee Terms of Reference			✓			✓

The Committee also dealt with certain less material matters on an ad hoc basis through email circulation.

2017 directors' remuneration

Executive directors' variable remuneration awarded in respect of 2017 (audited)

At its meetings in November 2017 and January 2018, the Committee considered Group performance, the performance of each executive director and risk, control and conduct-related matters (with input from risk and other control functions). The Committee followed a three-step process for determining annual incentive awards.

1. Consider eligibility: The Committee considered each executive director's values, behaviour and conduct during 2017. Each director had exhibited an appropriate level of conduct and was deemed to have met the gateway requirement to be eligible for an incentive.

2. Evaluate performance against the Group's scorecard: The Committee reviewed both financial performance and achievement against the Group's strategic priorities, as outlined at the start of the year in the 2017 annual incentive scorecard. The Group's performance compares favourably to last year and the Committee noted that significant progress was made in financial returns and in executing the strategy to stabilise and reposition the Group. The scorecard outcome was assessed at 66 per cent.

Performance measures	Weighting	Target[4, 5]	Assessment of achievement	Scorecard outcome
Total income[1]	10.0%	→ Threshold: $13.8 billion → Mid-point of target range: $14.3 billion → Maximum award: $14.8 billion	$14.3 billion	5%
Operating profit[1]	10.0%	→ Threshold: $1.8 billion → Mid-point of target range: $2.4 billion → Maximum award: $3.0 billion	$3.0 billion	10%
RoE plus CET1 underpin[2]	20.0%	→ Threshold: 1% → Mid-point of target range: 2% → Maximum award: 3%	RoE of 3.5% CET1 of 13.6%	20%
Improve customer deposits[3]	10.0%	→ Threshold: $153 billion → Mid-point of target range: $161 billion → Maximum award: $169 billion	$163.5 billion	5%
Strengthen foundations in risk and control	10.0%	→ Improve quality of loan book, evidenced by a decrease in the non-performing loan (NPL) flow rate → Successfully execute the Group's financial crime risk remediation programmes	→ Loan impairments halved compared to the 2016 level and overall gross NPLs have reduced demonstrating improved quality of loan book, exceeding targets set → Satisfactory progress made on the Group's financial crime risk remediation programmes as targeted	6%
Focus on clients and growth, and drive cross-bank collaboration	12.5%	→ Grow Private Banking Net New Money and Wealth Management Assets under Management → Improve client satisfaction rating → Grow Commercial Banking and Corporate & Institutional Banking client bases, and increase the proportion of Priority clients in Retail Banking	→ Private Banking Net New Money and Wealth Management Assets under Management has shown growth, but slightly below targets → Client satisfaction improved overall as targeted, with targets exceeded across Commercial and Private Banking client segments → Target growth achieved in Commercial Banking and Retail Banking client bases. Corporate & Institutional Banking improved, but behind targeted growth	4%
Improve efficiency, productivity and service quality	10.0%	→ Achieve cost-efficiency target → Achieve income return on risk-weighted assets target → Improve client on-boarding turnaround time	→ Cost efficiencies of $0.8 billion, ahead of target → Target performance of over 5% achieved on income return on risk-weighted assets → Achieved targets for client on-boarding turnaround time across the Group	6%
Embed innovation, digitisation and analytics	7.5%	→ Increase Corporate & Institutional Banking sales via e-platforms → Increase digital penetration as evidenced by increased online/mobile adoption of Retail Banking and Commercial Banking clients → Drive innovation through new products, solutions and services for clients	→ Improved sales via e-platform in Corporate & Institutional Banking by 16.5%, but slightly behind target of 19.8% → Retail Banking and Commercial Banking online and mobile technology adoption were on target → Scoped 20 exploratory projects in emerging technologies, with five moving into production, in line with target	4%
Invest in people, strengthen culture and conduct	10.0%	→ Improve diversity as a percentage of the management population → Measurable progress in developing a unified conduct and culture programme → Improve employee net promoter score	→ Below target progress measured against diversity objectives for 2017 → Successfully developed culture and conduct programmes → Exceeded targeted improvement in employee net promoter score	6%
Total	100%			66%

1 Total income and operating profit were based on an underlying basis. Income, costs and impairment and resulting operating profit relating to identifiable business units, products or portfolios from the date that have been approved for restructuring, disposal, wind down or redundancy as a consequence of the Strategy Review announced 3 November 2015 are presented as restructuring and excluded from the underlying results of the Group. This includes realised and unrealised gains and losses from management's decisions to dispose of assets as well as residual income, direct costs and impairment of related legacy assets of those identifiable business units, products or portfolios. See note 2 (page 211)

2 RoE was based on profit attributed to ordinary shareholders, adjusted, on a tax-effected basis, for profits or losses of a capital nature, restructuring charges, amounts consequent to investment transactions driven by strategic intent and infrequent/exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period. CET1 underpin was set at the higher of 12 per cent or the regulatory minimum. Unaudited

3 Retail current and savings accounts and net Transaction Banking 'Operating Accounts'

4 A maximum/minimum performance threshold was set for each performance measure. The Committee used its judgement to determine scorecard outcomes within this range (with a higher than 50 per cent outcome for performance above target and lower than 50 per cent outcome for below target performance)

5 Strategic targets are aligned to internal scorecards measuring in-year progress on multi-year initiatives. Unaudited

3. Assess personal performance and finalise awards: As outlined in the policy, the Committee has the ability to make an upwards or downwards adjustment to the scorecard outcome for personal performance, consistent with the approach for employees participating in the Group Total Variable Compensation plan. When considering whether such an adjustment is appropriate, the Committee considers the particular areas of responsibility of the executive director together with the specific objectives that they were asked to prioritise for the year and their personal contribution to the scorecard outcome. The adjustment will usually be in the range of +/- 10 percentage points to the scorecard outcome.

The Committee assessed Bill as having outstanding personal performance during 2017 against his objectives and in role modelling the values and behaviour expected by the Board (see details in the table below). Through his leadership the Group has further secured the foundations with significantly improved financial performance and progress on the Group's strategic priorities. Taking this into account alongside the scorecard outcome, the Committee considered an adjustment of 10 percentage points to be appropriate and decided to award an annual incentive of 76 per cent of the maximum opportunity. This equates to 61 per cent of fixed remuneration.

Key objectives	Achievement
Lead by example and role model the Group's values and behaviour	→ The Committee considered Bill as having role modelled the values and behaviour expected by the Board, setting a strong tone from the top, which has been critical in setting the right culture across the organisation to deliver against the financial and strategic objectives for 2017 → This was supported by feedback from members of the Board, the Management Team and colleagues across the Group which shows that Bill is seen as trusted, open, empowering and inspiring
Deliver culture refresh	→ Bill was actively involved in driving the culture refresh during 2017, including the launch of the new purpose and refresh of the Group's valued behaviours → The Board considered this an outstanding achievement, primarily delivered as a result of Bill's personal contribution
Deliver improved operational excellence	→ The Committee considered that Bill made significant progress on improving operational excellence, delivering agreed plans to simplify decision making, improve accountability and client centricity in internal processes
Strengthen and execute succession and development plans for the Group	→ Delivered agreed targets, with the structured and focused approach personally driven by Bill → Succession plans in place for top two tiers of management and development plans being executed → New leadership development programmes designed and 750 leaders enrolled for the first phase in 2018 → Improvements made to the efficiency of the Management Team in line with agreed objectives, assessed based on feedback from the members of the Board who consider that Bill has built a strong team
Maintain effective and constructive working relationships with our regulators and their representative bodies	→ The Committee considered Bill to have delivered against this objective based on feedback received and the progress achieved on relevant regulatory matters

The Committee assessed Andy as having excellent personal performance as measured against his objectives and in demonstrating the values and behaviour expected by the Board (see details in the table below). His energy and focus have driven a number of operational efficiencies which have positively impacted results. Taking this into account alongside the scorecard outcome, the Committee considered an adjustment of 10 percentage points to be appropriate and decided to award an annual incentive of 76 per cent of the maximum opportunity. This equates to 61 per cent of fixed remuneration.

Key objectives	Achievement
Lead by example and role model the Group's values and behaviour	→ The Committee considered Andy to have demonstrated high standards of values and behaviour, which has supported the culture refresh across the organisation and made a significant contribution to the quality of Board and the Management Team discussions and decision making
Deliver business efficiency and agreed Finance programmes	→ Andy's contribution has resulted in the 2017 business efficiency targets being exceeded → He has made an excellent contribution to delivering IFRS 9, BCBS 239 and third-party risk management improvement programmes → As a result of his leadership, the internal Finance Transformation plan has been agreed, the funding has been approved and 2017 milestones have been met → Andy and his team have improved internal management information and analytics to support the driving of business performance, and the corporate planning process has also improved
Deliver agreed Treasury, Corporate Development, Group Strategy and Property business plans for 2017	→ Andy integrated the Group's balance sheet, liquidity and capital management activities within one Treasury function. Treasury income was higher year-on-year, whilst the quality and mix of the Group's liabilities has continued to improve. The Group's capital and liquidity positions remained strong with all metrics above regulatory thresholds, and recovery and resolution planning requirements were met → The Group and business strategy plans were delivered in line with the targets set and corporate development plans were executed effectively → The revised property plans were delivered, including reducing the vacancy rate to less than 10% and workplace employee experience enhancements were implemented
Strengthen and execute succession and development plans for functions in his portfolio	→ Andy has built a strong talent pipeline in 2017 and is successfully developing future leadership within the Group → He delivered agreed people targets, with succession plans in place across the top two tiers of management for functions within his portfolio
Maintain effective and constructive working relationships with our regulators and their representative bodies	→ The Committee considered Andy to have delivered against this objective based on feedback received and progress on relevant regulatory matters

Long-term incentive plan awards to be granted in March 2018

LTIP awards for the 2017 performance year will be granted to Bill Winters and Andy Halford in 2018 with a value of 120 per cent of fixed remuneration (£3.3 million and £2.1 million respectively). Recent changes to remuneration regulations for banks mean that dividend equivalent shares are not permitted to be awarded on vesting. The number of shares awarded in respect of the LTIP will take into account the lack of dividend equivalents (calculated by reference to market consensus dividend yield) such that the overall value of the award is maintained. These awards will vest in five annual tranches beginning after the third anniversary of the grant, (i.e. March 2021 to March 2025) subject to meeting the performance measures set out below at the end of 2020. All vested shares are subject to a 12-month retention period.

The equal weighting of the measures provides a balanced performance assessment, giving an appropriate focus on execution of the strategy, investor returns and prudent risk-taking. The Committee's starting point for determining performance measures and target levels was to review the financial plan and the Group's strategic priorities. It also balanced the Group's current financial position and the market environment and outlook with ensuring the executive directors are incentivised in a challenging yet realistic manner.

The criteria used to select the comparator group for the calculation of the relative TSR performance measure are companies with generally comparable business activities, size or geographic spread to Standard Chartered or companies the Group competes against for investor funds and talent. In aggregate, the comparator group is intended to be representative of the Group's geographic presence and business operations. The constituents of the comparator group shall continue to be reviewed annually, prior to each new LTIP grant. During the 2017 review ANZ was replaced with BNP Paribas as the latter was deemed to be a more appropriate comparator.

TSR is measured in sterling for each company and the TSR data averaged over a month at the start and end of the three-year measurement period starting from the date of grant.

Performance measures for the 2018-20 executive director long-term incentive plan

Conduct gateway requirement to be met in order for awards to vest

Appropriate level of individual values and conduct exhibited

Measure	Weighting	Amount vesting (as a % of total award)	Threshold performance target	Maximum performance target
1. RoE[1,2] in 2020 plus CET1 underpin of the higher of 12% or the minimum regulatory requirement	One-third	→ Maximum – 33.3% → Threshold – 8.3% → Below threshold – 0%	6%	9%
2. Relative TSR[3] against peer group	One-third	→ Maximum – 33.3% → Threshold – 8.3% → Below threshold – 0%	Median	Upper quartile
3. Strategic measures a) Strengthen foundations in risk and control b) Focus on clients and growth, and drive cross-bank collaboration c) Improve efficiency, productivity, and service quality d) Embed innovation, digitisation, and analytics e) Invest in people, strengthen culture and conduct	One-third	→ Maximum – 33.3% → Minimum – 0% → Performance against each component of the scorecard will be assessed by the Committee using proof points to determine the percentage of the award that may vest	→ Maintain effective and sustainable anti-money laundering (AML) and sanctions controls → Successfully deliver cyber risk management plan → Improve client satisfaction rating → Deliver client growth in target segments → Improve productivity → Deliver growth in digital volumes → Drive innovation through new products, solutions and services for clients → Improve scores against employee engagement and culture of inclusion metrics → Improve management diversity	

1 RoE will be based on profit attributed to ordinary shareholders, adjusted, on a tax-effected basis, for any fair value changes relating to gains/losses on disposals, exceptional transactions and restructuring gains and losses, expenses, impairments that are significant or material in the context of the Group's normal business for the period. Normalised RoE normally excludes regulatory fines but, for remuneration purposes, this would be subject to review by the Committee

2 If RoE reaches 6 per cent, then 8.3 per cent of the award vests. If RoE reaches 9 per cent then 33.3 per cent of the award vests. If RoE is between the threshold and maximum, vesting is calculated on a straight-line basis between these two points

3 Relative TSR is measured against a comparator group. If the Group's TSR performance is at least equivalent to the median ranked company then 8.3 per cent of the award vests. If the Group's performance is at least equal to the upper quartile ranked company then 33.3 per cent of the award vests. Between these points, the Group's TSR is compared to that of the comparators positioned immediately above and below it and straight-line vesting applies for TSR performance between these set points

The comparator group for the TSR measure in the 2018-20 LTIP is set out below:

Banco Santander	Barclays	DBS Group	ICICI	Société Générale	United Overseas Bank
Bank of America	BNP Paribas	Deutsche Bank	JPMorgan Chase	Standard Bank	
Bank of China	Citigroup	HSBC	KB Financial Group	State Bank of India	
Bank of East Asia	Credit Suisse	ICBC	Oversea Chinese Banking Corporation	UBS	

Performance outcomes for the 2015-17 long-term incentive plan awards

Assessment of the 2015-17 LTIP award: zero vesting

Measure	Weighting	Performance for minimum vesting (25%)	Performance for maximum vesting (100%)	2015-17 LTIP outcome
Relative TSR performance against comparator group	One-third	Median	Equal to or above fifth	Positioned below the median ranked firm therefore 0% vested
Earnings per share (EPS) growth	One-third	15%	35%	Negative EPS growth therefore 0% vested
Return on risk-weighted assets (three-year average)	One-third	1.2%	1.4%	0.17% therefore 0% vested

Assessment of the 2015-17 underpin share award: zero vesting

Measure	Weighting	Performance for vesting (100%)	2015-17 underpin shares outcome
EPS growth	One-half	10%	Negative EPS growth therefore 0% vested
Return on risk-weighted assets (three-year average)	One-half	1.1%	0.17% therefore 0% vested

Single total figure of remuneration for the executive directors (audited)

This table sets out salary, fixed pay allowances (FPA), benefits and pensions received in 2017, annual incentives receivable in respect of 2017 and LTIP awards vesting based on performance periods ending in 2017. All figures are in £000s.

	W T Winters		A N Halford	
	2017	2016	**2017**	2016
Salary	**1,150**	1,150	**850**	850
Fixed pay allowances	**1,150**	1,150	**519**	519
Pension	**460**	460	**340**	340
Benefits	**245**	135	**109**	111
Annual incentive award	**1,678**	497	**1,039**	308
Vesting of LTIP awards	**–**	–	**0**	–
Total (£000s)	**4,683**	3,392	**2,857**	2,128

Under the terms of his contract and the directors' remuneration policy, Bill Winters is entitled to the use of a car and driver and support with the preparation of his annual tax returns, alongside the other benefits stated below. The material increase in Bill Winters' benefits year-on-year is due to the inclusion of the full year benefit of the car and driver and his 2015/16 tax return preparation fees in the 2017 figure. Bill Winters joined the Group on 1 May 2015 so his 2016 benefits figure included part-year use of a car and driver during the 2015/16 tax year and no tax return preparation fees (these fees are a taxable benefit in the tax year following the preparation of the returns).

The year-on-year change in the annual incentive figures is in part due to the change to the mix of incentives as set out in the policy. The annual incentive opportunity in 2017 was 80 per cent of fixed remuneration, compared to 40 per cent in 2016. The remainder of the increase was due to the improvement in the Group's performance and the executive directors' personal performance.

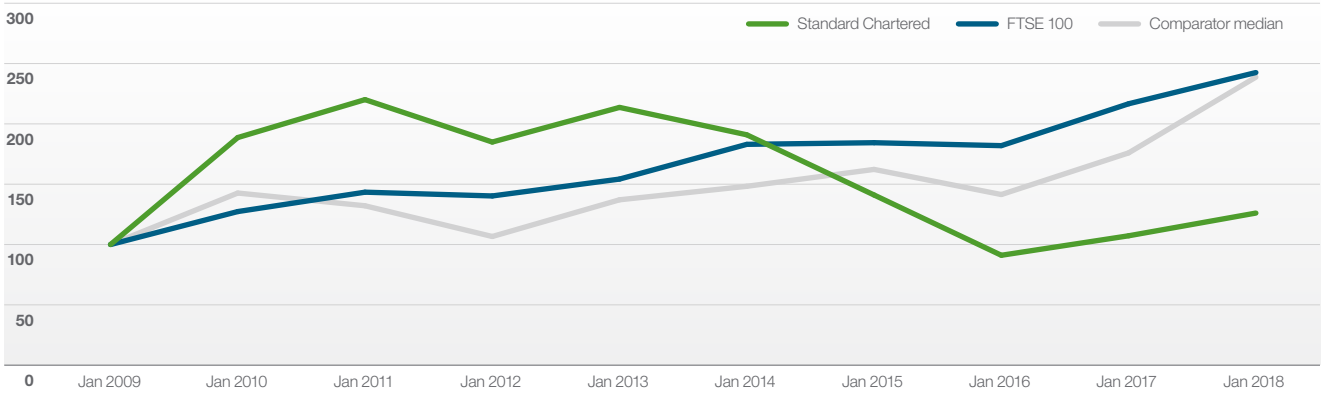
Additional information on the elements of remuneration in the single total figure table (audited)

- FPAs are paid in shares, subject to a retention period and released over five years. The number of shares allocated is determined by the monetary value of the allowance and the prevailing market price of the Group's shares on the date of allocation. FPAs are not variable remuneration
- Executive directors receive benefits, such as private medical cover, life assurance, permanent health insurance, a cash benefits allowance and the use of a company vehicle and driver for business purposes. Executive directors occasionally use a Group car service for travelling and their partners may travel to attend Board or other similar events. The Group covers any tax liability that arises on these benefits. The 2017 benefits figures shown are in respect of the 2016/17 tax year. This is consistent with the reporting of similar benefits in previous years
- Executive directors' annual incentive awards in respect of 2017 will be delivered 50 per cent in cash paid in March and 50 per cent paid in shares subject to a minimum 12-month retention period. The detail of how directors' annual incentive awards are determined is set out on pages 87 to 88. Any award will be subject to malus and clawback for up to 10 years
- The LTIP awards granted in March 2015 are due to vest in March 2018, based on performance over the years 2015 to 2017. Performance measures were not met and so the awards will lapse for Andy Halford. Bill Winters did not participate in the March 2015 LTIP

Group performance versus the Group Chief Executive's remuneration

The graph below shows the Group's TSR performance on a cumulative basis over the past nine years alongside that of the FTSE 100 and peer banks, and the table below shows the historical levels of remuneration of the Group Chief Executive. The FTSE 100 provides a broad comparison group against which shareholders may measure their relative returns.

Total Shareholder Returns since 2008



	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
Single figure of total remuneration £000									
P A Sands (CEO until 10 June 2015)	7,135	7,970	7,779	6,951	4,378	3,093	1,290	–	**–**
W T Winters (appointed CEO on 10 June 2015)	–	–	–	–	–	–	8,399[1]	3,392	**4,683**
Annual incentive as a percentage of maximum opportunity									
P A Sands	64%	70%	70%	63%	50%	0%	0%	–	**–**
W T Winters	–	–	–	–	–	–	0%	45%	**76%**
Vesting of LTIP awards as a percentage of maximum									
P A Sands	81%	90%	90%	77%	33%	10%	0%	0%	**–**
W T Winters	–	–	–	–	–	–	–	–	**–**

1 Bill Winters' single figure of total remuneration in 2015 includes his buy-out award of £6.5 million to compensate for the forfeiture of share interests on joining from his previous employment

2018 policy implementation for directors

The Committee reviews the salaries of the executive directors on an annual basis, taking into account increases made across the Group, changes to the scope or responsibility of the role, the individual's development in the role, and alignment to market-competitive levels.

For 2018, the Committee determined that there should be no changes to the fixed remuneration of Bill Winters. The Committee determined that a salary increase from £850,000 to £890,000 with effect from 1 April 2018 (an increase of just under 5 per cent) for Andy Halford was appropriate. No change was made to his FPA, pension or benefit entitlement. In aggregate, his fixed remuneration increased by 3 per cent as a result of this change. In making the decision, the Committee noted that Andy Halford's fixed remuneration was below that of some of his global peers, that he had not received a salary increase since his appointment in June 2014 and his development in role since that time. The Committee also took into account the average salary increase made to the broader employee population since 2014 which was, on average, 4 per cent each year.

2018 annual incentive scorecard

The measures in the scorecard have been determined to align with the Group's strategy. The targets are set annually by the Committee and take into account the Group's annual financial plan and its priorities for the next few years within the context of the economic environment. The Committee considers such targets to be commercially sensitive and that it would be detrimental to the interests of the Group to disclose them before the end of the financial year. Targets will be disclosed in the 2018 Annual Report and Accounts alongside the actual level of performance achieved. The Committee will review the scorecard annually and may vary the measures, weightings and targets each year.

Financial measures make up 50 per cent of the annual incentive scorecard. Some of the strategic measures are also financial in nature, and all strategic measures are monitored by the Committee using a quantitative and qualitative framework.

STEP 1: Conduct gateway requirement to be met in order to be eligible for any annual incentive

Appropriate level of individual values and conduct exhibited during the course of the year

STEP 2: Measurement of performance against financial and other strategic measures

Financial measures	Weighting	Target
Total income[1]	10%	→ Target to be disclosed to shareholders retrospectively
Operating profit[1]	10%	→ Target to be disclosed to shareholders retrospectively
RoE[2] plus CET1[3] underpin of the higher of 12% or the minimum regulatory requirement	20%	→ Target to be disclosed to shareholders retrospectively
Funding optimisation[4]	10%	→ Target to be disclosed to shareholders retrospectively
Other strategic measures	**Weighting**	**Target[5]**
Strengthen foundations in risk and control	10%	→ Improve credit quality → Maintain effective and sustainable AML and sanctions controls → Successfully deliver cyber risk management plan milestones
Focus on clients and growth, and drive cross-bank collaboration	10%	→ Improve client satisfaction rating → Deliver client growth in target segments → Increase segmental collaboration
Improve efficiency, productivity and service quality	10%	→ Achieve gross cost savings and cost-to-income ratio targets → Improve productivity → Improve client on-boarding turnaround time
Embed innovation, digitisation and analytics	10%	→ Deliver growth in digital volumes → Drive innovation through new products, solutions and services to clients
Invest in people, strengthen culture and conduct	10%	→ Improve management diversity → Improve scores against employee engagement and culture of inclusion metrics

STEP 3: Assessment of personal performance

The Committee reviews the individual performance of each executive director in their areas of personal responsibility. Consistent with the Group's treatment of all employees, the Committee can make a positive adjustment to the annual incentive if the executive director's performance is considered strong and is not fully reflected in the scorecard outcome (and vice versa), if appropriate. The Committee will generally consider personal performance adjustments in the range of up to +/- 10 percentage points on the scorecard outcome.

1 Income, costs and impairment and resulting operating profit relating to identifiable business units, products or portfolios from the date that have been approved for restructuring, disposal, wind down or redundancy as a consequence of the Strategy Review announced 3 November 2015 are presented as restructuring and excluded from the underlying results of the Group. This includes realised and unrealised gains and losses from management's decisions to dispose of assets as well as residual income, direct costs and impairment of related legacy assets of those identifiable business units, products or portfolios

2 RoE will be based on profit attributed to ordinary shareholders, adjusted, on a tax-effected basis, for profits or losses of a capital nature, restructuring charges, amounts consequent to investment transactions driven by strategic intent and infrequent/exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period. RoE would normally exclude regulatory fines but, for remuneration purposes, this would be subject to review by the Committee

3 The CET1 underpin will be dynamically set at the higher of 12% and the minimum regulatory level as at 31 December 2018 (taking into account any transition rules or material changes in regulatory rules). In addition, the Committee has the discretion to take into account at the end of the performance period any changes in regulatory capital and risk-weighted asset requirements that might have been announced and implemented after the start of the performance period

4 Initiative that targets an efficient level and mix of funding (liabilities) to support the Group's growth aspirations. Measured in basis points reduction in funding costs relative to a normalised benchmark, which excludes the impact of interest rate movement, but requires a minimum level of growth in quality funding

5 Aligned to internal scorecards measuring in-year progress on multi-year initiatives

Group-wide remuneration in 2017

Determining 2017 discretionary incentives

In determining 2017 incentives, the Committee considered:

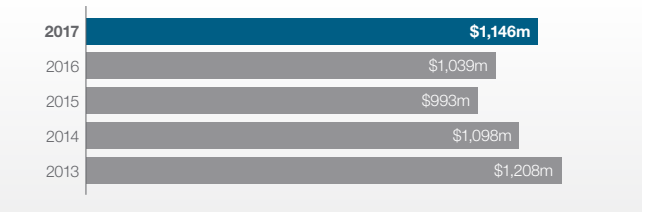
- 2017 performance measured using the balanced scorecard, ensuring that risk-taking did not exceed the Group's risk appetite
- That the historical remuneration levels of the Group have generally been below competitive levels in the markets in which it operates and that this position deteriorated further over the period from 2012-2014. This has in part resulted in a high level of voluntary attrition
- The need to reposition remuneration in the Group to contribute to improving shareholder returns, whilst enabling the Group to pay good performers competitively
- The Group's capital position and the risk, control and conduct environment and specific risk, control and conduct events

In determining the Group's total incentives, the Committee has used its judgement to establish the right balance between the performance of the Group and its ability to attract and retain talent that will drive the Group's strategy. In 2017, the Committee took into account Group, business and regional scorecards which were aligned to the Group's strategy, a range of risk-adjusted metrics and advice from both the Group Chief Financial Officer and Group Chief Risk Officer on performance.

The Committee determined that total discretionary incentives in 2017 should be $1,146 million. This represents an increase of 10 per cent on 2016. The Committee concluded that any lower amount would present a material risk to the ability of the Group to make appropriate and competitive awards. $183 million will be deferred in cash and shares and delivered over the next seven years as shown in the income statement charge table on page 98. The total incentives of the Group are 5 per cent lower than in 2013.

The total incentives figure for 2017 includes i) the 2018-20 LTIP awards, the value of which will be determined by Group performance over the period 2018 to 2020 and ii) incentive awards made to individuals who left the Group during 2017 as part of restructuring, who were in service for at least nine months of the year.

Incentives trend 2013 to 2017



Allocation of the Group's earnings between stakeholders

When considering Group variable remuneration, the Committee considers shareholders' concerns about relative expenditure on pay and makes the determination on the allocation of earnings to expenditure on remuneration carefully. The Committee concluded that the Group has approached this allocation in a disciplined way over the past five years. The table below shows the distribution of earnings between stakeholders. The amount of corporate tax, including the bank levy, is included in the table because it is a significant payment and illustrates the Group's contribution through the tax system.

	Actual					Allocation				
	2017 $million	2016 $million	2015 $million	2014 $million	2013 $million	**2017 %**	2016 %	2015 %	2014 %	2013 %
Staff costs[1]	**6,758**	6,303	7,119	6,788	6,570	**83**	87	71	63	61
Corporate taxation including levy	**1,367**	983	1,113	1,896	2,099	**17**	13	11	18	20
Paid to shareholders in dividends	**0**	0	1,778	2,095	2,062	**0**	0	18	19	19

1 Staff costs include redundancy and other restructuring expenses. See note 7 (page 217) for more detail

The relationship between the remuneration of the Group Chief Executive and all employees

The table below shows the percentage change in remuneration between the 2016 and 2017 performance years for the Group Chief Executive and the wider employee population. The 238 per cent increase in the Group Chief Executive's annual incentive was due to the change in maximum annual incentive opportunity (80 per cent of fixed remuneration in 2017, compared to 40 per cent in 2016) and improved performance. The LTIP opportunity was reduced from 160 per cent of fixed remuneration in 2016 to 120 per cent in 2017. In total the Committee awarded incentives of 181 per cent of fixed remuneration to the Group Chief Executive for 2017, compared to 178 per cent for 2016.

Remuneration element	CEO % change	All employees[1] % change
Salaries	**0%**	**7%**
Taxable benefits[2]	**82%**	**4%**
Annual incentive	**238%**	**10%**

1 For the 'all employees' group, the salary comparison is based on the global employee population. The taxable benefits comparison is based on UK employees as it was deemed the most appropriate comparison for the Group Chief Executive given the varied requirements in the provision and tax treatment of benefits across different jurisdictions. The annual incentive data is based on the global employee population who are eligible to receive discretionary annual incentives

2 The material increase in Bill Winters' benefits year-on-year is due to the inclusion of the full year benefit of the car and driver and his 2015/16 tax return preparation fees in the 2017 figure. Further details are on page 90

The regulations for calculating the ratio between the Chief Executive and average employee remuneration are yet to be finalised. Using a provisional definition of the median average of UK employee remuneration and the Group Chief Executive single figure of total remuneration, the 2017 ratio is approximately 47:1. There is no LTIP award vesting to the Group Chief Executive. In a year with a vesting LTIP, the ratio would be higher. The final methodology for calculating the CEO pay ratio is expected to be confirmed by the UK Government in 2018. The CEO pay ratio disclosure will be restated in line with the final requirements in next year's Directors' remuneration report.

Remuneration approach for all employees

Employees typically receive salary, pension and other benefits and are eligible to be considered for variable remuneration (determined based on both business and individual performance).

Further information on the remuneration approach for different employees is provided in the table below. There may be some country variations based on statutory requirements and market practice.

Element	Operation	Comparison between different groups of employees
Salary	→ Salaries reflect individuals' skills and experience and are reviewed annually against market information and in the context of the annual performance assessment and affordability → Increases may occur where there is a role change, increased responsibility or to ensure market competitiveness	→ **Executive directors:** Yes → **Material risk takers:** Yes → **Other employees:** Yes
Fixed pay allowance (FPA)	→ Paid in shares. In line with the approved remuneration policy, provided for a market competitive level of fixed remuneration. They are capped at one times salary and released over five years	→ **Executive directors:** Yes → **Material risk takers:** No → **Other employees:** No
Pension and benefits	→ Benefits are provided, with the details depending on local market practice. Employees have access to country-specific, company-funded benefits such as pension schemes, private medical insurance, permanent health insurance, life insurance and cash allowances. The cost of providing the benefits is defined and controlled → Pension and benefit levels differ globally to be competitive in different markets, and there is no single pension level across the Group → Employees who are relocated or spend a substantial portion of their time in more than one jurisdiction for business purposes may be provided with mobility benefits. If employees incur tax charges when travelling overseas in performance of their duties, these costs may be met by the Group → Sharesave is an all-employee plan where participants are able to open a savings contract to fund the exercise of an option over shares. The option price is set at a discount of up to 20 per cent of the share price at the date of invitation (or such other discount as may be determined by the Committee). An equivalent cash or share plan is offered in countries where Sharesave may not be offered (typically due to tax, regulatory or securities law issues)	→ **Executive directors:** Yes → **Material risk takers:** Yes → **Other employees:** Yes
Discretionary variable remuneration	→ Employees are typically eligible to be considered for variable remuneration (determined based on Group, business and individual performance) → Individual incentives are linked to the Group scorecard, the individual's business area scorecard and individual performance → Discretionary variable remuneration is delivered in the form of an annual incentive and/or an LTIP award depending on the category of Group employee → Annual incentives are delivered in the form of cash, shares and/or deferred shares and deferred cash → LTIP awards are delivered in shares and subject to long-term performance measures → The variable remuneration of employees in the Audit, Risk and Compliance functions is set independently of the business they oversee → Last year the Group implemented changes to the operation of discretionary incentives. The changes have increased transparency and the link between achievement and demonstration of expected values and behaviour, and the level of incentives	→ **Executive directors:** Yes, annual incentive (cash and shares) and LTIP award → **Material risk takers:** Yes, annual incentives (paid in cash up to certain limits and the balance is deferred in shares and/or cash for between three and seven years) and/or LTIP award. At least 50 per cent of discretionary variable remuneration is delivered in shares. Material risk takers are subject to the 2:1 maximum ratio of variable to fixed remuneration. → **Other employees:** Yes, most employees are considered for an annual incentive (paid in cash up to certain limits and the balance is deferred over three years in shares and/or cash) and/or LTIP award

When determining levels of variable remuneration, the Group considers the overall level of performance and risk events in the year. The proportion of variable to fixed remuneration is carefully monitored to ensure compliance with regulatory requirements. All incentives are subject to the Group's ex-post risk adjustment of remuneration policy. This provides the Group with the ability to reduce or revoke variable remuneration in respect of a risk, control or conduct issue, event or behaviour.

Given senior management incentives are deferred for up to seven years, the Group does not believe that the incentive structures inadvertently motivate irresponsible or short-term behaviour. For more detail on the Group's approach to risk-adjustment see page 100.

Additional remuneration disclosures

Remuneration arrangements for the Chairman and independent non-executive directors (iNEDs)

Single figure of remuneration for the Chairman and iNEDs (audited)

José Viñals was appointed as the Chairman on 1 December 2016. His annual fee is £1,250,000, and he receives benefits including access to a car and driver, private healthcare and life assurance. In 2016 he received assistance in relocating to the UK in order to take up his appointment.

The Chairman and iNEDs were paid in 12 equal monthly instalments during the year. UK-based iNEDs have the opportunity to use up to 100 per cent of their monthly post-tax base fees to acquire shares in the Group (Monthly Share Purchase Scheme).

The table below shows the fees and benefits received by the Chairman and iNEDs in 2017 and 2016.

	Fees £000		Benefits £000		Total £000		Shares beneficially held as at 31 December 2017[6,7]
	2017	2016	**2017**	2016	**2017**	2016	
Chairman							
J Viñals[1]	**1,250**	313	**36**	83	**1,286**	396	**8,500**
Current iNEDs							
N Kheraj[2]	**390**	321	**3**	4	**393**	325	**2,571**
O P Bhatt	**160**	133	**51**	62	**211**	195	**2,000**
Dr L Cheung	**130**	130	**11**	25	**141**	155	**2,571**
D P Conner[3]	**265**	248	**2**	6	**267**	254	**10,000**
Dr B E Grote	**160**	160	**–**	–	**160**	160	**44,541**
Dr Han Seung-soo, KBE	**130**	130	**83**	100	**213**	230	**3,474**
C M Hodgson	**265**	265	**2**	2	**267**	267	**2,571**
G Huey Evans, OBE	**190**	168	**1**	2	**191**	170	**2,571**
Dr N Okonjo-Iweala[4]	**22**	–	**–**	–	**22**	–	**2,000**
J M Whitbread	**228**	218	**2**	1	**230**	219	**2,571**
Former iNEDs							
Dr K M Campbell[5]	**74**	130	**7**	6	**81**	136	**–**

1 José Viñals joined the Board on 3 October 2016

2 Naguib Kheraj was appointed Deputy Chairman on 1 December 2016

3 David Conner was appointed a member of the Combined United States Operations Risk Committee (US Risk Committee) effective 1 July 2016. The US Risk Committee is a Committee of the Court of Standard Chartered Bank, for which an annual fee of £20,000 is payable per annum

4 Dr Ngozi Okonjo-Iweala joined the Board on 1 November 2017

5 Dr Kurt Campbell stepped down from the Board on 26 July 2017

6 The iNEDs are required to hold shares with a nominal value of $1,000. All of the directors, other than Dr Kurt Campbell, have met this requirement. Shareholders approved a resolution to disapply the shareholding qualification in relation to Dr Kurt Campbell at the Company's AGM in May 2014. This was in connection with the terms of the then proposed appointment of Dr Kurt Campbell's wife to the Board of Governors of the United States Federal Reserve System

7 The beneficial interests of directors and connected persons in the ordinary shares of the Company are set out above. The directors do not have any non-beneficial interests in the Company's shares. None of the directors used ordinary shares as collateral for any loans. No director had either i) an interest in the Company's preference shares or loan stocks of any subsidiary or associated undertaking of the Group or ii) any corporate interests in the Company's ordinary shares. All figures are as at 31 December 2017 or on the retirement of a director unless otherwise stated

Additional information to explain the single total figure table for the Chairman and iNEDs

Benefits primarily consist of travel and subsistence costs in relation to Board and Committee meetings and other Board-related events which are taxable in the UK. Partners may also accompany the directors to meetings. These costs (and any associated tax costs) are paid by the Group. The iNEDs' 2017 benefits figures shown are in respect of the 2016/17 tax year. This provides consistency with the reporting of similar benefits in previous years and with those received by executive directors.

The benefits figure for the Chairman includes relocation benefits and the reimbursement of costs in order to take up his appointment. These were similar to those offered to employees who join from another country. The benefits figure includes the value of the tax borne by the Group on the provision of relocation benefits.

Some of the iNEDs' 2016 benefits (in respect of the 2015/16 tax year) have been restated to reflect actual benefits received. For the Chairman this figure has been restated to reflect the realisation of an estimate of the tax due. This has reduced the figure by £3,000. For Om Bhatt and Dr Han, the figure reported in 2016 has been restated to include the cost of their partners' flights during the 2015/16 tax year, and the value of tax on these benefits, which were not included in the 2016 figures reported. This has increased the values by £40,000 and £28,000 respectively.

Independent non-executive directors' letters of appointment in 2018

The iNEDs have letters of appointment, which are available for inspection at the Group's registered office. Details of the iNEDs' appointments are set out on pages 47 to 49. iNEDs are appointed for a period of one year, unless terminated earlier by either party with three months' notice.

Fees (audited)

The iNED fees were last increased in 2013 and were set based on the duties, time commitment and contribution expected and alignment to fees paid to the iNEDs in banks and other companies of a similar scale and complexity. The iNED fees are reviewed on a regular basis. The current fee structure is as follows:

	As at 1 January 2018 £000	As at 1 January 2017 £000
Board member	**100**	100
Additional responsibilities		
Deputy Chairman	**75**	75
Senior Independent Director	**40**	40
Chair		
– Audit Committee	**70**	70
– Board Risk Committee	**70**	70
Chair		
– Board Financial Crime Risk Committee	**60**	60
– Brand, Values and Conduct Committee	**60**	60
– Remuneration Committee	**60**	60
Membership		
– Audit Committee	**30**	30
– Board Financial Crime Risk Committee	**30**	30
– Board Risk Committee	**30**	30
– Brand, Values and Conduct Committee	**30**	30
– Remuneration Committee	**30**	30
– Governance and Nomination Committee	**15**	15

Service contracts for executive directors

Copies of the executive directors' service contracts are available for inspection at the Group's registered office. These contracts have rolling 12-month notice periods and the dates of the executive directors' service contracts are shown below. Executive directors are permitted to hold non-executive directorship positions in other organisations (but no more than one position with a FTSE 100 company). Where such appointments are agreed with the Board, the executive directors may retain any fees payable for their services. Both executive directors served as non-executive directors elsewhere and received fees for the period covered by this report.

	Date of Standard Chartered employment contract[1]	Details of any non-executive directorship	Fees retained for any non-executive directorship (local currency)
W T Winters	8 April 2016	Novartis International AG	CHF 330,000
A N Halford	10 February 2016	Marks and Spencer Group plc	£85,000

1 Date the latest employment contract was entered into, not date of taking up employment with the Group

Executive directors' shareholdings and share interests including share awards (audited)

Executive directors are required to hold a certain number of shares, to be built up over a reasonable timeframe from the date of appointment as an executive director (or, if later, from the date of any change to the terms of the shareholding requirement). Shares that count towards the requirement are beneficially owned shares including any vested share awards subject only to a retention period. The shareholding requirement is currently expressed as a number of shares and is set as 250,000 shares for the Group Chief Executive and 150,000 shares for the Group Chief Financial Officer. Both Bill Winters and Andy Halford have met their shareholding requirement as outlined below.

In addition to the shareholding requirement, executive directors hold a considerable number of shares as part of the fixed pay allowance (FPA) shares which are held and released over five years. Unreleased FPA shares are not counted for the purposes of the above shareholding requirement. The levels of unreleased FPA shares as at 31 December 2017 are: Bill Winters: 226,359; and Andy Halford: 101,757.

	Shareholdings[1]				Share awards[1]		
	Shares held beneficially[2]	Shareholding as a percentage of salary[3]	Actual shareholding requirement in number of shares	Alignment to requirement	Vested but unexercised share awards	Unvested share awards not subject to performance measures	Unvested share awards subject to performance measures
W T Winters	698,714	474%	250,000	Met	–	629,738	1,585,532
A N Halford	396,807	364%	150,000	Met	–	14,548	1,016,845

1 All figures are as at 31 December 2017 unless stated otherwise. There were no changes to any executive directors' interests in ordinary shares between 31 December 2017 and 27 February 2018. No director had either (i) an interest in Standard Chartered PLC's preference shares or loan stocks of any subsidiary or associated undertaking of the Group or (ii) any corporate interests in Standard Chartered PLC's ordinary shares

2 The beneficial interests of directors and connected persons in the ordinary shares of the Company are set out above. The executive directors do not have any non-beneficial interests in the Company's shares. None of the executive directors used ordinary shares as collateral for any loans

3 Shareholding as a percentage of salary is calculated using the closing share price on 29 December 2017 (£7.80)

Scheme interests awarded, exercised and lapsed during the year (audited)

The following table shows the changes in share interests. Employees, including executive directors, are not permitted to engage in any personal hedging strategies with regards to their Standard Chartered PLC shares, including hedging against the share price of Standard Chartered PLC shares.

		Changes in interests during 2017						
	As at 1 January	Awarded[1]	Dividends awarded[2]	Exercised[3]	Lapsed	As at 31 December[4]	Performance period end date	Vesting date
W T Winters								
Restricted shares (buy-out)	314,822	–	3,304	318,126	–	0	–	22 Sep 2017
	314,822	–	–	–	–	314,822	–	22 Sep 2018
	314,916	–	–	–	–	314,916	–	22 Sep 2019
LTIP 2016-18	496,390	–	–	–	–	496,390	11 Mar 2019	4 May 2019
	124,097	–	–	–	–	124,097	11 Mar 2019	4 May 2020
	124,097	–	–	–	–	124,097	11 Mar 2019	4 May 2021
	124,097	–	–	–	–	124,097	11 Mar 2019	4 May 2022
	124,100	–	–	–	–	124,100	11 Mar 2019	4 May 2023
LTIP 2017-19	–	118,550	–	–	–	118,550	13 Mar 2020	13 Mar 2020
	–	118,550	–	–	–	118,550	13 Mar 2020	13 Mar 2021
	–	118,550	–	–	–	118,550	13 Mar 2020	13 Mar 2022
	–	118,550	–	–	–	118,550	13 Mar 2020	13 Mar 2023
	–	118,551	–	–	–	118,551	13 Mar 2020	13 Mar 2024
A N Halford								
LTIP 2014-16	135,054	–	–	–	135,054	–	31 Dec 2016	18 Jun 2017
LTIP 2015-17	28,529	–	–	–	–	28,529	31 Dec 2017	19 Mar 2020
LTIP 2016-18	296,417	–	–	–	–	296,417	11 Mar 2019	4 May 2019
	74,104	–	–	–	–	74,104	11 Mar 2019	4 May 2020
	74,104	–	–	–	–	74,104	11 Mar 2019	4 May 2021
	74,104	–	–	–	–	74,104	11 Mar 2019	4 May 2022
	74,105	–	–	–	–	74,105	11 Mar 2019	4 May 2023
LTIP 2017-19	–	73,390	–	–	–	73,390	13 Mar 2020	13 Mar 2020
	–	73,390	–	–	–	73,390	13 Mar 2020	13 Mar 2021
	–	73,390	–	–	–	73,390	13 Mar 2020	13 Mar 2022
	–	73,390	–	–	–	73,390	13 Mar 2020	13 Mar 2023
	–	73,394	–	–	–	73,394	13 Mar 2020	13 Mar 2024
Deferred shares 2014	12,932	–	136	13,068	–	–	–	19 Mar 2017
	12,936	–	–	–	–	12,936	–	19 Mar 2018
Underpin shares 2015-17	14,264	–	–	–	–	14,264	31 Dec 2017	19 Mar 2018
	14,264	–	–	–	–	14,264	31 Dec 2017	19 Mar 2020
Sharesave	1,612	–	–	–	–	1,612	–	–

1 For the LTIP 2017-19 awards granted to Bill Winters and Andy Halford on 13 March 2017, the share price at grant was £7.45 and the face values were as follows: Bill Winters: £4.4 million; Andy Halford: £2.7 million. Performance measures apply to LTIP 2017-19. The share price at grant was calculated as the higher of the five-day average closing price and the closing price on the day before the grant date

2 Dividend equivalent shares are awarded on vesting

3 On 22 September 2017, Bill Winters exercised buy-out awards over a total of 318,126 shares. The share price on the date of exercise was £7.25 and the gain on exercise was £2,305,781. On 20 March 2017, Andy Halford exercised deferred share awards over a total of 13,068 shares. The share price on the date of exercise was £7.27, and the gain on exercise was £95,024

4 There were no changes to any executive director's scheme interests in ordinary shares between 31 December 2017 and 27 February 2018

Shareholder dilution

All awards vesting under the Group's share plans are satisfied by the transfer of existing shares or, where appropriate, the issuance of new shares. The Group's share plans contain monitored limits that govern both the aggregate amount of awards that may be granted and the amount of shares that may be issued to satisfy any subsequent exercise of awards. These limits are in line with those stated in the Investment Association's Principles of Remuneration and the terms of our listing on The Stock Exchange of Hong Kong Limited.

The Group has two employee benefit trusts that are administered by an independent trustee which hold ordinary shares to meet various obligations under the Group's share plans. As each executive director is within the class of beneficiary of these trusts, they are deemed, for the purposes of the Companies Act 2006, to have an interest in the trusts' shares.

Details of the trusts' shareholdings are set out in note 28 to the financial statements on page 264

Historical long-term incentive plan awards

The current position on vesting for all unvested LTIP awards outstanding from 2016 and 2017 based on current performance and share price as at 31 December 2017 is set out in the tables below.

Current position on the 2016-18 LTIP award: projected partial vesting

Measure	Weighting	Performance for minimum vesting (25%)	Performance for maximum vesting (100%)	2016-18 LTIP current assessment
RoE[1] in 2018 plus CET1 underpin	One-third	7%	10%	RoE currently below threshold
Relative TSR performance against comparator group	One-third	Median	Upper quartile	0% vesting based on TSR performance as at 31 December 2017
Strategic measures	One-third	Targets set for strategic measures linked to the business strategy		Currently tracking for 'on target' performance

Current position on the 2017-19 LTIP award: projected partial vesting

Measure	Weighting	Performance for minimum vesting (25%)	Performance for maximum vesting (100%)	2017-19 LTIP current assessment
RoE[1] in 2019 plus CET1 underpin	One-third	5%	8%	RoE currently below threshold
Relative TSR performance against comparator group	One-third	Median	Upper quartile	0% vesting based on TSR performance as at 31 December 2017
Strategic measures	One-third	Targets set for strategic measures linked to the business strategy		Currently tracking for 'on target' performance

1 RoE will be based on profit attributed to ordinary shareholders, adjusted, on a tax-effected basis, for profits or losses of a capital nature, amounts consequent to investment transactions driven by strategic intent and infrequent/exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period. This includes material one-off changes to valuation methodologies to align with market practice and restructuring charges. RoE would normally exclude regulatory fines but, for remuneration purposes, this would be subject to review by the Committee

The comparator group for the TSR measure in the 2016-18 and 2017-19 awards is set out below:

ANZ	Bank of East Asia	DBS Group	ICICI	Société Générale	United Overseas Bank
Banco Santander	Barclays	Deutsche Bank	JPMorgan Chase	Standard Bank	
Bank of America	Citigroup	HSBC	KB Financial Group	State Bank of India	
Bank of China	Credit Suisse	ICBC	Oversea Chinese Banking Corporation	UBS	

Income statement charge for discretionary incentives

	2017 $million	2016 $million
Total discretionary incentives	**1,146**	1,039
Less: deferred discretionary incentives that will be charged in future years	**(134)**	(122)
Plus: current year charge for deferred discretionary incentives from prior years	**96**	33
Income statement charge for variable remuneration	**1,108**	950

	Actual		Expected	
Year in which income statement is expected to reflect deferred discretionary incentives	2016 $million	2017 $million	2018 $million	2019 and beyond $million
Discretionary incentives deferred from 2015 and earlier	33	**47**	29	7
Discretionary incentives deferred from 2016	46	**49**	28	26
Discretionary incentives deferred from 2017	0	**49**	65	69
Total	79	**145**	122	102

Pillar 3 disclosures on material risk takers' remuneration and disclosures on the highest-paid employees

The exchange rates used in this report

Unless an alternative exchange rate is detailed in the notes to the relevant table, the exchange rates used to convert the disclosures to US dollars are set out in the table below.

	2017	2016
EUR	**0.8455**	0.9040
GBP	**0.7796**	0.7409
HKD	**7.7915**	7.7627

Identification of material risk takers

The table below summarises the groups of employees who have been identified in accordance with regulatory requirements as material risk takers for remuneration purposes. Individuals have been identified as material risk takers in alignment with the qualitative and quantitative criteria set out in the European Banking Authority's Regulatory Technical Standard (EU 604/2014) that came into force in June 2014.

Quantitative criteria

The quantitative criteria identifies employees who:

- Have been awarded total remuneration of EUR500,000 or more in the previous financial year
- Are within the 0.3 per cent of the number of staff on a global basis who have been awarded the highest total remuneration in the preceding financial year
- Were awarded total remuneration in the preceding financial year that was equal to or greater than the lowest total remuneration awarded that year to certain specified groups of employees
- Employees identified by only the quantitative criteria can be excluded from the list of material risk takers if they do not have the ability to have a material impact on the Group's risk profile

Qualitative criteria

The qualitative criteria broadly identifies the following employees:

- Group directors (both executive and non-executive)
- A member of senior management, which is defined as one or more of the following:
  - A Senior Manager under the Prudential Regulation Authority (PRA)/Financial Conduct Authority (FCA) Senior Manager Regime
  - A member of the Group's Management Team
  - All senior management (top two levels beneath Group director level)
  - Senior employees within the audit, compliance, legal and risk functions
  - Senior employees within material business units
  - Employees who are members of certain committees
  - Employees who are able to initiate or approve credit risk exposures above a certain threshold and sign off on trading book transactions at or above a specific value at risk limit

For the purpose of the following tables, unless otherwise stated, Senior Management is defined as Group directors (both executive and non-executive), Senior Managers under the PRA/FCA Senior Manager Regime and members of the Group's Management Team.

Material risk takers' remuneration delivery

Remuneration for material risk takers was delivered in 2017 through a combination of salary, pension, benefits and variable remuneration.

Variable remuneration for material risk takers is structured in line with the PRA and FCA's remuneration rules. For the 2017 performance year, the following will apply to variable remuneration awarded to material risk takers in accordance with the regulations:

- At least 40 per cent of a material risk taker's variable remuneration will be deferred over a minimum period of three years depending on the category of material risk taker
- Non-deferred variable remuneration will be delivered 50 per cent in shares, subject to a minimum 12-month retention period, and 50 per cent in cash
- At least 50 per cent of deferred variable remuneration will be delivered entirely in shares, subject to a minimum 12-month retention period (with the exception of deferred shares awarded to Risk Managers, which are subject to a six-month minimum retention period) in line with the regulations
- For some material risk takers, part of their 2017 variable remuneration may be in share awards which vest after a minimum of three years, subject to the satisfaction of performance measures
- Variable remuneration awards are subject to the Group's ex-post risk adjustment of remuneration policy. This provides the Group with the ability to reduce or revoke variable remuneration in respect of a risk, control or conduct issue, event or behaviour

Material risk takers' deferred variable remuneration delivery

Approach to risk adjustment

At an individual level, variable remuneration is aligned with the long-term interests of the business and the timeframe over which financial risks crystallise through:

- A proportion of variable remuneration being delivered in the form of deferred awards: having an appropriate level of variable remuneration deferred for a sufficient period of time that can have ex-post risk adjustment applied
- Performance adjustment: potential diminution in the value of any deferred variable remuneration award through non-vesting due to performance measures and share price movement until vesting

The operation of in-year adjustments, malus and/or clawback is summarised in the following table:

	Criteria includes	Application
Individual level	→ Deemed to have i) caused in full or in part a material loss for the Group as a result of reckless, negligent or wilful actions or ii) exhibited inappropriate values and behaviours or applied a lack of appropriate supervision → The individual failed to meet appropriate standards of fitness and propriety	→ In-year adjustment, malus and clawback may be applied to all or part of an award at the Committee's discretion
Business unit and/or Group level	→ Material restatement of the Group's financials → Significant failure in risk management → Discovery of endemic problems in financial reporting → As a result of financial losses, due to a material breach of regulatory guidelines → The exercise of regulatory or government action to recapitalise the Group following material financial losses	→ In-year adjustment, malus and clawback may be applied to all or part of an award at the Committee's discretion

Material risk takers' deferred remuneration in 2017

	Senior management $000			All other material risk takers $000		
	Total	Cash	Shares	**Total**	Cash	Shares
Start of the year (1 January)	**84,604**	2,872	81,732	**299,126**	39,060	260,066
Impact of changes to material risk taker populations including leavers during 2016 and joiners in 2017	**(16,555)**	(378)	(16,177)	**(56,799)**	(4,192)	(52,607)
Start of the year (1 January) (after adjustments)	**68,049**	2,494	65,555	**242,327**	34,868	207,459
Awarded during the year	**28,873**	4,451	24,422	**110,310**	52,600	57,710
Total amount of reduction during the year due to malus or clawback; or performance measures not being met	**(6,900)**	–	(6,900)	**(32,047)**	(1,955)	(30,092)
Total amount of deferred remuneration paid out in the financial year	**(8,713)**	(1,219)	(7,494)	**(50,683)**	(14,522)	(36,161)
Close of the year (31 December)	**81,309**	5,726	75,583	**269,907**	70,991	198,916

Material risk takers' 2017 fixed and variable remuneration

	Senior management $000	All other material risk takers $000
Fixed remuneration[1]		
Number of employees	31	690
Total fixed remuneration	38,083	307,586
Cash-based	35,942	307,586
Of which deferred	–	–
Shares or other share-linked instruments	2,141	–
Of which deferred	–	–
Other forms	–	–
Of which deferred	–	–
Variable remuneration[2,3]		
Number of employees	20	619
Total variable remuneration	46,865	222,708
Cash-based	15,392	118,843
Of which deferred	6,309	49,452
Shares or other share-linked instruments	31,473	103,865
Of which deferred	22,390	49,408
Other forms	–	–
Of which deferred	–	–
Total remuneration	**84,948**	**530,294**

1 Fixed remuneration includes salary, cash allowance and fixed pay allowance (FPA) and, in the case of the Chairman and iNEDs, any fees

2 For some material risk takers, part of their 2017 variable remuneration may be delivered in share awards, vesting subject to performance measures. These awards are shown on a face value basis. As iNEDs are not eligible to receive variable remuneration they are not included in this data

3 The ratio between fixed and variable remuneration for all material risk takers in 2017 was 1:0.78

Material risk takers' aggregate 2017 remuneration by business

	Corporate & Institutional Banking $000	Commercial Banking $000	Private Banking[1] $000	Retail Banking $000	Central management & other[2] $000
2017	284,026	11,640	21,772	22,382	275,422

1 Private Banking includes Wealth Management

2 Central management & other includes Group executive directors, iNEDS, control functions, support functions and central roles

Material risk takers' sign-on and severance payments in 2017

	Senior management		All other material risk takers	
	Number of employees	Total amount $000	Number of employees	Total amount $000
Sign-on payments	–	–	–	–
Guaranteed incentives	–	–	–	–
Severance payments (highest award $523,520)	1	246	46	13,255

Remuneration at or above EUR1 million

The table below is prepared in accordance with Article 450 of the Capital Requirements Regulation.

Remuneration band EUR	Number of employees
1,000,000 – 1,500,000	90
1,500,001 – 2,000,000	20
2,000,001 – 2,500,000	9
2,500,001 – 3,000,000	6
3,000,001 – 3,500,000	6
3,500,001 – 4,000,000	4
5,000,001 – 5,500,000	1
5,500,001 – 6,000,000	1
7,500,001 – 8,000,000	1
9,000,001 – 9,500,000	1
Total	**139**

Remuneration of the five highest-paid individuals and the remuneration of senior management

In line with the requirements of the Stock Exchange of Hong Kong Limited, the following table sets out, on an aggregate basis, the annual remuneration of i) the five highest-paid employees; and ii) senior management for the year ended 31 December 2017.

Components of remuneration	Five highest paid[1] $000	Senior management[2] $000
Salary, fixed pay allowances and benefits in kind	11,468	22,629
Pension contributions	2,070	4,248
Variable remuneration awards paid or receivable[3]	21,312	39,580
Payments made on appointment	7,896	–
Remuneration for loss of office (contractual or other)	–	246
Other	–	–
Total	**42,746**	**66,703**
Total HK dollar equivalent	**333,055**	**519,716**

1 For 2017, the five highest-paid individuals include Bill Winters and Andy Halford

2 Senior management comprises the executive directors and the members of the Group Management Team at any point during 2017

3 Variable remuneration paid or receivable excludes any performance awards or commissions linked to profits generated by the individual collectively or with others engaged in similar activities. No such performance awards or commissions were awarded in 2017. It includes the deferred element of any variable remuneration and LTIP awards. Any buy-out award made on joining is included in payments made on appointment

The table below shows the emoluments of i) the five highest-paid employees; and ii) senior management for the year ended 31 December 2017.

		Number of employees	
Remuneration band HKD	Remuneration band USD equivalent	Five highest paid	Senior management[1]
15,500,001 – 16,000,000	1,989,347 – 2,053,520	–	1
20,500,001 – 21,000,000	2,631,072 – 2,695,245	–	1
21,500,001 – 22,000,000	2,759,417 – 2,823,590	–	2
25,500,001 – 26,000,000	3,272,797 – 3,336,970	–	1
27,500,001 – 28,000,000	3,529,487 – 3,593,660	–	1
28,000,001 – 28,500,000	3,593,661 – 3,657,832	–	1
29,500,001 – 30,000,000	3,786,177 – 3,850,350	–	1
30,000,001 – 30,500,000	3,850,351 – 3,914,522	–	1
32,500,001 – 33,000,000	4,171,212 – 4,235,385	–	1
33,000,001 – 33,500,000	4,235,386 – 4,299,557	–	1
33,500,001 – 34,000,000	4,299,557 – 4,363,730	–	1
49,000,001 – 49,500,000	6,288,905 – 6,353,077	1	1
63,000,001 – 63,500,000	8,085,735 – 8,149,907	1	–
70,000,001 – 70,500,000	8,984,150 – 9,048,322	1	1
70,500,001 – 71,000,000	9,048,323 – 9,112,494	1	–
79,500,001 – 80,000,000	10,203,427 – 10,267,599	1	1
Total		**5**	**15**

1 Senior management comprises the executive directors and the members of the Group Management Team at any point during 2017

Directors' remuneration policy

Standard Chartered's forward-looking remuneration policy for executive directors and iNEDs was approved at the AGM held on 4 May 2016 and applies for three years from that date. The full policy can be found on pages 105 to 114 of the 2015 Annual Report. This section sets out an abridged version of the executive directors' remuneration policy and is provided for information only.

More information is available at sc.com/annualreport2015

Remuneration policy for executive directors

Fixed remuneration

Element and purpose in supporting the Group's strategic objectives	Operation	Additional detail including maximum value and performance measures
Salary Support the recruitment and retention of executive directors, recognising the size and scope of the role and the individual's skills and experience Set at a level, together with other fixed remuneration, that enables the Group to operate fully flexible variable remuneration	→ Reviewed annually with increases generally applying from April → When determining salary levels, consideration is given to the following: – The size and scope of the role – The individual's skills and experience – Pay at international banks of a similar size and international scope – Pay within large UK-listed companies (including the major UK-listed banks)	→ Increases may be made at the Committee's discretion to take account of circumstances such as: – Increase in scope or responsibility – Increase to reflect the individual's development in role (e.g. for a new appointment where salary may be increased over time rather than set directly at the level of the previous incumbent or market level) – Alignment to market-competitive levels – Consideration to increases given in the context of salary increases across the Group → There are no performance measures
Fixed pay allowances (FPA) Provide a market competitive level of fixed remuneration appropriate for the role and the individual's skills and experience	→ May be withdrawn or amended on a change in role or termination of employment and having regard to relevant remuneration regulations → Enable the Group to deliver total fixed remuneration which is competitive and appropriate for the role, and which enables a competitive total remuneration when added to other elements of fixed remuneration and variable remuneration → Are not pensionable and do not count towards other benefits which are calculated by reference to salary → Will be paid in shares on an annual basis (or any other frequency that the Committee considers to be appropriate) and the shares will be subject to a holding period set by the Committee, currently five years with 20 per cent released annually → Dividends are paid on the shares during the holding period	→ FPAs will be set at an appropriate level for the role, subject to a maximum of one times salary
Pension The pension arrangements comprise part of a competitive remuneration package and facilitate long-term retirement savings for directors	→ Normally paid as a cash allowance or contribution to a defined contribution scheme → Pension contributions may also be made in lieu of any waived salary (and the cash amount of any annual incentive)	→ An annual pension allowance or contributions of up to 40 per cent of salary is payable → The Committee will continue to review the level of pension allowance used for the recruitment of future executive directors

Fixed remuneration continued

Element and purpose in supporting the Group's strategic objectives	Operation	Additional detail including maximum value and performance measures
Benefits Provide a competitive benefits package that is consistent with Group values and supports executives to carry out their duties effectively	→ A range of benefits may be provided, including standard benefits such as holiday and sick pay, and may also include the provision of a benefits cash allowance, a car and driver (or other car-related service), private medical insurance, permanent health insurance, life insurance, financial advice and tax preparation and tax return assistance → Additional benefits may also be provided where an executive director is relocated or spends a substantial portion of their time in more than one jurisdiction for business purposes. Benefits may include, but are not limited to, relocation, shipping and storage, housing allowance, education fees and tax and social security costs → Other benefits may be offered if considered appropriate and reasonable by the Committee → Executive directors are reimbursed for expenses, such as travel and subsistence, and any associated tax incurred in the performance of their duties. In addition, if executive directors incur tax charges when travelling overseas in performance of their duties, these costs will be met by the Group → Executive directors may from time to time be accompanied by their spouse or partner to meetings/events. The costs (and any associated tax) will be met by the Group	→ The maximum opportunity for benefits depends on the type of benefit and the cost of providing it, which may vary according to the market, individual circumstances and other factors → Set at a level which the Committee considers a sufficient level of benefit based on the role and individual circumstances

Variable remuneration

Element and purpose in supporting the Group's strategic objectives	Operation	Additional detail including maximum value and performance measures
Annual incentive Performance-based remuneration linked to measurable performance criteria Ensures a market-competitive remuneration package Links total remuneration to achievement of the Group's strategy in the short-term	→ Annual incentive awards are determined annually based on Group and individual performance → Annual incentives are delivered as a combination of cash, shares subject to holding requirements and deferred shares (for example, to meet requirements under relevant remuneration regulations) → Deferral proportions and vesting profiles will be structured so that, in combination with any LTIP award: – The proportion of variable remuneration that is deferred is no less than required by the relevant remuneration regulations (currently 60 per cent) – The deferred remuneration vests no faster than permitted under the relevant remuneration regulations (pro rata over years three to seven after award from 1 January 2016) → Dividend or dividend equivalents accrue on deferred annual incentive awards and are paid on vesting, subject to the extent permitted by the relevant remuneration regulations → The Committee can, in specified circumstances, apply malus or clawback to all or part of any annual incentive awards. Details on how malus and clawback operate currently are provided on page 100 → Deferred annual incentive awards will be granted as conditional share awards or nil-cost options → The Committee may apply discretion to adjust the vesting of deferred annual incentive awards and/or the number of shares underlying a deferred annual incentive award on the occurrence of corporate events and other reorganisation events	→ The maximum value of an annual incentive award granted to any executive director cannot exceed 80 per cent of that executive director's fixed remuneration. For this purpose, annual incentive awards may be valued in line with the relevant remuneration regulations → Annual incentive awards can be any amount from zero to the maximum → The determination of an executive director's annual incentive is made by the Committee based on an assessment of a balanced scorecard containing a mix of financial measures and other long-term strategic measures. Financial measures will comprise at least 50 per cent of the scorecard. The measures, individual weightings and targets will be set annually by the Committee → The targets, together with an assessment of performance against those targets, will be disclosed retrospectively → Discretion may be exercised by the Committee to ensure that the annual incentive outcome is a fair and accurate reflection of business and individual performance and any risk-related issues (but it will not exceed the maximum opportunity)

Variable remuneration continued

Element and purpose in supporting the Group's strategic objectives	Operation	Additional detail including maximum value and performance measures
LTIP Performance-based remuneration linked to measurable, long-term performance criteria Ensures a market-competitive remuneration package Links total remuneration to achievement of the Group's long-term strategy	→ LTIP awards are granted annually, with award levels set to provide appropriate levels of long-term incentives to executive directors, with performance of the Group and the individual considered in determining the award level → LTIP awards are delivered in shares and may be subject to holding requirements (for example, to meet the relevant remuneration regulations) → Vesting profiles will be structured so that no LTIP award vests before the third anniversary of grant and in combination with any annual incentive award: – The proportion of variable remuneration that is deferred is no less than required by the relevant remuneration regulations (currently 60 per cent) – The deferred remuneration vests no faster than permitted under the relevant remuneration regulations (currently pro rata over years three to seven after award) → Dividend or dividend equivalents accrue on LTIP awards and are paid subject to the satisfaction of any long-term performance measures, subject to the extent permitted by the relevant remuneration regulations → The Committee can, in specified circumstances, apply malus or clawback to all or part of any LTIP awards. Details on how malus and clawback operate currently are provided on page 100 → LTIP awards will be granted as conditional share awards or nil-cost options → The Committee may apply discretion to adjust the vesting of LTIP awards and/or the number of shares underlying an LTIP award on the occurrence of corporate events and other reorganisation events	→ The maximum value of an LTIP award granted to any executive director cannot, in combination with the annual incentive opportunity in respect of any particular year, exceed 200 per cent of that executive director's fixed remuneration. For this purpose LTIP awards may be valued in line with the relevant remuneration regulations → The Committee will, for each year, determine the split of the overall variable remuneration opportunity between the LTIP award and annual incentive opportunity at the start of the year and disclose this split in advance. The maximum LTIP award will form at least 120 per cent of fixed remuneration (i.e. at least 60 per cent of the maximum variable remuneration opportunity for any financial year), so that the majority of the variable remuneration opportunity is based on long-term performance → LTIP awards can be any amount from zero to the maximum → LTIP awards will be subject to long-term performance measures, measured over a period of at least three years → The long-term performance measures may be a mix of financial measures and other long-term strategic measures. Financial measures will comprise at least 50 per cent of the performance measures. Weightings and targets will be set in advance of each grant by the Committee and disclosed prospectively and performance against those measures will be disclosed retrospectively. For financial measures, vesting will be on a sliding-scale basis between threshold and maximum with no more than 25 per cent vesting at threshold performance

Other remuneration

Element and purpose in supporting the Group's strategic objectives	Operation	Additional detail including maximum value and performance measures
Sharesave Provide an opportunity to invest voluntarily in the Group	→ Sharesave is an all-employee plan where participants (including executive directors) are able to open a savings contract to fund the exercise of an option over shares → The option price is set at a discount of up to 20 per cent of the share price at the date of invitation, or such other discount as may be determined by the Committee → An equivalent cash or share plan is offered in countries where Sharesave may not be offered (typically due to tax, regulatory or securities law issues)	→ Savings per month of between £5 and the maximum set by the Group (currently £250)
Legacy arrangements Honour existing payments	→ Any previous commitments or arrangements entered into with current or former directors will be honoured, including remuneration arrangements entered into under the previously approved directors' remuneration policy	→ In line with existing commitments

Chairman and independent non-executive directors' remuneration policy

Fees and benefits

Element and purpose in supporting the Group's strategic objectives	Operation	Additional detail including maximum value and performance measures
Fees Attract a Chairman and independent non-executive directors (iNEDs) who together with the Board as a whole have a broad range of skills and experience to determine Group strategy and oversee its implementation	→ Fees are paid in cash or shares. iNEDs' post-tax fees may be used to acquire shares → The Chairman and iNED fees are reviewed periodically. The Board sets iNED fees and the Committee sets the Chairman's fees. The Chairman and iNEDs excuse themselves from any discussion on their fees	→ Overall aggregate base fees paid to all iNEDs will remain within the current limit of £1.5 million as stated in the Articles of Association → Fees are set at a level which reflect the duties, time commitment and contribution which are expected from the Chairman and iNEDs → Fees are reviewed and appropriately positioned against those for the Chairman and iNEDs in banks and other companies of a similar scale and complexity → There are no recovery provisions or performance measures
Benefits Attract a Chairman and iNEDs who together with the Board as a whole have a broad range of skills and experience to determine Group strategy and oversee its implementation	→ The Chairman is provided with benefits associated with the role, including a car and driver and private medical insurance, permanent health insurance and life insurance. Any tax costs associated with these benefits is paid by the Group → The Chairman and iNEDs are reimbursed for expenses, such as travel and subsistence (and including any associated tax), incurred in the performance of their duties → The Chairman and iNEDs may, from time to time, be accompanied by their spouse or partner to meetings/events. The costs (and any associated tax) are paid by the Group → iNEDs are paid fees for chairmanship and membership of Board committees and for the senior independent director role → The Chairman and iNEDs may receive tax preparation and tax return assistance	→ There are no performance measures

Christine Hodgson
Chair of the Remuneration Committee

27 February 2018

Other disclosures

Directors' report

The Directors' report for the year ended 31 December 2017 comprises pages 46 to 114 of this report (together with the sections of the Annual Report and Accounts incorporated by reference). Both the Strategic report and the Directors' report have been drawn up and presented in accordance with English company law, and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. Other information to be disclosed in the Directors' report is given in this section. In addition to the requirements set out in the Disclosure Guidance and Transparency Rules relating to the Annual Report and Accounts, information required by Listing Rule 9.8.4 to be included in the Annual Report and Accounts where applicable, is set out in the table below and cross-referenced.

Information to be included in the Annual Report and Accounts (LR 9.8.4)

Relevant Listing Rule	Page
LR 9.8.4 (1) (2) (5-14) (A) (B)	N/A
LR 9.8.4 (4)	96 to 97

Principal activities

Standard Chartered is a leading international banking group, with over 150-years of history in some of the world's most dynamic markets. Our purpose is driving commerce and prosperity through our unique diversity. The Group's roots in trade finance and commercial banking have been at the core of its success throughout its history, but the Group is now more broadly based across Retail Banking in its footprint markets in Asia, Africa and the Middle East. The Group comprises a network of more than 1,026 branches and outlets in 63 markets.

Further details on our business can be found within the Strategic report on pages 1 to 43

Fair, balanced and understandable

On behalf of the Board, the Audit Committee has reviewed the Annual Report and Accounts and the process by which the Group believes that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position and performance, strategy and business model of the Group. Following its review, the Audit Committee has advised the Board that such a statement can be made in the Annual Report and Accounts.

Code for Financial Reporting Disclosure

The Group's 2017 financial statements have been prepared in accordance with the principles of the UK Finance Code for Financial Reporting Disclosure.

Disclosure of information to auditor

As far as the directors are aware, there is no relevant audit information of which the Group statutory auditor, KPMG is unaware. The directors have taken all reasonable steps to ascertain any relevant audit information and ensure that the Group statutory auditors are aware of such information.

Going concern

Having made appropriate enquiries, the Board is satisfied that the Company and the Group as a whole have adequate resources to continue operational businesses for a period of at least 12 months from the date of this report and therefore continue to adopt the going concern basis in preparing the financial statements.

Viability

The directors' viability statement in respect to the Group can be found in the Strategic report on page 43.

Sufficiency of public float

As at the date of this report, the Company has maintained the prescribed public float under the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the HK Listing Rules), based on the information publicly available to the Company and within the knowledge of the directors.

Research and development

During the year, the Group invested $1.47 billion (2016: $1 billion) in research and development, primarily relating to the planning, analysis, design, development, testing, integration, deployment and initial support of technology systems.

Political donations

The Group has a policy in place which prohibits donations being made that would: (i) improperly influence legislation or regulation, (ii) promote political views or ideologies, and (iii) fund political causes. In alignment to this, no political donations were made in the year ended 31 December 2017.

Directors and their interests

The membership of the Board, together with their biographical details, are given on pages 47 to 49. Details of the directors' beneficial and non-beneficial interests in the ordinary shares of the Company are shown in the Directors' remuneration report on pages 96 and 97. The Group operates a number of share-based arrangements for its directors and employees.

Details of these arrangements are included in the Directors' remuneration report and in note 31 to the financial statements on page 270

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the HK Listing Rules and still considers all of the non-executive directors to be independent.

At no time during the year did any director hold a material interest in any contracts of significance with the Company or any of its subsidiary undertakings.

In accordance with the Companies Act 2006, we have established a robust process requiring directors to disclose proposed outside business interests before any are entered into. This enables prior assessment of any conflict or potential conflict of interest and any impact on time commitment. On behalf of the Board, the Governance and Nomination Committee reviews actual or potential conflicts of interest annually to consider if they continue to be appropriate, and also to revisit the terms upon which they were provided. The Board is satisfied that our processes in this respect continue to operate effectively.

Subject to company law, the Articles of Association and the authority granted to directors in general meeting, the directors may exercise all the powers of the Company and may delegate authorities to committees. The Articles of Association contain provisions relating to the appointment, re-election and removal of directors. Newly appointed directors retire at the AGM following appointment and are eligible for election. All directors are nominated for annual re-election by shareholders subject to continued satisfactory performance based upon their annual assessment.

Non-executive directors are appointed for an initial period of one year and, subject to re-election by shareholders at AGMs. In line with the UK Corporate Governance Code 2016, all directors will stand for annual (re) election at the 2018 AGM.

The Company has granted indemnities to all of its directors on terms consistent with the applicable statutory provisions. Qualifying third-party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the financial year ended 31 December 2017, and remain in force at the date of this report.

Significant agreements

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Future developments in the business of the Group

An indication of likely future developments in the business of the Group is provided in the Strategic report on pages 1 to 43.

Results and dividends

2017: nil interim dividend paid (2016: nil interim dividend paid)
2017: proposed final dividend of 11 cents per ordinary share (2016: nil final dividend paid)
2017: total dividend, 11 cents per ordinary share (2016: nil total dividend)

Share capital

The issued ordinary share capital of the Company was increased by 12,272,991 during the year. The ordinary shares were issued under the Company's employee share plans at prices between nil and 557.76 pence. The Company has one class of ordinary shares, which carries no rights to fixed income. On a show of hands, each member present has the right to one vote at our general meetings. On a poll, each member is entitled to one vote for every $2 nominal value of share capital held. The issued nominal value of the ordinary shares represents 86 per cent of the total issued nominal value of all share capital. The remaining 14 per cent comprises preference shares, which have preferential rights to income and capital but which, in general, do not confer a right to attend and vote at our general meetings.

Further details of the Group's share capital can be found in note 28 to the financial statements on page 262

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. There are no specific restrictions on voting rights and the directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Articles of Association

The Articles of Association may be amended by special resolution of the shareholders; no changes to the Company's Articles of Association were made during the year.

Authority to purchase own shares

At the AGM held on 3 May 2017, our shareholders renewed the Company's authority to make market purchases of up to 328,742,861 ordinary shares, equivalent to approximately 10 per cent of issued ordinary shares as at 14 March 2017, and up to all of the issued preference share capital. These authorities were not used during the year and remained in force at 31 December 2017.

In accordance with the terms of a waiver granted by The Stock Exchange of Hong Kong Limited (HKSE) on 16 April 2008, which was consequentially modified by the Company and confirmed by the HKSE on 30 April 2009, 25 July 2011, 9 October 2013, 23 September 2015 and 5 February 2018 respectively, the Company will comply with the applicable law and regulation in the UK in relation to holding of any shares in treasury and with the conditions of granting the waiver by the HKSE.

No treasury shares were held during the year.

Further details can be found in note 28 to the financial statements on page 262

Authority to issue shares

The Company is granted authority to issue shares by the shareholders at its AGM. The size of the authorities granted depends on the purposes for which shares are to be issued and is within applicable legal and regulatory requirements.

Shareholder rights

Under the Companies Act 2006, shareholders holding 5 per cent or more of the paid-up share capital of the Company carrying the right of voting at general meetings of the Company are able to require the directors to hold a general meeting. A request may be in hard copy or electronic form and must be authenticated by the shareholders making it. Where such a request has been duly lodged with the Company, the directors are obliged to call a general meeting within 21 days of becoming subject to the request and must set a date for the meeting not more than 28 days from the date of the issue of the notice convening the meeting. Under the Companies Act 2006, shareholders holding 5 per cent or more of the total voting rights at an AGM of the Company, or 100 shareholders entitled to vote at the AGM with an average of at least £100 paid-up share capital per shareholder, are entitled to require the Company to circulate a resolution intended to be moved at the Company's next AGM. Such a request must be made not later than six weeks before the AGM to which the request relates or, if later, the time notice is given of the AGM. The request may be in hard copy or electronic form, must identify the resolution of which notice is to be given and must be authenticated by the shareholders making it.

+ Shareholders are able to put forward proposals to shareholder meetings and enquiries to the Board and/or the Senior Independent Director by using the 'contact us' information on the Company's website sc.com or by emailing the Group Corporate Secretariat at group-corporate.secretariat@sc.com

Major interests in shares and voting rights

As at 31 December 2017, Temasek Holdings (Private) Limited (Temasek) is the only shareholder that has an interest of more than 10 per cent in the Company's issued ordinary share capital carrying a right to vote at any general meeting.

As at 22 February 2018, the Company has been notified, pursuant to the requirement of Rule 5 of the Financial Conduct Authority Disclosure Guidance and Transparency Rules, by the following companies of their interest in the total voting rights of the Company:

Shareholder	Number of ordinary shares	Percentage of voting rights direct	Percentage of voting rights indirect
Temasek Holdings (Private) Limited	**517,051,383**	**–**	**15.68**
BlackRock, Inc	**168,538,528**	**–**	**5.11**
Standard Life Aberdeen plc	**166,674,424**	**–**	**5.05**

Related-party transactions

Details of transactions with directors and officers and other related parties are set out in note 36 to the financial statements on page 282.

Connected/continuing connected transactions

By virtue of its shareholding of over 10 per cent in the Company, Temasek and its associates are related parties and connected persons of the Company for the purposes of the UK Listing Rules and the Listing Rules of The Stock Exchange of Hong Kong Limited (the HK Listing Rules) respectively (together 'the Rules').

The Rules are intended to ensure that there is no favourable treatment to Temasek or its associates to the detriment of other shareholders in the Company. Unless transactions between the Group and Temasek or its associates are specifically exempt under the Rules or are subject to a specific waiver, they may require a combination of announcements, reporting and independent shareholders' approval.

On 19 October 2015, the HKSE extended a waiver ('the Waiver') it previously granted to the Company for the revenue banking transactions with Temasek which do not fall under the passive investor exemption (the Passive Investor Exemption) under Rules 14A.99 and 14A.100. Under the Waiver, the HKSE agreed to waive the announcement requirement, the requirement to enter into a written agreement and set an annual cap and the reporting (including annual review) requirements under Chapter 14A for the three-year period ending 31 December 2018 on the conditions that:

a) The Company will disclose details of the Waiver (including nature of the revenue banking transactions with Temasek and reasons for the Waiver) in subsequent annual reports

b) The Company will continue to monitor the revenue banking transactions with Temasek during the three years ending 31 December 2018 to ensure that the 5 per cent threshold for the revenue ratio will not be exceeded

The main reasons for seeking the Waiver were:

- The nature and terms of revenue banking transactions may vary and evolve over time; having fixed-term written agreements would not be suitable to accommodate the various banking needs of the Company's customers (including Temasek) and would be impractical and unduly burdensome
- It would be impracticable to estimate and determine an annual cap on the revenue banking transactions with Temasek as the volume and aggregate value of each transaction are uncertain and unknown to the Company as a banking group due to multiple factors including market driven factors
- The revenues generated from revenue banking transactions were insignificant. Without a waiver from the HKSE or an applicable exemption, these transactions would be subject to various percentage ratio tests which cater for different types of connected transactions and as such may produce anomalous results

For the year ended 31 December 2017, the Group provided Temasek with cash management, securities services, foreign exchange and money market placement products and services that were revenue transactions in nature.

As a result of the Passive Investor Exemption and the Waiver, the vast majority of the Company's transactions with Temasek and its associates fall outside of the connected transactions regime. However, non-revenue transactions with Temasek or any of its associates continue to be subject to monitoring for connected transaction issues.

The Company confirms that:

- The revenue banking transactions entered into with Temasek in 2017 were below the 5 per cent threshold for the revenue ratio test under the HK Listing Rules
- It will continue to monitor revenue banking transactions with Temasek during the three years ending 31 December 2018 to ensure that the 5 per cent threshold for the revenue ratio will not be exceeded

The Company therefore satisfied the conditions of the Waiver.

Fixed assets

Details of additions to fixed assets are presented in note 19 to the financial statements on page 254.

Loan capital

Details of the loan capital of the Company and its subsidiaries are set out in note 27 to the financial statements on page 261.

Debenture issues and equity-linked agreements

During the financial year ending on 31 December 2017, the Company made two issues of debentures and entered into one equity-linked agreement, further details of which are set out in note 22 on page 257.

Risk management

An ongoing process for identifying, evaluating and managing the significant risks that we face is in place. The Board is satisfied that this process constitutes a robust assessment of all of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Risk review and Capital review on pages 118 to 189 sets out the principal risks and uncertainties, our approach to risk management, including our risk management principles, an overview of our Enterprise Risk Management Framework and the policies and practices for each principal risk type. The Board-approved Risk Appetite Statement can be found on page 161

In accordance with Article 435(e) of the Capital Requirements Regulation, the Board Risk Committee, on behalf of the Board, has considered the adequacy of the risk management arrangements of the Group and has sought and received assurance that the risk management systems in place are adequate with regard to the Group's profile and strategy.

Internal control

The effectiveness of our internal control system is reviewed regularly by the Board, its committees, the Management Team and Group Internal Audit. The Audit Committee has reviewed the effectiveness of the Group's system of internal control during the year ended 31 December 2017. The Committee's review was supported by an annual business self-certification process, which was managed by Group Internal Audit. Group Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Group through its programme of audits. The work of Group Internal Audit is focused on the areas of greatest risk as determined by a risk-based assessment methodology. The Board considers the internal control systems of the Company to be effective and adequate.

Group Internal Audit reports regularly to the Audit Committee, the Chairman and the Group Chief Executive. The findings of all adverse audits are reported to the Audit Committee, the Chairman and the Group Chief Executive where immediate corrective action is required. The Board Risk Committee has responsibility for overseeing the management of the Company's fundamental risks as well as reviewing the effectiveness of the Company's Enterprise Risk Management Framework. The Audit Committee monitors the integrity of the Company's financial reporting, compliance and internal control environment.

The risk management approach on page 160 describes the Group's risk management oversight committee structure

Our business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. There are written policies and procedures designed to ensure the identification and management of risk, including credit risk, country risk, market risk, capital and liquidity risk, operational risk, reputational risk, compliance risk, conduct risk, information and cyber security risk and financial crime risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. Executive risk committees regularly review the Group's risk profile. The performance of the Group's businesses is reported regularly to senior management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are monitored closely. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions. In respect of handling inside information, we have applied relevant controls on employees who are subject to handling inside information, including controls over the dissemination of such information and their dealings in the Company's shares. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Employee policies and engagement

We take communications very seriously and work hard to ensure that our colleagues are kept informed about matters affecting or of interest to them, but more importantly to provide opportunities for feedback and dialogue. We have a clear set of communications mechanisms that are used to inform colleagues of key business activity at a global, regional, business and function level. We have continued to evolve and develop our internal communications following last year's review responding to feedback from colleagues. We continue to listen to ensure internal communications remain impactful, meaningful and support the Group's strategy and transformation.

The primary channel for communicating with our colleagues continues to be the Bridge – our social business collaboration platform. The Bridge not only provides global, local, business and function communications but it allows our people to collaborate, exchange ideas, feedback, comment, innovate, communicate, and find experts all through one space, wherever they are located.

In response to feedback, we have also introduced a new monthly Group-wide digital magazine. The magazine is an informal, story/feature focused channel that shows the human side of the Group. It focuses on our people and our clients to help our colleagues understand the Group's strategy, share success, best practice, break down silos, learn from others and recognise the work and contribution our people make.

The Bridge and this new digital magazine are supported by Group, local and business newsletters, targeted audio calls – for business area or management level – videos, success story bulletins, town halls and engagement events including brown bag lunches, leadership events, regional meetings, and focus groups. Business or time-critical information is sent directly to our people's inboxes through a measurable email platform.

Our senior leaders and People Managers also have a critical role to play in engaging our people, ensuring that they are kept up to date on key business information, our performance and strategy, their role in executing the strategy and ensuring that they consult and listen to their teams' views, feedback and concerns. Across the organisation team meetings with People Managers, one-to-one discussions, and management meetings enable our people to discuss and clarify anything they have heard or read and address any questions they may have. The individual performance reviews also provide the opportunity to discuss how individuals, the team and the business area contributed to our overall performance and how any compensation awards relate to this.

This mix of channels ensures that all our colleagues receive relevant information promptly regardless of how they prefer to be communicated with and regardless of where they sit in the organisation.

We continue to communicate with employees who have left the Group via our Alumni network and all employees, past, present and future are able to follow our progress through social networks including the Group's LinkedIn network, Facebook page and Twitter stream.

As well as capturing our people's feedback and views through team meetings, two-way communications and day-to-day dialogue, our employee engagement survey has been an important way for us to gather feedback on how our colleagues feel about the organisation, the challenges we are facing and how we can make the Group a better place to work. The My Voice survey was launched in 2014 and last year we introduced the Employee Net Promoter Score (eNPS) to understand if our colleagues would recommend us as a place to work – an important indicator of how satisfied we are at the Group. In September, we ran a short edition of My Voice that focused on the eNPS and manager and team effectiveness. Nearly 90 per cent of our colleagues responded, which was the highest response rate we have had. The insight gained has been used to inform action plans intended to resolve highlighted issues. In 2018, we plan to run a further My Voice survey.

In addition, targeted local surveys and focus groups seek views on particular topics or from particular groups of colleagues. Less formal measures of sentiment and engagement include quick polls and conversations on the Bridge. Combined with over 50 employee networks across 18 countries and numerous champion groups, these insights are invaluable in shaping our thinking and future planning.

Equally, in our recognition and interactions with various employee representative bodies (unions, works councils) globally, we are heavily influenced by the 1948 United Nations Universal Declaration of Human Rights (UDHR), several ILO conventions including the Right to Organise and Collective Bargaining Convention, 1949 (No. 98) and the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) as well as local country labour laws and acts that protect employees' rights to organise.

In June this year, we integrated the components of our Group Equal Opportunities, Diversity, Inclusion and Dignity at Work Policy into our Group Code of Conduct. Everyone who works at Standard Chartered is bound by the Code, whether they are full-time, fixed term, a director, a contractor, a subcontractor, a secondee, a temporary employee or a voluntary worker, working in any company and in any capacity. The Group Code of Conduct is well-understood throughout the Group, supported by significant Group communication, and this is evident through our last My Voice Survey results where 97 per cent of colleagues responded saying that they understood what the Group Code of Conduct meant for them in their role.

Holistically, the Group Code of Conduct reinforces our commitment to providing equality of opportunity and fair treatment in employment. We do not accept unlawful discrimination in our recruitment and employment policies, terms, procedures, processes and decisions on the grounds of: race; colour; nationality; national or ethnic origins; gender; parental status; marital or civil partner status; sexual orientation; gender identity, expression or reassignment; HIV or AIDS status; employment status; flexibility of working arrangements; disability; age; religion; or belief. We appoint, train, develop, reward and promote colleagues on the basis of merit and ability. If colleagues become disabled, every effort is made to ensure their employment continues, with appropriate training and workplace adjustments where necessary. This is supported by the Global Guideline and Process for Workplace Adjustment that was re-launched in 2016 to support colleagues with disabilities. Action may be taken to address disadvantage or under representation among specific groups, with the aim of ensuring that employment decisions are free from bias.

The Group's approach to misconduct issues (including dismissals) is guided by the Fair Accountability principles which endorse thoughtful judgement, proportionality, procedural appropriateness and fairness of outcomes. Dismissals on account of misconduct issues and performance (where required by law to follow a disciplinary process) are governed by the Group Disciplinary Policy and Procedure with clear minimum standards. Where local law or regulation requires a different process with regards to dismissals and other disciplinary actions, country procedures vary accordingly to account for local law and regulation.

During 2017, the Group rolled out a refreshed Flexible Working Practices Policy globally, allowing colleagues a range of flexible working options– this includes flexible time, working from home or part-time working. Our global minimum Parental Leave Benefits were also revised in April 2017, to support working parents no matter where they are across the Group. We now provide a minimum of 20 calendar weeks fully paid maternity leave, a minimum of leave of two calendar weeks for spouses or partners, and two calendar weeks for adoption leave. Combined, this places the Group above the International Labour Organisation minimum standards.

Health and safety

The Group complies with both external regulatory requirements and internal policy and standards for health and safety (H&S) in all markets. It is Group policy to ensure that the more stringent of the two requirements is always met, ensuring our H&S practices meet or exceed regulatory minimum. Compliance rates are reported quarterly to each country's management team. Based on our risk profile, our H&S standards define our requirements for H&S governance and assurance, workstation ergonomics, fire safety, first aid, indoor air quality and the work environment, vehicle and driving safety, incident reporting and investigation, and accessible design.

Major customers

Our five-largest customers together accounted for 2.1 per cent of our total interest income and other operating income in the year ended 31 December 2017.

Supply chain management

For information about how the Group engages with suppliers on environmental and social matters, please see our Supplier Charter. As required under the UK Modern Slavery Act 2015, the Group is required to publish a Modern Slavery Statement annually. The Group's 2017 Modern Slavery Statement will be issued by June 2018. This document will give further detail on how the Group has managed social risks in its supply chain during 2017.

+ Our Supplier Charter can be viewed at sc.com/suppliercharter

Product responsibility

We aim to treat our clients fairly at all times. We design and offer products based on an understanding of our client needs; we protect client privacy; we manage potential conflicts of interest; and we seek and use client feedback to improve our products and services. The Group has in place policies and procedures to ensure products are sold to suitable target markets, comply with relevant laws and regulations and complaints are identified and resolved.

Group Code of Conduct

The Board has adopted a refreshed Group Code of Conduct (the Code) relating to the lawful and ethical conduct of business and this is supported by the Group's core values.

It has been communicated to all directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, employees and regulators in the communities in which the Group operates.

Directors and employees are asked to recommit to the Code annually, and this was done during September 2017 and will be repeated again in 2018.

Environmental impact of our operations

We aim to minimise the environmental impact of our operations as part of our commitment to being a responsible company. We report on energy, water, paper and non-hazardous waste data that are the basis of our Greenhouse Gas (GHG) emissions management as well as the targets we have set to reduce energy, water and paper use.

Total scope 1, 2 and 3 Greenhouse Gas emissions for 2016 and 2017

Indicator	2017	2016	Units
Full-time employees (FTE) covered by reporting	**86,021**	86,693	FTE
Net internal area of occupied property covered by reporting	**1,194,363**	1,237,043	m^2
Annual operating income (1 October to 30 September)	**14,614**	12,515	$million
Greenhouse Gas emissions			
Scope 1 emissions (combustion of fuels)	**7,922**	13,562	tonnes CO_2eq/year
Scope 2 emissions (purchased electricity) – location-based method	**180,014**	186,553	tonnes CO_2eq/year
Scope 2 emissions (purchased electricity) – market-based method	**180,014**	186,553	tonnes CO_2eq/year
Total Scope 1 & 2 emissions	**187,936**	200,115	tonnes CO_2eq/year
Scope 3 emissions without distance uplift (air travel)	**59,179**	52,056	tonnes CO_2eq/year
Scope 3 emissions with distance uplift (air travel)	**64,505**	56,741	tonnes CO_2eq/year
Scope 3 emissions (outsourced data centre)	**23,904**	22,653	tonnes CO_2eq/year
Total Scope 1, 2 & 3 emissions	**247,115**	252,171	tonnes CO_2eq/year
Total Scope 1, 2 & 3 emissions/FTE	**2.87**	2.91	tonnes CO_2eq/FTE/year
Total Scope 1, 2 & 3 emissions/m^2	**207**	204	kg CO_2eq/m^2/year
Total Scope 1, 2 & 3 emissions/operating income	**16.91**	20.15	tonnes CO_2eq/$m/year

Our reporting criteria document sets out the principles and methodology used to calculate the GHG emissions of the Group.

+ For more information, review the reporting criteria at sc.com/environmentcriteria.

Our reporting methodology is based upon the World Resources Institute/ World Business Council for Sustainable Development Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (Revised Edition).

We report on all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations. Using conversion factors from the UK Government's 2017 GHG Conversion Factors for Company Reporting and the International Energy Agency's 'CO_2 Emissions from Fuel Combustion (2017 edition)', emissions are reported in metric tonnes of carbon dioxide equivalent (CO_2e), encompassing the six Kyoto gases.

Our definition of different emission sources is provided below.

Scope 1

Scope 1 emissions are defined as arising from the consumption of energy from direct sources, such as by burning diesel within generators, during the use of property occupied by the Group.

Scope 2

Scope 2 emissions are defined as arising from the consumption of indirect sources of energy, such as consumption of purchased electricity and heat, during the use of property occupied by the Group.

Despite the amendment issued to the GHG Protocol in 2015, we report Scope 2 emissions under location-based methods and have decided not to use market-based emission factors where they are available to us based on our reservations concerning the attribution of reduced electricity emissions and the potential for 'double-counting' in some markets. We will continue to monitor the development of Scope 2 Quality Criteria, as well as the development of residual mixes by national agencies.

The Group does not use any form of offset such as carbon credits to offset Scope 1 or Scope 2 emissions.

Scope 3

Scope 3 emissions are defined as occurring as a consequence of the Group's activities, but arising from sources not controlled by us. The Group reports on Scope 3 emissions arising from air travel and our outsourced data centres in Hong Kong and the UK.

Reporting period

The reporting period of our environmental data is from 1 October 2016 to 30 September 2017. This allows sufficient time for independent assurance to be gained prior to the publication of results. Accordingly, the operating income used in this inventory corresponds to the same time period rather than the calendar year used in financial reporting.

Assurance

Our Scope 1 and 2 emissions are assured by an independent body, The Carbon Trust, against the requirements of ISO14064.

Managing environmental and social risk

The Board is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. This encompasses risk associated with clients' operations and their potential impact on the environment and local communities. The Board recognises its responsibility to manage these risks and that failure to manage them adequately would have adverse impact.

The Board receives information to identify and assess significant risks and opportunities arising from environmental and social matters, including climate change. These issues are overseen by the Brand, Values and Conduct Committee. The Committee reviews sustainability priorities, and oversees the development of, and delivering against, public commitments regarding the activities and/or businesses that the Group will or will not accept in alignment with our Here for good brand promise. At a management level, the Group Head, Corporate Public and Regulatory Affairs leads the delivery of the Group's approach to sustainability.

Community engagement

We collaborate with local partners to support social and economic development in communities across our markets.
For more information on how we engage with communities go to the Stakeholders and responsibilities section on page 36.

ESG Reporting Guide

We comply with the requirements for environmental, social and governance reporting under Appendix 27 of the Hong Kong Listing Rules with the exception of A1.3 on hazardous waste and A2.5 on packaging. As an office-based financial services provider, we generate minimal hazardous waste or packaging material. As such, these issues are not material and we do not report them.

Electronic communication

The Board recognises the importance of good communications with all shareholders. Directors are in regular contact with our institutional shareholders and general presentations are made when we announce our financial results. The AGM presents an opportunity to communicate with all shareholders. Our shareholders are encouraged to receive our corporate documents electronically. The annual and interim financial statements, Notice of AGM and dividend circulars are all available electronically. If you do not already receive your corporate documents electronically and would like to do so in future, please contact our registrars at the address on page 332.

+ Shareholders are also able to vote electronically on the resolutions being put to the AGM through our registrars' website at investorcentre.co.uk

Annual General Meeting

Our AGM will be held at 11:00am (UK time) (6:00pm Hong Kong time) on 9 May 2018 at etc.venues, 200 Aldersgate, St Paul's, London EC1A 4HD. Details of the business to be conducted at the meeting are contained in the 2018 Notice of AGM.

Our 2017 AGM was held on 3 May 2017 at 11:00am (London time) (6:00pm Hong Kong time) at etc.venues, 200 Aldersgate, St Paul's, London EC1A 4HD. Special business at the meeting included the approval of the power to allot ECAT1 Securities for cash without certain formalities. All resolutions were passed at the meeting.

Non-audit services

The Group's non-audit services policy (the policy) was reviewed and approved by the Audit Committee on 26 January 2017. The policy is based on an overriding principle that, to avoid any actual or perceived conflicts of interest, the Group's auditor should only be used when either there is evidence that there is no alternative in terms of quality and there is no conflict with their duties as auditor. KPMG can be used where the statutory auditor is required to be used due to regulatory or legal requirements.

The policy clearly sets out the criteria for when the Audit Committee's prior written approval is required. The policy requires a conservative approach to be taken to the assessment of requests for KPMG to provide non-audit services. Subject to the overriding principle, the Audit Committee's view is that KPMG can be of value in a range of non-audit service activities and should be allowed to tender subject to the terms of the policy. The Group is required to take a conservative approach to interpreting the potential threats to auditor independence and requires commensurately robust safeguards against them.

EU legislation and guidance from the Financial Reporting Council (FRC) sets out threats to audit independence including self-interest, self-review, familiarity, taking of a management role or conducting advocacy. In particular, maintaining KPMG's independence from the Group requires KPMG to avoid taking decisions on the Group's behalf. It is also recognised as essential that management retains the decision-making capability as to whether to act on advice given by KPMG as part of a non-audit service. This means not just the ability to action the advice given, but to have sufficient knowledge of the subject matter to be able to make a reasoned and independent judgement as to its validity. All of this is contained within the policy.

By way of (non-exhaustive) illustration of the application of the principles set out in the policy, the following types of non-audit services are:

Likely to be permissible under the policy:

- Audit-related services – the Group would also extend this to work on investor circulars in most foreseeable circumstances
- An objective view as to whether the Group has applied external laws and regulations appropriately, such as checks over regulatory compliance
- Internal control review services
- Due diligence over potential purchases or sales

Not permissible under the policy:

- Any services that are prohibited (or to the extent they are restricted) by the published guidance from time to time
- Tax or regulatory structuring proposals
- Services where fees are paid on a contingent basis (in whole or in part)
- Consulting services that actively assist in running the business in place of management as opposed to providing or validating information, which management then utilises in the operation of the business

The policy is not a prescribed list of non-audit services that KPMG is permitted to provide. Rather, each request for KPMG to provide non-audit services will be assessed on its own merits. The Audit Committee believes that such a case-by-case approach best accommodates (i) the need for the appropriate rigour and challenge to be applied to each request for KPMG to provide non-audit services while (ii) preserving sufficient flexibility for the Group to engage KPMG to provide non-audit services where they are able to deliver particular value to the Group and where the proposed services can be provided without compromising KPMG's objectivity and independence.

There is a cap on non-audit services provided by KPMG and such fees cannot exceed 70 per cent of the average Group audit fee from the previous three consecutive financial years. For 2017 the ratio was 9 per cent.

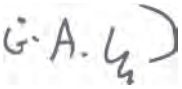
Details relating to KPMG's remuneration as the Group statutory auditor and a description of the broad categories of the types of non-audit services provided by KPMG are given in note 38 to the financial statements on page 283.

Auditor

The Audit Committee reviews the appointment of the Group statutory auditor, its effectiveness and its relationship with the Group, which includes monitoring our use of the auditors for non-audit services and the balance of audit and non-audit fees paid. Following a review of the independence and effectiveness of our Group statutory auditor (details of which can be found on page 66), resolutions to appoint KPMG and to determine its remuneration will be proposed at the 2018 Annual General Meeting.

Each director believes that there is no relevant information of which our Group statutory auditor is unaware. Each has taken all steps necessary as a director to be aware of any relevant audit information and to establish that KPMG is made aware of any pertinent information.

By order of the Board



Liz Lloyd
Group Company Secretary

27 February 2018

Standard Chartered PLC

Registered No. 966425

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU;
- Assess the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Andy Halford
Group Chief Financial Officer

27 February 2018

Seeing
is Believing
EYE
CLINIC

SEEING IS BELIEVING

Helping tackle avoidable blindness

Eleven-year-old Safira lives in Indonesia with her parents and family, and dreams of becoming a doctor. This dream was threatened, however, when cataracts started to affect her ability to participate in school. Access to treatment funded by Seeing is Believing (SiB) – our global initiative to tackle avoidable blindness and visual impairment – has restored Safira's eyesight, and she now takes part in her lessons, and is able to ride her bike and play with her friends. Safira is one of thousands of children who have benefited from SiB's focus on child eye health in 2017.

> "An estimated 19 million children worldwide are visually impaired, with 12 million simply requiring a pair of spectacles to correct their sight."

An estimated 19 million children worldwide are visually impaired, and of these, 12 million are simply suffering from refractive error and require a pair of spectacles to correct their sight. Seeing is Believing has committed 25 per cent of its $100 million fundraising target to treat childhood blindness and visual impairment.

In 2017, SiB supported child eye health projects in Africa, China and Indonesia, and a project to reduce blindness caused by retinopathy of prematurity in India, in conjunction with the Queen Elizabeth Diamond Jubilee Trust. Donations collected from our 2017 One Hour campaign, where employees donated the equivalent of one hour of their salary to SiB programmes, was earmarked for child eye health projects and raised $347,000.

Risk review and Capital review

118 Risk index
120 Risk update
122 Risk profile
160 Risk management approach
183 Capital review

Risk review and Capital review

Risk index		Annual Report and Accounts	Pillar 3 Report
Risk Update		120	
Risk profile	Our risk profile in 2017	122	
	Credit risk	123	23-75
	Maximum exposure to credit risk	123	
	Credit quality analysis	125	
	→ Credit quality by client segment	126	
	→ Forborne loans	128	
	→ Credit quality by geographic region	130	
	→ Credit quality analysis by industry	131	
	Problem credit management and provisioning	133	
	→ Impairments	133	
	→ Non-performing loans by client segment	133	
	→ Non-performing loans by geographic region	135	
	→ Individual and portfolio impairment provision	136	
	→ Individually impaired loans by client segment	137	
	Credit risk mitigation	138	57-59
	→ Collateral	138	
	→ Other credit risk mitigation	141	
	Other portfolio analysis	142	
	→ Maturity analysis by client segment	142	
	→ Industry and retail products analysis by geographic region	142	
	Selected portfolios	144	
	→ Debt securities and other eligible bills	144	
	→ Asset backed securities	145	72-75
	Country risk	146	
	Market risk	147	76-81
	Market risk changes	147	
	Mapping of market risk items to the balance sheet	149	
	Capital & Liquidity risk	150	
	Liquidity & Funding risk	150	
	Earnings sensitivity	157	
	Operational risk	158	
	Operational risk profile	158	
	Operational risk events and losses	158	
	Top risks and emerging risks	159	
Risk management approach	Enterprise Risk Management Framework	160	
	Principal Risks	165	
	Principal Uncertainties	179	
Capital	Capital summary	183	11
	→ Capital ratio	184	13
	→ CRD IV Capital base	185	12
	→ Movement in total capital	186	
	Risk weighted assets	187	13
	UK Leverage ratio	189	20

The following parts of the Risk review and Capital review form part of the financial statements and are audited:

→ From the start of the Risk profile section (page 122) to the end of 'Top risks and emerging risks' in the same section (page 159), excluding:

Risk section	Page
Asset backed securities	145
Country risk	146
Market risk changes – risks not in VaR	148
Market risk changes – backtesting	148
Mapping of market risk items to the balance sheet	149
Liquidity coverage ratio (LCR)	151
Stressed coverage	151
Net stable funding ratio (NSFR)	152
Liquidity pool	152
Encumbrance	153
Earnings sensitivity	157
Operational risk	158

→ From the start of Principal risks (page 165) to the end of 'Capital and liquidity risk' (page 172), excluding Country risk (page 168)

→ From the start of Capital Requirements Directive (CRD) IV Capital base (page 185) to the end of 'Movement in total capital' (page 186), excluding UK leverage ratios and risk-weighted assets (RWA)

Risk update

All risk types, both financial and non-financial are managed and reported in accordance with the Group's risk management framework. 2017 saw good progress towards improving the resilience of the Group's portfolios as shown here by the key highlights from the past year

Key highlights 2017

- Increased granularity and scope of risk appetite metrics
- Improved credit quality of the Group's loan book, with continued focus on good quality origination
- Total loan impairment is down by $1.4 billion in the year, a considerable decrease from the elevated levels seen in 2015 and 2016
- The loan book is increasingly diversified and predominantly short tenor
- Our capital and liquidity metrics remain strong

An update on our portfolio quality

Today the Group has a more clearly defined risk appetite, a strong liquidity position and remains well capitalised. The Group has taken steps to improve its risk management approach in part by implementing more granular risk appetite limits and by embedding ownership of risk in the front line. The Group has targeted growth in certain sectors and geographies, continues to have a focus on good quality origination, and has actively reduced exposure to selected sectors and clients.

The credit quality of the corporate portfolio has improved in 2017, evidenced by an increase in the percentage of exposure to investment grade clients within the total corporate book to 57 per cent (2016: 56 per cent). We have continued to manage down our liquidation portfolio assertively from $3.9 billion in 2016 to $2.2 billion at the end of 2017, which corresponds to a reduction in RWA of $3.0 billion. Additionally, exposures on early alert reduced to $8.7 billion (2016: $12.9 billion) driven in the main by exposures being regularised. We remain vigilant against potential idiosyncratic and systemic threats, and continue to perform regular reviews and stress tests of our portfolio to help mitigate any risks that might arise.

The Group remains well diversified across industry sectors, products and geographies. Loans to financing, insurance and non-bank financial counterparties remain the largest sector concentration within the Corporate & Institutional Banking and Commercial Banking portfolios, at 27 per cent of our loans and advances to customers, mostly to investment-grade institutions. All other industry concentrations are at or below 13 per cent. Net exposure to our top 20 corporate clients as a percentage of Tier 1 capital has reduced to 50 per cent in 2017, down from 55 per cent at the end of 2016.

Our Corporate & Institutional Banking and Commercial Banking loan portfolios remain predominantly short tenor with 70 per cent of loans and advances to customers having less than one year until maturity (2016: 70 per cent). We are also collateralised for over half of the long-term sub-investment grade exposure that we carry. The Group holds a diverse mix of collateral with conservative valuations.

Retail and Private Banking represents 41 per cent of total customer loans and advances, a similar proportion to the end of 2016. Given the focus on mortgage and wealth management products, 84 per cent of the book is fully secured, and the overall loan-to-value of the mortgage portfolio decreased to 47 per cent. The Retail Banking segment continues to have little exposure outside its core markets.

The Group has maintained a strong liquidity position in 2017, although the advances-to-deposits ratio increased slightly to 69 per cent (2016: 68 per cent). We continue to focus on attracting a diverse funding base that spans different tenors and customer types, and overall the Group remains a net provider of funding to the interbank markets.

Global financial markets experienced low volatility and average Group VaR was 19 per cent lower than the previous year at $26 million (2016: $32 million), with trading activities remaining client driven. The largest operational risk loss recognised as at 31 December 2017 relates to the Group's $17.2 million settlement of a US class action brought against a number of banks concerning foreign exchange benchmark rates.

Key Indicators

	31.12.17	31.12.16	31.12.15
Group total business			
Gross NPLs ($ billion)	**8.7**	9.7	12.8
Group ongoing business			
Credit grade 12 ($ billion)	**1.5**	1.5	0.9
Gross NPLs ($ billion)	**6.5**	5.9	5.2
Cover ratio	**63%**	69%	62%
Cover ratio (including collateral)	**79%**	74%	71%
Corporate & Institutional Banking and Commercial Banking			
Investment grade corporate exposures as a percentage of total corporate exposures	**57%**	56%	46%
Loans and advances maturing in one year or less as a percentage of total loans and advances to customers	**70%**	70%	67%
Early alert portfolio ($ billion)	**8.7**	12.9	12.3
Aggregate Top 20 corporate exposures as a percentage of Tier 1 capital	**50%**	55%	61%
Collateralisation of sub-investment grade exposures maturing in more than 1 year	**55%**	55%	59%
Retail Banking			
Loan-to-value ratio of retail mortgages	**47%**	49%	49%

An update on non-performing loans (NPLs)

Overall gross NPLs for the Group reduced in 2017 as increases in the ongoing business were more than offset by planned reductions in the liquidation portfolio.

Gross NPLs for the ongoing business increased from $5.9 billion to $6.5 billion in 2017, driven by a small number of Corporate & Institutional Banking exposures in Oil & Gas Support services and India. Whilst NPL inflows in Corporate & Institutional Banking have increased, these were mainly accounts that had been closely monitored over a period of time and do not signal any new areas of stress. In Commercial Banking, ongoing business gross NPLs have decreased from $2.2 billion to $1.9 billion in 2017, driven by a lower level of NPL inflows, as well as repayments and write-offs.

The Retail Banking portfolio has continued to benefit from the risk decision framework that was implemented in 2015, particularly in Korea, India and China, as a result of risk actions taken in the unsecured portfolio. Gross NPLs for the overall Retail Banking portfolio decreased 11 per cent from $548 million in 2016 to $489 million in 2017.

The cover ratio of NPLs in the ongoing business reduced from 69 per cent to 63 per cent, but including collateral increased to 79 per cent from 74 per cent. The cover ratio before collateral for the Corporate & Institutional Banking ongoing business decreased to 56 per cent (2016: 62 per cent) and after collateral increased to 74 per cent (2016: 65 per cent), due to the high collateral held against the clients which were downgraded in 2017. The cover ratio before collateral for the Commercial Banking ongoing business is marginally lower at 74 per cent (2016: 75 per cent). After collateral the ratio remained broadly flat at 83 per cent as compared to 2016.

An update on loan impairment

At a Group level, total loan impairment including the liquidation and restructuring portfolio was $1.4 billion representing 50 basis points of average customer loans and advances. This was significantly lower than observed in 2016 ($2.8 billion) and 2015 ($5.0 billion). Loan impairment for the ongoing business reduced by 50 per cent to $1.2 billion (2016: $2.4 billion), with improvement across all business segments. Part of the improvement relates to the release of $190 million of judgmental portfolio impairment provisions overlay due to improvement in portfolio quality.

Loan impairment for the Corporate & Institutional Banking ongoing business was down 53 per cent from 2016 at $657 million (2016: $1.4 billion), benefiting from the deployment of management actions to improve the risk profile of the portfolio. In particular, loan impairments significantly reduced in sectors that had been historically under stress such as the commodities-related sectors and the Diamond & Jewellery sector.

Commercial Banking ongoing business loan impairment decreased by 66 per cent to $168 million (2016: $491 million), resulting from our strategic actions to enhance credit risk management and client selection. This has been observed across all regions, however we continue to remain vigilant for any emerging risks.

Retail Banking loan impairment was 24 per cent lower in the year (2017: $374 million, 2016: $489 million) driven by improved portfolio performance and the implementation of the risk decision framework, although in the fourth quarter of 2017 we took a one off provision of $40 million due to a change in Personal Debt Rehabilitation Scheme regulation in Korea. The risk decision framework continued to target higher quality growth and lower volatility in the unsecured asset portfolio, with improvements observed particularly in Korea, Hong Kong, Singapore, and Malaysia.

Loan impairment in the restructuring portfolio was $162 million, of which the liquidation portfolio accounted for $120 million (2016: $409 million), driven by the resolution of some cases and other reassessments of realisable value. Of the non-liquidation portfolio impairment, $30 million related to the non-strategic Principal Finance business in Corporate & Institutional Banking.

Loan Impairment

	31.12.17 $million	31.12.16 $million	31.12.15 $million
Corporate & Institutional Banking	**657**	1,401	723
Commercial Banking	**168**	491	980
Private Banking	**1**	1	–
Retail Banking	**374**	489	677
Central & other items	**–**	–	–
Total Ongoing Business	**1,200**	2,382	2,381
Restructuring charge (including liquidation portfolio)	**162**	409	2,595

Risk profile

Our risk profile in 2017

Through our well-established risk governance structure and risk management framework, we closely manage our risks with the objective of maximising risk-adjusted returns while remaining in compliance with the Risk Appetite Statement. We manage uncertainties through a framework that provides a forward-looking 12 to 18 month view of the economic, business and credit conditions across the Group's key markets, enabling us to proactively manage our portfolio.

We continue to take action to reposition the Group's corporate portfolio, exiting weaker credit or lower-returning clients and adding new clients selectively. The Group's portfolio is well diversified across dimensions such as industries, geographies and products.

The table below highlights the Group's overall risk profile associated with our business strategy.

Our risk profile in 2017

Revised Enterprise Risk Management Framework and experienced senior team

- In 2017 we reviewed and significantly enhanced our Enterprise Risk Management Framework, in particular around risk culture, the control framework, strategic risk management and Principal Risk Types
- We also embarked on a key initiative to build out the Enterprise Risk Management function, allowing the Group to identify and manage risks holistically, with appropriate governance, oversight and information in place to run a safe, secure and well-controlled organisation
- We have a clear Risk Appetite Statement which is aligned to the Group's strategy; it is approved by the Board and informs the more granular risk parameters within which our businesses operate, with a particular focus on reducing concentrations
- We have an experienced senior risk team and our risk committees are staffed by the Group's most senior leaders
- We continuously monitor our risk profile to ensure it remains within our risk appetite, conduct regular stress tests, and adjust our exposures, underwriting standards and limits

Further details on the Enterprise Risk Management Framework can be found in the Risk Management Approach (page 160)

Increasingly diversified short tenor portfolio with reducing concentrations

- Our balance sheet remains resilient and well diversified across a wide range of geographies, industries and products which serves to mitigate risk
- Within the Corporate & Institutional and Commercial Banking portfolios:
  - Loans and advances to the financing, insurance and non-banking industry are 27 per cent of the total customer portfolio, and are mostly to investment grade institutions. All other industry concentrations are at or below 13 per cent of the total customer portfolio
  - The loan portfolio remains predominantly short-dated, with 70 per cent of loans and advances to customers maturing in under one year
  - Our top 20 corporate exposures have reduced to 50 per cent of Tier 1 capital in 2017 (2016: 55 per cent)
  - Exposure to investment grade clients has increased to 57 per cent of the total corporate book in 2017 (2016: 56 per cent).
- We hold a diverse mix of collateral and 55 per cent of long-term sub-investment grade exposures within the corporate portfolio are collateralised
- More than 40 per cent of customer loans and advances are in Retail Products. 68 per cent of the Retail Products are mortgages where the overall loan-to-value ratio is less than 47 per cent
- Within the Retail Banking portfolio, we maintain minimal exposure outside of our core markets.

Strong capital and liquidity position

- We remain well capitalised and our balance sheet remains highly liquid
- We have a strong advances-to-deposits ratio, and remain a net provider of liquidity to interbank markets
- Our customer deposit base is diversified by type and maturity
- We have a substantial portfolio of liquid assets which can be realised if a liquidity stress occurs

Basis of preparation

Unless otherwise stated the balance sheet and income statement information presented within this section is based on the Group's management view. This is principally the location from which a client relationship is managed, which may differ from where it is financially booked and may be shared between businesses and/or regions. This view reflects how the client segments and regions are managed internally.

Credit risk

This section details the Group's credit risk exposure, split as follows:

- Overall exposure to credit risk, for on-balance sheet and off-balance sheet financial instruments, before and after taking into account credit risk mitigation (page 124)
- Credit quality, which provides an analysis of the loan portfolio by client segment categorised by Strong, Satisfactory and Higher risk, forborne loans, and credit quality by region, and credit quality by industry (pages 125 to 132)
- Problem credit management and provisioning, which provides an analysis of non-performing loans and impaired loans (pages 133 to 137)
- Credit risk mitigation, which provides analysis of collateral held by client segment and collateral type, and details of loan-to-value ratios and other forms of credit risk mitigation (pages 138 to 141)
- Other portfolio analysis, which provides maturity analysis by client segment, and industry and retail products analysis by region (pages 142 to 143)
- Selected portfolios, which provide further detail on debt securities and treasury bills and asset backed securities (pages 144 to 145)

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group in accordance with agreed terms. Credit exposures arise from both the banking and trading books.

A summary of our current policies and practices regarding credit risk management is provided in the risk management approach (page 165).

Maximum exposure to credit risk

The table below presents the Group's maximum exposure to credit risk for its on-balance sheet and off-balance sheet financial instruments as at 31 December 2017, before and after taking into account any collateral held or other credit risk mitigation.

For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk generally represents the contractual notional amounts.

The Group's maximum exposure to credit risk is spread across its markets and is affected by the general economic conditions in the regions in which it operates. The Group sets limits on the exposure to any counterparty, and credit risk is spread over a variety of different personal, commercial and institutional customers.

The Group's gross maximum exposure to credit risk has increased by $29 billion when compared to 2016, driven by the increase in both on-balance sheet and off-balance sheet exposure. Cash and balances at central banks have decreased by $11.8 billion reflecting lower fluctuating liquidity. Loans and advances to customers and banks have increased by $36.3 billion, mainly driven by customer loan growth and expansion of the reverse repo business in response to client demand and improving the quality of our funding base. Off-balance sheet exposures, mainly arising from trade finance, increased by $13.2 billion, reflecting the business growth.

Investment securities increased by $14.6 billion due to increased holdings benefitting from the higher government yields in the UK and the treasury and liquidity management activities. The Group's credit risk exposure before risk mitigation arising from derivatives decreased by $18.5 billion.

Maximum exposure to credit risk

	2017				2016			
		Credit risk management				Credit risk management		
	Maximum exposure $million	**Collateral $million**	**Master netting agreements $million**	**Net exposure $million**	Maximum exposure $million	Collateral $million	Master netting agreements $million	Net exposure $million
On balance sheet								
Cash and balances at central banks	**58,864**	**–**	**–**	**58,864**	70,706	–	–	70,706
Loans and advances to customers held at:[1]								
Fair value through profit or loss	**3,265**				3,177			
Amortised cost	**282,288**				252,719			
	285,553				255,896			
Loans and advances to banks held at:[1]								
Fair value through profit or loss	**3,137**				2,060			
Amortised cost	**78,188**				72,609			
	81,325				74,669			
Total loans and advances to banks and customers[2]	**366,878**	**168,247**	**–**	**198,631**	330,565	151,310	–	179,255
Investment securities[3]								
As per balance sheet	**117,025**	**–**	**–**	**117,025**	108,972	–	–	108,972
Held at fair value through profit or loss	**21,162**	**–**	**–**	**21,162**	14,840	–	–	14,840
Less: equity securities	**(2,345)**	**–**	**–**	**(2,345)**	(2,564)	–	–	(2,564)
	135,842	**–**	**–**	**135,842**	121,248	–	–	121,248
Derivative financial instruments[4]	**47,031**	**9,825**	**29,135**	**8,071**	65,509	9,624	40,391	15,494
Accrued income	**1,947**			**1,947**	1,639			1,639
Assets held for sale	**2**			**2**	1,102			1,102
Other assets[5]	**29,922**			**29,922**	33,942			33,942
Total balance sheet	**640,486**	**178,072**	**29,135**	**433,279**	624,711	160,934	40,391	423,386
Off-balance sheet								
Contingent liabilities	**43,521**	**–**	**–**	**43,521**	38,302[7]	–	–	38,302
Undrawn irrevocable standby facilities, credit lines and other commitments to lend[6]	**63,890**	**–**	**–**	**63,890**	55,655	–	–	55,655
Documentary credits and short-term trade-related transactions	**3,880**	**–**	**–**	**3,880**	4,120	–	–	4,120
Forward asset purchases and forward deposits	**–**	**–**	**–**	**–**	6	–	–	6
Total off- balance sheet	**111,291**	**–**	**–**	**111,291**	98,083	–	–	98,083
Total	**751,777**	**178,072**	**29,135**	**544,570**	722,794	160,934	40,391	521,469

1 An analysis of credit quality is set out in the credit quality analysis section (page 125). Further details of collateral held by client segment and held for past due and individually impaired loans are set out in the collateral analysis section (page 138)

2 Loans and advances include reverse repurchase agreements and other similar secured lending of $55,187 million for 2017 and $44,916 million for 2016

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

4 The Group enters into master netting agreements, which in the event of default result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions.

5 Other assets include Hong Kong certificates of indebtedness, cash collateral, and acceptances, in addition to unsettled trades and other financial assets

6 Excludes unconditionally cancellable facilities

7 Total contingent liabilities of the Group in 2016 were $37.4 billion and have been restated to $38.3 billion

Credit quality analysis

An overall breakdown of the loan portfolio by client segment is provided in the client segment analysis section (pages 126 to 127) differentiating between the performing and non-performing book.

Within the performing book, there is an analysis:

- By credit quality, which plays a central role in the quality assessment and monitoring of risk
- Of loans and advances past due but not impaired: a loan is considered past due if payment of principal or interest has not been made on its contractual due date
- Of loans and advances where an impairment provision has been raised: these represent certain forborne Retail accounts that have complied with their revised contractual terms for more than 180 days and on which no further loss of principal is expected

Credit grade migration

Performing loans constitute 99 per cent of customer loans, which is consistent with the prior period.

A breakdown of the performing loans by credit quality is provided in the credit quality analysis section (page 126).

Risk measurement plays a central role in risk-quantification and portfolio management decisions. The Group uses the advanced internal ratings-based (IRB) approach under the Basel regulatory framework to calculate credit risk capital for the majority of its portfolios.

A standard credit risk grade (CG) scale is used for Corporate & Institutional Banking and Commercial Banking. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower numbered credit grades are indicative of a lower likelihood of default. CG 1 to 12 are assigned to performing clients, while CG 13 and 14 are assigned to non-performing or defaulted clients. Further details can be found in the Risk Management Approach (page 166).

The Group uses an internal risk mapping to determine the credit quality for loans, as shown in the table below.

Year-on-year, the overall portfolio credit quality of the Group has improved as a result of active portfolio management and steps taken to improve the quality of origination over the last two years. The new originations are in line with our granular risk appetite and diversified across industries, geographies and products. The proportion of Group loans and advances classified as strong has increased from 67 per cent to 70 per cent in 2017, with an increase in strong credit quality exposures observed across all business segments.

In Corporate & Institutional Banking, the strong credit quality category has increased by $12 billion due to increased lending to corporate clients across multiple industries. The largest increases were from financing, insurance & non-banking ($3.0 billion), commercial real estate ($1.8 billion), manufacturing ($1.8 billion) and transportation ($1.7 billion). The satisfactory credit quality category has decreased by $2.6 billion due to actions taken to reduce single name concentration and commodities exposure.

For the rest of the portfolio, the credit quality composition across most sectors and countries is broadly consistent with the prior year, although there has been some deterioration in India and Africa.

In Commercial Banking, the strong credit quality category has increased by $1.2 billion and satisfactory credit quality category has increased by $2.9 billion. This growth was well diversified across multiple countries and industries with an average of $0.1 billion increase per country or per industry.

Retail Banking credit quality remained stable over the past year with overall performing loans growing by 10 per cent ($9.5 billion), predominantly in the strong credit quality category. The implementation of the Risk Decision Framework has continued to show improvements through 2016 and 2017, shaping the portfolio towards preferred segments such as priority and employee banking, and better credit quality customers with optimum risk-return profiles.

The credit quality composition for loans to banks is also consistent with prior periods, with the majority of the growth in this period observed in the strong and satisfactory category.

Performing loans and advances that are past due but not impaired decreased by $0.7 billion in 2017. The past due balances arise substantially in the 'up to 30 days past due' category. In the Corporate & Institutional Banking and Commercial Banking segments, across all past due categories, approximately 70 per cent (2016: 73 per cent) of the amounts past due were regularised by 31 January 2018.

Mapping of credit quality

The Group uses the following internal risk mapping to determine the credit quality for loans.

	Corporate & Institutional Banking and Commercial Banking			Private Banking	Retail Banking
Credit quality description	Default Grade mapping	S&P external ratings equivalent	PD range	Internal ratings	Number of days past due
Strong	Grades 1-5	AAA/AA+ to BB+/BBB-	0.000-0.425	Class I and Class IV	Current loans (no past dues nor impaired)
Satisfactory	Grades 6-8	BB+ to BB-/B+	0.426-2.350	Class II and Class III	Loans past due till 29 days
	Grades 9-11	B+/B to B-/CCC	2.351-15.750		
Higher Risk	Grade 12	B-/CCC	15.751-50.000	GSAM managed	Past due loans 30 days and over till 90 days

Non-performing loans (NPLs)

An NPL is any loan that is more than 90 days past due or is otherwise individually impaired. This excludes Retail Banking loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.

NPLs are analysed, net of individual impairment provisions, between what is past due but not impaired and what is impaired.

NPLs (net of individual impairment provisions) have reduced to $3.5 billion compared to 2016 ($3.9 billion). This is driven primarily by the liquidation portfolio in the Corporate & Institutional Banking segment.

NPLs (net of individual impairment provisions) for the ongoing business have increased to $2.8 billion from $2.5 billion due to the deterioration of a small number of exposures booked in the UAE and UK in the Corporate & Institutional Banking book.

Liquidation portfolio NPLs (net of individual impairment provisions) have decreased from $1,386 million to $653 million in 2017 primarily due to sales and writedowns.

Total Corporate & Institutional Banking NPLs (net of individual impairment provisions) remained stable at $2.5 billion (2016: $2.5 billion).

Retail Banking NPL (net of individual impairment provisions) decreased by 19 per cent compared to 2016 (2017: $274 million; 2016: $339 million) particularly in Korea, India and China.

By client segment

	2017						
		Loans to customers					
	Loans to banks[1] $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total[1] $million
Performing loans							
– Strong	68,958	75,672	100,687	6,072	9,220	9,253	200,904
– Satisfactory	12,309	52,610	1,586	21,216	3,951	90	79,453
– Higher risk	54	1,128	405	323	42	–	1,898
	81,321	129,410	102,678	27,611	13,213	9,343	282,255
Impaired forborne loans, net of provisions	–	–	269	–	–	–	269
Non-performing loans, net of provisions	5	2,484	274	596	140	–	3,494
Total loans	81,326	131,894	103,221	28,207	13,353	9,343	286,018
Portfolio impairment provision	(1)	(156)	(208)	(99)	(2)	–	(465)
Total net loans	81,325	131,738	103,013	28,108	13,351	9,343	285,553

The following table further analyses total loans included within the table above:

Included in performing loans							
Neither past due nor impaired							
– Strong	68,740	75,482	100,687	6,058	9,220	9,251	200,698
– Satisfactory	12,255	51,846	–	20,831	3,866	90	76,633
– Higher risk	54	899	–	239	42	–	1,180
	81,049	128,227	100,687	27,128	13,128	9,341	278,511
Past due but not impaired							
– Up to 30 days past due	247	951	1,586	360	69	–	2,966
– 31 – 60 days past due	25	32	278	49	16	–	375
– 61 – 90 days past due	–	200	127	74	–	2	403
	272	1,183	1,991	483	85	2	3,744
Total performing loans	81,321	129,410	102,678	27,611	13,213	9,343	282,255
of which, forborne loans amounting to	2	480	84	31	–	–	595
Included in non-performing loans							
Past due but not impaired							
– 91 – 120 days past due	–	–	67	–	–	–	67
–121 – 150 days past due	–	–	56	–	–	–	56
	–	–	123	–	–	–	123
Individually impaired loans, net of provisions	5	2,484	151	596	140	–	3,371
Total non-performing loans	5	2,484	274	596	140	–	3,494
of the above, forborne loans	4	861	268	186	–	–	1,315

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

	2017						
		Loans to customers					
	Loans to banks[1] $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total[1] $million
Neither past due nor impaired							
– Strong	2,081	1,451	–	30	–	–	1,481
– Satisfactory	1,056	1,572	–	186	–	–	1,758
– Higher risk	–	7	–	–	–	–	7
	3,137	3,030	–	216	–	–	3,246
Individually impaired loans	–	19	–	–	–	–	19
Total loans held at fair value through profit and loss	3,137	3,049	–	216	–	–	3,265

1 Loans and advances include reverse repurchase agreements and other similar secured lending of $55,187 million

	2016						
		Loans to customers					
	Loans to banks[1] $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total[1] $million
Performing loans							
– Strong	66,954	63,547	91,186	4,851	7,816	4,023	171,423
– Satisfactory	7,682	55,207	1,560	18,296	3,767	233	79,063
– Higher risk	34	1,223	410	264	38	–	1,935
	74,670	119,977	93,156	23,411	11,621	4,256	252,421
Impaired forborne loans, net of provisions	–	–	251	–	–	–	251
Non-performing loans, net of provisions	–	2,515	339	768	289	–	3,911
Total loans	74,670	122,492	93,746	24,179	11,910	4,256	256,583
Portfolio impairment provision	(1)	(261)	(258)	(166)	(2)	–	(687)
Total net loans	74,669	122,231	93,488	24,013	11,908	4,256	255,896

The following table further analyses total loans included within the table above:

Included in performing loans							
Neither past due nor impaired							
– Strong	66,600	63,416	91,186	4,812	7,816	4,023	171,253
– Satisfactory	7,580	53,791	–	17,728	3,690	233	75,442
– Higher risk	34	1,121	–	188	18	–	1,327
	74,214	118,328	91,186	22,728	11,524	4,256	248,022
Past due but not impaired							
– Up to 30 days past due	456	1,402	1,560	539	91	–	3,592
– 31 – 60 days past due	–	100	282	111	–	–	493
– 61 – 90 days past due	–	147	128	33	6	–	314
	456	1,649	1,970	683	97	–	4,399
Total performing loans	74,670	119,977	93,156	23,411	11,621	4,256	252,421
of which, forborne loans amounting to[2]	1	760	224	104	–	–	1,088
Included in non-performing loans							
Past due but not impaired							
– 91 – 120 days past due	–	–	72	5	–	–	77
–121 – 150 days past due	–	–	60	12	–	–	72
	–	–	132	17	–	–	149
Individually impaired loans, net of provisions	–	2,515	207	751	289	–	3,762
Total non-performing loans	–	2,515	339	768	289	–	3,911
of the above, forborne loans[2]	–	858	135	182	–	–	1,175

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

	2016						
		Loans to customers					
	Loans to banks[1] $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total[1] $million
Neither past due nor impaired							
– Strong	1,659	1,769	–	–	–	–	1,769
– Satisfactory	401	1,346	–	47	–	–	1,393
– Higher risk	–	–	–	–	–	–	–
	2,060	3,115	–	47	–	–	3,162
Individually impaired loans	–	15	–	–	–	–	15
Total loans held at fair value through profit and loss	2,060	3,130	–	47	–	–	3,177

1 Loans and advances include reverse repurchase agreements and other similar secured lending of $44,916 million

2 The 2016 comparatives have been represented to reflect the forbearance policy change

Forborne loans

A forborne loan arises when a concession has been made to the contractual terms of a loan in response to a customer's financial difficulties. The table below presents performing and non-performing loans with forbearance measures by segment. In 2017, the Group changed its policy to allow for curing of forborne loans, which has been applied retrospectively. Refer to note 8 of the financial statements on impairment losses on loans and advances and other credit risk provisions.

The performing forborne loans have decreased by $474 million to $866 million in 2017 (2016: $1,340 million). The Corporate & Institutional Banking segment decreased by $280 million to $480 million in 2017 (2016: $760 million) primarily due to repayments from clients in the Africa & Middle East region. The Retail Banking segment decreased by $122 million to $353 million in 2017 (2016: $475 million).

The net non-performing forborne loans have increased by $144 million to $1,319 million in 2017 (2016: $1,175 million); this increase was in the Retail Banking segment on account of a change in accounting policy on forborne loans.

Forborne loans

	2017						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All loans with forbearance measures	6	2,143	797	647	–	–	3,593
Accumulated impairment	–	(802)	(176)	(430)	–	–	(1,408)
Net balance	6	1,341	621	217	–	–	2,185

Included within the above table

Performing loans with forbearance measures:

	2017						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All performing forborne loans	2	480	353	31	–	–	866
of which: modification of terms and conditions[1]	2	480	353	28	–	–	863
Refinancing[2]	–	–	–	3	–	–	3
Collateral held on performing forborne loans	–	4	2	–	–	–	6

Non-performing loans with forbearance measures:

	2017						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All non-performing forborne loans	4	1,663	384	616	–	–	2,667
of which: modification of terms and conditions[1]	4	1,314	384	559	–	–	2,261
Refinancing[2]	–	349	–	57	–	–	406
Accumulated impairment	–	(802)	(116)	(430)	–	–	(1,348)
of which: modification of terms and conditions[1]	–	(554)	(116)	(400)	–	–	(1,070)
Refinancing[2]	–	(248)	–	(30)	–	–	(278)
Net non-performing forborne loans	4	861	268	186	–	–	1,319
Collateral held on non-performing forborne loans	–	52	20	34	–	–	106

1 Modification of terms is any contractual change apart from refinancing, as a result of credit stress of the counterparty, i.e. interest reductions, loan covenant waivers

2 Refinancing is a new contract to a lender in credit stress, such that they are refinanced and can pay other debt contracts that they were unable to honour

Forborne loans

	2016						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All loans with forbearance measures	1	2,528	725	598	–	–	3,852
Accumulated impairment	–	(910)	(115)	(312)	–	–	(1,337)
Net balance	1	1,618	610	286	–	–	2,515

Included within the above table

Performing loans with forbearance measures:

	2016						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All performing forborne loans	1	760	475	104	–	–	1,340
of which: modification of terms and conditions[1]	1	760	475	65	–	–	1,301
Refinancing[2]	–	–	–	39	–	–	39
Collateral held on performing forborne loans	–	54	–	36	–	–	90

Non-performing loans with forbearance measures:

	2016						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All non-performing forborne loans	–	1,768	195	494	–	–	2,457
of which: modification of terms and conditions[1]	–	1,609	195	398	–	–	2,202
Refinancing[2]	–	159	–	96	–	–	255
Accumulated impairment	–	(910)	(60)	(312)	–	–	(1,282)
of which: modification of terms and conditions[1]	–	(813)	(60)	(264)	–	–	(1,137)
Refinancing[2]	–	(97)	–	(48)	–	–	(145)
Net non-performing forborne loans	–	858	135	182	–	–	1,175
Collateral held on non-performing forborne loans	–	215	–	42	–	–	257

1 Modification of terms is any contractual change apart from refinancing, as a result of credit stress of the counterparty, i.e. interest reductions, loan covenant waivers

2 Refinancing is a new contract to a lender in credit stress, such that they are refinanced and can pay other debt contracts that they were unable to honour

The table below shows an analysis of forborne loans by region. Refer to note 8 of the financial statements for the accounting policy on forborne loans.

	2017				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Not impaired	**56**	**40**	**395**	**106**	**597**
Impaired	**353**	**778**	**202**	**255**	**1,588**
Total forborne loans	**409**	**818**	**597**	**361**	**2,185**

	2016				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Not impaired	159	237	584	109	1,089
Impaired	327	718	243	138	1,426
Total forborne loans[1]	486	955	827	247	2,515

1 The 2016 comparatives have been represented to reflect the forbearance policy change

Credit quality by geographic region

The following tables set out an analysis of the loans to customers and banks, split between those loans that are neither past due nor impaired, those that are past due but not impaired, those that are impaired, the impairment provision and net impairment charge by geographic region.

Loans and advances to customers

	2017								
	Balance sheet[1]						Profit and loss[1]		
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Portfolio impairment provision $million	Total $million	Net individual impairment provision $million	Portfolio impairment provision/ (release) $million	Net loan impairment charge $million
Greater China & North Asia	**125,565**	**809**	**806**	**(312)**	**(129)**	**126,739**	**169**	**(79)**	**90**
ASEAN & South Asia	**79,175**	**1,711**	**4,233**	**(2,361)**	**(179)**	**82,579**	**871**	**(66)**	**805**
Africa & Middle East	**27,774**	**1,153**	**2,654**	**(1,858)**	**(121)**	**29,602**	**308**	**(5)**	**303**
Europe & Americas	**45,997**	**194**	**1,184**	**(706)**	**(36)**	**46,633**	**233**	**(90)**	**143**
	278,511	**3,867**	**8,877**	**(5,237)**	**(465)**	**285,553**	**1,581**	**(240)**	**1,341**

	2016								
	Balance sheet[1]						Profit and loss[1]		
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Portfolio impairment provision $million	Total $million	Net individual impairment provision $million	Portfolio impairment provision/ (release) $million	Net loan impairment charge $million
Greater China & North Asia	109,250	901	1,115	(535)	(198)	110,533	484	(53)	431
ASEAN & South Asia	69,652	1,648	4,665	(2,568)	(236)	73,161	984	6	990
Africa & Middle East	25,846	1,720	2,682	(1,981)	(127)	28,140	594	7	601
Europe & Americas	43,274	279	1,218	(583)	(126)	44,062	491	92	583
	248,022	4,548	9,680	(5,667)	(687)	255,896	2,553	52	2,605

1 Excludes impairment charges relating to debt securities classified as loans and receivables, refer to note 8 of the financial statements for details (page 218)

Loans and advances to banks

	2017								
	Balance sheet[1]						Profit and loss[1]		
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Portfolio impairment provision $million	Total $million	Net individual impairment provision $million	Portfolio impairment provision/ (release) $million	Net loan impairment charge $million
Greater China & North Asia	**33,096**	**130**	**–**	**–**	**–**	**33,226**	**–**	**–**	**–**
ASEAN & South Asia	**16,482**	**41**	**–**	**–**	**–**	**16,523**	**–**	**–**	**–**
Africa & Middle East	**7,328**	**101**	**–**	**–**	**(1)**	**7,428**	**–**	**–**	**–**
Europe & Americas	**24,143**	**–**	**9**	**(4)**	**–**	**24,148**	**–**	**–**	**–**
	81,049	**272**	**9**	**(4)**	**(1)**	**81,325**	**–**	**–**	**–**

	2016								
	Balance sheet[1]						Profit and loss[1]		
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Portfolio impairment provision $million	Total $million	Net individual impairment provision $million	Portfolio impairment provision/ (release) $million	Net loan impairment charge $million
Greater China & North Asia	31,930	309	–	–	–	32,239	–	–	–
ASEAN & South Asia	14,722	17	163	(163)	(1)	14,738	–	–	–
Africa & Middle East	7,492	61	–	–	–	7,553	–	–	–
Europe & Americas	20,070	69	–	–	–	20,139	–	–	–
	74,214	456	163	(163)	(1)	74,669	–	–	–

1 Excludes impairment charges relating to debt securities classified as loans and receivables, refer to note 8 of the financial statements for details (page 218)

Credit quality analysis by industry

	2017								
						Movements in impairment			
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Total $million	Individual impairment provision held as at 1 Jan 2017 $million	Net impairment charge/ (release) $million	Amounts written off/other movements $million	Individual impairment provision held as at 31 Dec 2017 $million
Industry:									
Energy	18,090	116	1,217	(879)	18,544	814	208	(143)	879
Manufacturing	22,085	397	860	(611)	22,731	644	250	(283)	611
Financing, insurance and non-banking	44,439	314	444	(213)	44,984	409	79	(275)	213
Transport, telecom and utilities	15,640	123	777	(376)	16,164	218	230	(72)	376
Food and household products	9,543	179	756	(422)	10,056	561	75	(214)	422
Commercial real estate	14,574	199	400	(34)	15,139	33	9	(8)	34
Mining and quarrying	6,063	64	1,297	(783)	6,641	1,140	26	(383)	783
Consumer durables	8,792	132	725	(583)	9,066	523	124	(64)	583
Construction	3,346	60	781	(484)	3,703	553	59	(128)	484
Trading companies & distributors	2,155	43	458	(331)	2,325	310	46	(25)	331
Government	14,390	25	6	(1)	14,420	–	(1)	2	1
Other	5,579	16	252	(176)	5,671	195	37	(54)	178
Retail Products:									
Mortgage	77,279	1,340	276	(117)	78,778	104	34	(21)	117
CCPL and other unsecured lending	16,700	610	360	(135)	17,535	140	398	(405)	133
Auto	588	45	–	–	633	–	1	(1)	–
Secured Wealth products	13,969	57	198	(70)	14,154	4	28	38	70
Other	5,279	147	70	(22)	5,474	19	19	(16)	22
Loans and advances to customers	278,511	3,867	8,877	(5,237)	286,018				
Individual impairment provision						5,667	1,622	(2,052)	5,237
Portfolio impairment provision					(465)	687	(239)	17	465
Total					285,553	6,354	1,383	(2,035)	5,702
Loans and advances to banks	81,049	272	9	(4)	81,326	–	–	–	–
Individual impairment provision						163	–	(159)	4
Portfolio impairment provision					(1)	1	–	–	1
Total					81,325	164	–	(159)	5

	2016								
						Movements in impairment			
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Total $million	Individual impairment provision held as at 1 Jan 2016 $million	Net impairment charge/ (release) $million	Amounts written off/other movements $million	Individual impairment provision held as at 31 Dec 2016 $million
Industry:									
Energy	18,110	287	1,194	(814)	18,777	1,679	288	(1,153)	814
Manufacturing	18,840	477	1,069	(644)	19,742	563	259	(178)	644
Financing, insurance and non-banking	40,425	314	903	(409)	41,233	423	63	(77)	409
Transport, telecom and utilities	15,032	176	509	(218)	15,499	519	113	(414)	218
Food and household products	9,562	253	798	(561)	10,052	373	215	(27)	561
Commercial real estate	10,920	323	74	(33)	11,284	20	14	(1)	33
Mining and quarrying	7,326	149	1,489	(1,140)	7,824	854	230	56	1,140
Consumer durables	8,854	122	917	(523)	9,370	426	394	(297)	523
Construction	3,348	69	952	(553)	3,816	332	258	(37)	553
Trading companies & distributors	2,098	94	507	(310)	2,389	320	67	(77)	310
Government	6,313	–	2	–	6,315	–	–	–	–
Other	4,484	85	252	(195)	4,626	174	59	(38)	195
Retail Products:									
Mortgage	72,071	1,296	244	(104)	73,507	125	26	(47)	104
CCPL and other unsecured lending	15,262	669	415	(140)	16,206	195	458	(513)	140
Auto	600	38	–	–	638	–	1	(1)	–
Secured wealth products	10,757	46	281	(4)	11,080	4	64	(64)	4
Other	4,020	150	74	(19)	4,225	16	45	(42)	19
Loans and advances to customers	248,022	4,548	9,680	(5,667)	256,583				
Individual impairment provision						6,023	2,554	(2,910)	5,667
Portfolio impairment provision					(687)	657	53	(23)	687
Total					255,896	6,680	2,607	(2,933)	6,354
Loans and advances to banks	74,214	456	163	(163)	74,670	–	–	–	–
Individual impairment provision						163	–	–	163
Portfolio impairment provision					(1)	1	–	–	1
Total					74,669	164	–	–	164

Problem credit management and provisioning

Impairments

At a Group level, total loan impairment including the liquidation portfolio was $1,362 million, representing 50 basis points (bps) of average customer loans and advances, down from $2,791 million (107 bps) in 2016.

Loan impairment in the Group's ongoing business improved from the elevated levels seen in 2015 and 2016. The ongoing business loan impairment of $1,200 million in 2017 is significantly lower than in previous years (2016: $2,382 million, 2015: $2,381 million).

The ongoing business loan impairment in Corporate & Institutional Banking decreased to $657 million in 2017 (2016: $1,401 million). This was due to lower loan impairment in the commodities and diamond and jewellery sectors. Loan impairment in 2017 was primarily driven by a small number of India related exposures, with ASEAN & South Asia contributing to 60 per cent of the total Corporate & Institutional Banking impairment charge.

Commercial Banking ongoing business loan impairment fell by 66 per cent to $168 million in 2017 (2016: $491 million). This was driven by lower losses across all regions, reflecting improvements in credit and account management, but the Group remains vigilant of emerging risks.

By industry, loan impairment related to the commodities sector has decreased significantly. Total commodities (excluding oil and gas related exposures) loan impairment for Corporate & Institutional Banking and Commercial Banking fell to $18 million (2016: $536 million).

In India, ongoing business loan impairment in Corporate & Institutional Banking was down 32 per cent to $193 million (2016: $284 million) mainly due to reductions in the commodities sector. Commercial Banking ongoing business loan impairment in India decreased by 64 per cent to $37 million (2016: $103 million).

Retail Banking loan impairment reduced by 24 per cent to $374 million in 2017, (2016: $489 million), driven by improved portfolio performance and the implementation of the Risk Decision Framework, although in the fourth quarter of 2017 we took a one-off provision of $40 million due to a change in Personal Debt Rehabilitation Scheme regulation in Korea. The framework targets higher quality sustainable growth and lower volatility in the unsecured asset portfolio. Improvements have been observed, particularly in key markets such as Korea, Hong Kong, Singapore and Malaysia.

During the last quarter of 2017, a net impairment charge of $57 million was taken on the liquidation portfolio bringing the yearly total to $120 million (2016: $409 million). This resulted from the resolution of some cases and other reassessments of realisable value. Further restructuring impairment also includes a $30 million impairment relating to the non-strategic Principal Finance business in Corporate & Institutional Banking.

The following table provides details of the impairment charge for the period.

	2017 $million	2016 $million
Ongoing business portfolio loan impairment		
Corporate & Institutional Banking	**657**	1,401
Retail Banking	**374**	489
Commercial Banking	**168**	491
Private Banking	**1**	1
Impairment on loans and advances and other credit risk provisions	**1,200**	2,382
Restructuring		
Liquidation portfolio	**120**	409
Others	**42**	–
Impairment on loans and advances and other credit risk provisions	**162**	409
Total Loan Impairment	**1,362**	2,791

Non-performing loans by client segment

Gross NPLs decreased by $1,008 million, or 10 per cent, compared to 2016, as increases in the ongoing business were more than offset by planned reductions in the liquidation portfolio. NPLs in the Corporate & Institutional Banking liquidation portfolio decreased by $1,388 million in 2017 to $1,945 million (2016: $3,333 million) on account of loan disposals, write-offs and repayments.

Corporate & Institutional Banking ongoing business NPLs increased by $869 million in 2017 primarily due to the deterioration of a few accounts in the oil & gas support services and India. New NPLs were mainly accounts that had been closely monitored over a period of time and include a large exposure that was repaid in full, and some others that are highly collateralised.

For sectors with previously high NPL exposures, specifically commodities and diamond & jewellery, NPL inflows were muted in 2017 relative to 2016.

NPLs in Commercial Banking reduced by $343 million (14 per cent) relative to 2016. This was largely due to write-offs and recoveries in India, Hong Kong and the United Arab Emirates (UAE). Commercial Banking NPL inflows were down 28 per cent in 2017 at $460 million (2016: $642 million).

Gross NPLs in Retail Banking reduced by 11 per cent compared to 2016, benefiting from the risk decision framework implemented in 2015.

The movement of gross NPLs to banks and customers, together with the provisions held and the respective cover ratios for all segments, is presented in the next table (page 134).

Provisions

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and advances.

Provisions are taken in the form of:

- Individually impaired provisions (IIP);
- Portfolio impairment provisions (PIP), which cover the inherent losses in the portfolio that exist at the balance sheet date but have not yet been individually identified.

Individual impairment provisions

Corporate & Institutional and Commercial Banking individual impairment provisions decreased by $493 million and $171 million respectively in 2017. These were primarily driven by a reduction of provision charges in the commodities and diamond and jewellery sectors, as well as writedowns.

Retail Banking individual impairment provision as a percentage of loans and advances remained broadly stable at 0.2 per cent.

Portfolio impairment provisions

Portfolio impairment provision balances for the Group have decreased by $222 million from 2016 due to reductions in Corporate & Institutional Banking of $105 million, Commercial Banking of $67 million and Retail Banking of $50 million. These decreases were on account of judgemental risk adjustments to the modelled number which has now reduced due to improvement in portfolio credit quality and receipt of expected repayments in certain stress portfolios.

Cover ratio

The cover ratio measures the proportion of total impairment provisions to gross NPLs, and is a metric commonly used in considering impairment trends. This metric does not allow for variations in the composition of NPLs and should be used in conjunction with other credit risk information provided, including the level of collateral cover.

The cover ratio for the Group currently stands at 65 per cent (2016: 67 per cent). With collateral, the cover ratio has improved to 81 per cent (2016: 76 per cent).

The cover ratio for the Group's ongoing portfolio has reduced from 69 per cent in 2016 to 63 per cent in 2017 and with collateral, the cover ratio improved to 79 per cent from 74 per cent.

By client segment, the cover ratio for Corporate & Institutional Banking reduced from 65 per cent to 61 per cent. The cover ratio including collateral improved from 72 per cent to 77 per cent.

The cover ratio for Commercial Banking remained relatively flat at 75 per cent and 84 per cent including collateral. The cover ratio for Retail Banking improved from 85 per cent to 87 per cent, and including collateral increased from 85 per cent to 89 per cent.

The balance of NPLs not covered by individual impairment provisions represents the adjusted value of collateral held and the Group's estimate of the net outcome of any workout or recovery strategy.

Collateral provides risk mitigation to some degree in all client segments and supports the credit quality and cover ratio assessments post impairment provisions. Further information on collateral is provided in the Credit risk mitigation section (page 138).

	2017				
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total $million
Gross non-performing loans at 1 January	6,477	547	2,370	294	9,688
Exchange translation differences	86	28	45	4	163
Classified as non-performing during the year	2,316	572	460	20	3,368
Recoveries on loans and advances previously written off	83	16	64	1	164
Additions	2,399	588	524	21	3,532
Transferred to assets held for sale	–	–	–	–	–
Transferred to performing during the year	–	(47)	(21)	(3)	(71)
Net repayments	(1,145)	(130)	(362)	(104)	(1,741)
Amounts written off	(888)	(481)	(400)	–	(1,769)
Disposals of loans	(807)	(16)	(130)	(5)	(958)
Other movement	(165)	–	–	–	(165)
Reductions	(3,005)	(674)	(913)	(112)	(4,704)
Gross non-performing loans at 31 December	5,957	489	2,026	207	8,679
Individual impairment provisions[1]	(3,468)	(215)	(1,430)	(67)	(5,180)
Net non-performing loans	2,489	274	596	140	3,499
Portfolio impairment provision	(157)	(208)	(99)	(2)	(466)
Total	2,332	66	497	138	3,033
Cover ratio	61%	87%	75%	33%	65%
Collateral ($ million)	1,111	218	277	203	1,809
Cover ratio (after collateral)	77%	89%	84%	100%	81%
Of the above, included in liquidation portfolio:					
Gross non-performing loans at 31 December	1,945	–	125	156	2,226
Individual impairment provisions	(1,388)	–	(123)	(62)	(1,573)
Net non-performing loans	557	–	2	94	653
Cover ratio	71%	–	98%	40%	71%
Collateral ($ million)	237	–	–	96	333
Cover ratio (after collateral)	84%	–	98%	100%	86%

1 The difference to total individual impairment provision reflects provisions against forborne loans that are not included within non-performing loans as they have been performing for 180 days

	2016				
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total $million
Gross non-performing loans at 1 January	9,128	747	2,559	325	12,759
Exchange translation differences	(68)	(12)	(59)	(2)	(141)
Classified as non-performing during the year	1,800	864	642	103	3,409
Recoveries on loans and advances previously written off	13	63	51	–	127
Additions	1,813	927	693	103	3,536
Transferred to assets held for sale	–	(47)	–	–	(47)
Transferred to performing during the year	(39)	(147)	(5)	–	(191)
Net repayments	(2,416)	(180)	(300)	–	(2,896)
Amounts written off	(1,390)	(722)	(480)	(63)	(2,655)
Disposals of loans	(552)	(18)	(39)	(69)	(678)
Reductions	(4,397)	(1,114)	(824)	(132)	(6,467)
Gross non-performing loans at 31 December	6,476	548	2,369	294	9,687
Individual impairment provisions[1]	(3,961)	(209)	(1,601)	(5)	(5,776)
Net non-performing loans	2,515	339	768	289	3,911
Portfolio impairment provision	(262)	(258)	(166)	(2)	(688)
Total	2,253	81	602	287	3,223
Cover ratio	65%	85%	75%	2%	67%
Collateral ($ million)	702	255	358	290	1,605
Cover ratio (after collateral)	72%	85%	83%	100%	76%
Of the above, included in liquidation portfolio:					
Gross non-performing loans at 31 December	3,333	–	213	261	3,807
Individual impairment provisions	(2,267)	–	(154)	–	(2,421)
Net non-performing loans	1,066	–	59	261	1,386
Cover ratio	68%	–	72%	–	64%
Collateral ($ million)	356	–	–	261	617
Cover ratio (after collateral, excluding PIP)	79%	–	72%	100%	80%

1 The difference to total individual impairment provision reflects provisions against forborne loans that are not included within non-performing loans as they have been performing for 180 days

Non-performing loans by geographic region

Gross non-performing loans decreased by $1,008 million compared to 2016. The largest reductions were observed in the ASEAN & South Asia ($763 million) and Greater China & North Asia ($275 million) regions, primarily driven by planned reductions in the liquidation portfolio.

The following tables present a breakdown of total non-performing loans to banks and customers by geographic regions:

	2017				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Loans and advances					
Gross non-performing	**895**	**3,948**	**2,692**	**1,144**	**8,679**
Individual impairment provisions[1]	**(396)**	**(2,389)**	**(1,675)**	**(720)**	**(5,180)**
Non-performing loans net of individual impairment provision	**499**	**1,559**	**1,017**	**424**	**3,499**
Portfolio impairment provision	**(129)**	**(180)**	**(121)**	**(36)**	**(466)**
Net non-performing loans and advances	**370**	**1,379**	**896**	**388**	**3,033**
Cover ratio	**59%**	**65%**	**67%**	**66%**	**65%**

1 The difference to total individual impairment provision reflects provisions against forborne loans that are not included within non-performing loans as they have been performing for 180 days

	2016				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Loans and advances					
Gross non-performing	1,170	4,711	2,739	1,067	9,687
Individual impairment provision[1]	(600)	(2,659)	(1,847)	(670)	(5,776)
Non-performing loans net of individual impairment provision	570	2,052	892	397	3,911
Portfolio impairment provision	(198)	(236)	(128)	(126)	(688)
Net non-performing loans and advances	372	1,816	764	271	3,223
Cover ratio	68%	61%	72%	75%	67%

1 The difference to total individual impairment provision reflects provisions against forborne loans that are not included within non-performing loans as they have been performing for 180 days

Individual and portfolio impairment provision

The present value of estimated future cashflows, discounted at the asset's original effective interest rate, is used to determine the amount of any impairment. In the case of the liquidation portfolio, the effect and timing of the disposal strategy is included in the estimate of future cashflows.

The reduction in individual impairment provisions is predominantly due to write offs from the liquidation portfolio.

The portfolio impairment provisions reduced primarily due to an improvement in overall portfolio credit quality and receipt of expected repayments in certain stress portfolios.

Amounts written off are significantly lower although this is due to 2016 seeing elevated levels in the liquidation portfolio and ongoing business, mainly in India.

	2017			2016		
	Individual impairment provisions $million	**Portfolio impairment provisions $million**	**Total $million**	Individual impairment provisions $million	Portfolio impairment provisions $million	Total $million
Provisions held at 1 January	**5,830**	**688**	**6,518**	6,186	658	6,844
Exchange translation differences	**102**	**14**	**116**	(68)	(9)	(77)
Amounts written off	**(2,160)**	**–**	**(2,160)**	(2,745)	–	(2,745)
Releases of acquisition fair values	**(1)**	**–**	**(1)**	–	–	–
Recoveries of amounts previously written off	**234**	**–**	**234**	177	–	177
Discount unwind	**(83)**	**–**	**(83)**	(287)	–	(287)
Transferred to assets held for sale	**(6)**	**3**	**(3)**	(16)	(13)	(29)
Disposal of business units	**–**	**–**	**–**	–	–	–
New provisions – restructuring	**162**	**–**	**162**	409	–	409
New provisions – excluding restructuring	**2,094**	**57**	**2,151**	2,582	205	2,787
New provisions	**2,256**	**57**	**2,313**	2,991	205	3,196
Recoveries/provisions no longer required	**(652)**	**(296)**	**(948)**	(438)	(153)	(591)
Net impairment charge/(releases) against profit	**1,604**	**(239)**	**1,365**	2,553	52	2,605
Other movements	**(279)**	**–**	**(279)**	30	–	30
Provisions held at 31 December	**5,241**	**466**	**5,707**	5,830	688	6,518

Individually impaired loans by client segment

Gross individually impaired loans decreased by 10 per cent in 2017, primarily driven by the Corporate & Institutional Banking segment which reduced by $519 million on account of loan disposals and settlements, mainly in the ASEAN & South Asia region.

Gross impaired loans in the Retail Banking book have shown modest improvement with a decrease of 3 per cent year-on-year.

The following table shows the movement of individually impaired loans and provisions for each client segment:

	2017				
	Corporate & Institutional Banking $million	**Retail Banking $million**	**Commercial Banking $million**	**Private Banking $million**	**Total $million**
Gross impaired loans at 1 January	**6,476**	**720**	**2,353**	**294**	**9,843**
Exchange translation differences	**87**	**48**	**45**	**4**	**184**
Classified as individually impaired during the year	**2,293**	**421**	**380**	**20**	**3,114**
Transferred to not impaired during the year	**–**	**(31)**	**(21)**	**(3)**	**(55)**
Other movements[1]	**(2,899)**	**(463)**	**(730)**	**(108)**	**(4,200)**
Gross impaired loans at 31 December	**5,957**	**695**	**2,027**	**207**	**8,886**
Provisions held at 1 January	**3,961**	**262**	**1,602**	**5**	**5,830**
Exchange translation differences	**55**	**15**	**31**	**1**	**102**
Amounts written off	**(1,139)**	**(577)**	**(444)**	**–**	**(2,160)**
Releases of acquisition fair values	**(1)**	**–**	**–**	**–**	**(1)**
Recoveries of amounts previously written off	**27**	**153**	**22**	**32**	**234**
Discount unwind	**(41)**	**(23)**	**(19)**	**–**	**(83)**
Disposal of business units	**–**	**(6)**	**–**	**–**	**(6)**
New provisions	**1,197**	**669**	**327**	**63**	**2,256**
Recoveries/provisions no longer required	**(314)**	**(218)**	**(86)**	**(34)**	**(652)**
Net individual impairment charge against profit	**883**	**451**	**241**	**29**	**1,604**
Other movements[2]	**(277)**	**–**	**(2)**	**–**	**(279)**
Individual impairment provisions held at 31 December	**3,468**	**275**	**1,431**	**67**	**5,241**
Net individually impaired loans	**2,489**	**420**	**596**	**140**	**3,645**

	2016				
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total $million
Gross impaired loans at 1 January	9,128	831	2,546	325	12,830
Exchange translation differences	(75)	(11)	(59)	(1)	(146)
Classified as individually impaired during the year	1,801	769	573	103	3,246
Transferred to not impaired during the year	(39)	(87)	(2)	–	(128)
Other movements[1]	(4,339)	(782)	(705)	(133)	(5,959)
Gross impaired loans at 31 December	6,476	720	2,353	294	9,843
Provisions held at 1 January	4,230	337	1,616	3	6,186
Exchange translation differences	(77)	(3)	12	–	(68)
Amounts written off	(1,439)	(722)	(520)	(64)	(2,745)
Recoveries of amounts previously written off	8	164	5	–	177
Discount unwind	(230)	(26)	(31)	–	(287)
Transferred to assets held for sale	–	(16)	–	–	(16)
New provisions	1,574	763	587	67	2,991
Recoveries/provisions no longer required	(134)	(235)	(68)	(1)	(438)
Net individual impairment charge against profit	1,440	528	519	66	2,553
Other movements[2]	29	–	1	–	30
Individual impairment provisions held at 31 December	3,961	262	1,602	5	5,830
Net individually impaired loans	2,515	458	751	289	4,013

1 Other movements include repayments, amounts written off and disposals of loans

2 Other movements include provisions for liabilities and charges that have been drawn down and are now part of loan impairment

Credit risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting arrangements, credit insurance and credit derivatives, taking into account expected volatility and guarantees.

The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor. Our overall approach to credit risk mitigation is further discussed in Risk Management Approach (page 165).

Collateral

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. As a result of reinforcing our collateralisation requirements, the fair value of collateral held as a percentage of amount outstanding has remained stable in 2017.

The unadjusted market value of collateral across all asset types, in respect of Corporate & Institutional Banking and Commercial Banking, without adjusting for over-collateralisation, was $247 billion (2016: $229 billion).

The collateral values in the table below are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation. 47 per cent of clients that have placed collateral with the Group are over-collateralised. The average amount of over-collateralisation is 41 per cent.

We have remained conservative in the way we assess the value of collateral, which is calibrated for a severe downturn and back-tested against our prior experience. On average, across all types of non-cash collateral, the value ascribed is approximately half of its current market value. Collateral held against Corporate & Institutional Banking and Commercial Banking exposures amounted to $77 billion (2016: $64 billion).

In the Retail Banking and Private Banking segments, a secured loan is one where the borrower pledges an asset as collateral of which the Group is able to take possession in the event that the borrower defaults. The collateral level for Retail Banking has increased by $3.2 billion in 2017.

For loans and advances to customers and banks (including those held at fair value through profit or loss), the table below sets out the fair value of collateral held by the Group, adjusted where appropriate in accordance with the risk mitigation policy as outlined in Risk Management Approach (page 165) and for the effect of over-collateralisation.

	Maximum exposure			Collateral			Net expsoure[1,2]		
	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million
As at 31 December 2017									
Corporate & Institutional Banking	**193,442**	**1,455**	**5,957**	**70,499**	**160**	**1,111**	**122,943**	**1,295**	**4,846**
Retail Banking	**103,371**	**2,114**	**695**	**76,543**	**1,514**	**218**	**26,828**	**600**	**477**
Commercial Banking	**29,602**	**483**	**2,027**	**6,570**	**247**	**277**	**23,032**	**236**	**1,750**
Private Banking	**13,359**	**85**	**207**	**9,296**	**82**	**203**	**4,063**	**3**	**4**
Central & other items	**27,570**	**2**	**–**	**5,339**	**–**	**–**	**22,231**	**2**	**–**
Total	**367,344**	**4,139**	**8,886**	**168,247**	**2,003**	**1,809**	**199,097**	**2,136**	**7,077**
As at 31 December 2016									
Corporate & Institutional Banking	174,877	2,105	6,476	57,378	93	702	117,499	2,012	5,774
Retail Banking	93,846	2,102	720	73,352	1,527	255	20,494	575	465
Commercial Banking	25,042	700	2,353	7,084	393	358	17,958	307	1,995
Private Banking	11,926	97	294	7,584	94	290	4,342	3	4
Central & other items	25,562	–	–	5,912	–	–	19,650	–	–
Total	331,253	5,004	9,843	151,310	2,107	1,605	179,943	2,897	8,238

1 Includes loans held at fair value through profit or loss

2 Includes loans and advances

Corporate & Institutional Banking and Commercial Banking

Collateral held against Corporate & Institutional Banking and Commercial Banking exposures amounted to $77 billion (2016: $64 billion). The increase of $13 billion was primarily in reverse repurchase (repo) collateral due to increased liquidity management activity by the Group. The proportion of investment grade securities in reverse repos collateral has increased from 85 per cent in 2016 to 96 per cent in 2017. The average residual maturity of the reverse repo collateral is 8.3 years.

Collateral taken for longer-term and sub-investment grade Corporate loans continues to be high at 55 per cent (2016: 55 per cent).

Our underwriting standards encourage taking specific charges on assets and we consistently seek high quality, investment grade collateral. 27 per cent of collateral held comprises physical assets or is property-based (2016: 29 per cent), with the remainder largely in cash and investment securities.

Non-tangible collateral such as guarantees and standby letters of credit may also be held against corporate exposures, although the financial effect of this type of collateral is less significant in terms of recoveries. However, this type of collateral is considered when determining probability of default and other credit-related factors. Collateral is also held against off-balance sheet exposures, including undrawn commitments and trade-related instruments.

The following table provides an analysis of the types of collateral held against Corporate & Institutional Banking and Commercial Banking loan exposures.

Corporate & Institutional Banking	**2017 $million**	2016 $million
Maximum exposure	**193,442**	174,877
Property	**7,014**	5,920
Plant, machinery and other stock	**3,612**	3,574
Cash	**5,742**	7,778
Reverse repos	**49,736**	35,930
AAA	**1,027**	327
A- to AA+	**40,421**	27,660
BBB- to BBB+	**6,448**	2,657
Lower than BBB-	**915**	854
Unrated	**925**	4,432
Commodities	**162**	772
Ships and aircraft	**4,233**	3,404
Total value of collateral	**70,499**	57,378
Net exposure	**122,943**	117,499

Commercial Banking	**2017 $million**	2016 $million
Maximum exposure	**29,602**	25,042
Property	**4,642**	4,843
Plant, machinery and other stock	**767**	935
Cash	**923**	1,064
Reverse repos	**–**	–
AAA	**–**	–
A- to AA+	**–**	–
BBB- to BBB+	**–**	–
Lower than BBB-	**–**	–
Unrated	**–**	–
Commodities	**4**	4
Ships and aircraft	**234**	238
Total value of collateral	**6,570**	7,084
Net exposure	**23,032**	17,958

Retail Banking and Private Banking

In Retail Banking and Private Banking, 84 per cent of the portfolio is fully secured. The proportion of unsecured loans remains unchanged at 15 per cent.

LTV ratios measure the ratio of the current mortgage outstanding to the current fair value of the properties on which they are secured.

In mortgages the value of property held as security significantly exceeds the value of mortgage loans. The average LTV of the overall mortgage portfolio is less than 47 per cent, a decrease from the end of 2016 (49 per cent). Hong Kong, which represents 37 per cent of the Retail Banking mortgage portfolio has an average LTV of 38.6 per cent. All of our other key markets continue to have low portfolio LTVs, with Korea, Singapore and Taiwan at 48.0 per cent, 59.5 per cent and 50.4 per cent respectively.

An analysis of LTV ratios by geography for the mortgage portfolio is presented in the mortgage LTV ratios by geography table below.

The following table presents an analysis of loans to individuals by product split between fully secured, partially secured and unsecured.

	2017				2016			
	Fully secured $million	**Partially secured $million**	**Unsecured $million**	**Total[1] $million**	Fully secured $million	Partially secured $million	Unsecured $million	Total[1] $million
Maximum exposure	**97,523**	**1,301**	**17,750**	**116,574**	88,450	1,632	15,574	105,656
Loans to individuals								
Mortgages	**78,755**	**23**	**–**	**78,778**	73,484	23	–	73,507
CCPL	**240**	**86**	**17,209**	**17,535**	360	690	15,156	16,206
Auto	**630**	**–**	**3**	**633**	635	–	3	638
Secured wealth products	**13,903**	**156**	**95**	**14,154**	11,036	44	–	11,080
Other	**3,995**	**1,036**	**443**	**5,474**	2,935	875	415	4,225
Total collateral				**85,839**				80,936
Net exposure				**30,735**				24,720
Percentage of total loans	**84%**	**1%**	**15%**		83%	2%	15%	

1 Amounts net of individual impairment provisions

Mortgage loan-to-value ratios by geography

The following table provides an analysis of LTV ratios by region for the mortgages portfolio:

	2017				
	Greater China & North Asia %	**ASEAN & South Asia %**	**Africa & Middle East %**	**Europe & Americas %**	**Total %**
Less than 50 per cent	**62.9**	**36.1**	**21.6**	**28.4**	**54.7**
50 per cent to 59 per cent	**16.4**	**17.5**	**16.9**	**23.4**	**16.8**
60 per cent to 69 per cent	**15.3**	**18.7**	**22.6**	**31.4**	**16.6**
70 per cent to 79 per cent	**4.5**	**22.8**	**20.8**	**13.7**	**9.5**
80 per cent to 89 per cent	**0.7**	**4.3**	**11.2**	**2.0**	**1.9**
90 per cent to 99 per cent	**0.1**	**0.3**	**3.9**	**0.4**	**0.3**
100 per cent and greater	**0.1**	**0.3**	**3.0**	**0.8**	**0.2**
Average portfolio loan-to-value	**43.5**	**55.0**	**63.9**	**52.1**	**46.8**
Loans to individuals – mortgages ($million)	**54,609**	**20,105**	**2,279**	**1,785**	**78,778**

	2016				
	Greater China & North Asia %	ASEAN & South Asia %	Africa & Middle East %	Europe & Americas %	Total %
Less than 50 per cent	55.9	36.9	22.3	36.7	49.9
50 per cent to 59 per cent	18.2	16.8	16.9	37.4	18.1
60 per cent to 69 per cent	17.3	18.8	20.5	16.2	17.8
70 per cent to 79 per cent	6.4	17.6	20.7	8.3	9.7
80 per cent to 89 per cent	1.9	8.8	11.3	0.9	3.9
90 per cent to 99 per cent	0.2	0.7	4.2	0.5	0.5
100 per cent and greater	0.1	0.4	4.1	–	0.3
Average portfolio loan-to-value	46.6	54.7	64.9	44.4	49.0
Loans to individuals – mortgages ($million)	51,219	18,903	2,245	1,140	73,507

Collateral and other credit enhancements possessed or called upon

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

The carrying value of collateral possessed and held by the Group as at 31 December 2017 is $24.1 million (2016: $51.1 million). The decrease in collateral value is largely due to the reduction in cash collateral following utilisation to settle customer outstanding.

	2017 $million	2016 $million
Property, plant and equipment	**14.9**	13.0
Equity shares	**0.2**	0.1
Guarantees	**4.0**	11.5
Cash	**4.6**	26.1
Other	**0.4**	0.4
Total	**24.1**	51.1

Other credit risk mitigation

Other forms of credit risk mitigation are set out below.

Securitisation

The Group has transferred to third-parties by way of securitisation, the rights to any collection of principal and interest on client loan assets with a face value of $11 million (2016: $21 million). The Group continues to recognise these assets in addition to the proceeds and related liability of $13 million (2016: $15 million) arising from the securitisations. The Group considers the above client loan assets to be encumbered. Further details of encumbered assets are provided in the Encumbered assets section (pages 153 to 154).

Credit default swaps

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of $16 billion (2016: $17.5 billion). These credit default swaps are accounted for as guarantees as they meet the accounting requirements set out in International Accounting Standards (IAS) 39. The Group continues to hold the underlying assets referenced in the credit default swaps and it continues to be exposed to related credit and foreign exchange risk on these assets.

Derivatives financial instruments

The Group enters into master netting agreements, which in the event of default result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions. The value of exposure under master netting agreements is $29,135 million (2016: $40,391 million).

In addition, we enter into credit support annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Cash collateral includes collateral called under a variation margin process from counterparties if total uncollateralised mark-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. With certain counterparties, the CSA is reciprocal and requires us to post collateral if the overall mark-to-market values of positions are in the counterparty's favour and exceed an agreed threshold. The Group holds $6,562 million (2016: $7,280 million) under CSAs.

Off-balance sheet exposures

For certain types of exposures, such as letters of credit and guarantees, the Group obtains collateral such as cash depending on internal credit risk assessments, as well as in the case of letters of credit holding legal title to the underlying assets should a default take place.

Other portfolio analysis

This section provides maturity analysis by business segment and industry and Retail Products analysis by region.

Maturity analysis by client segment

The loans and advances to the Corporate & Institutional Banking and Commercial Banking segments remain predominantly short-term, with 70 per cent of loans and advances to customers in the segments maturing in less than one year, a decrease compared to December 2016. 96 per cent of loans to banks mature in less than one year. Shorter maturity gives us the flexibility to respond promptly to events and rebalance or reduce our exposure to clients or sectors that are facing increased pressure or uncertainty.

The Private Banking loan book also demonstrates a short-term bias, typical for loans that are secured on wealth management assets.

The Retail Banking loan book continues to be longer-term in nature with 60 per cent of the loans maturing over five years as mortgages constitute the majority of the Retail Banking loan book.

	2017			
	One year or less $million	**One to five years $million**	**Over five years $million**	**Total $million**
Corporate & Institutional Banking	**90,613**	**31,827**	**9,454**	**131,894**
Retail Banking	**24,200**	**17,341**	**61,680**	**103,221**
Commercial Banking	**21,683**	**5,293**	**1,231**	**28,207**
Private Banking	**12,407**	**270**	**676**	**13,353**
Central & other items	**9,335**	**6**	**2**	**9,343**
Loans and advances to customers net of individual impairment provision	**158,238**	**54,737**	**73,043**	**286,018**
Portfolio impairment provision				**(465)**
Net loans and advances to customers				**285,553**
Net loans and advances to banks	**77,739**	**2,974**	**612**	**81,325**

	2016			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Corporate & Institutional Banking	84,199	29,919	8,374	122,492
Retail Banking	15,510	16,725	61,511	93,746
Commercial Banking	19,125	4,048	1,006	24,179
Private Banking	10,802	249	859	11,910
Central & other items	4,215	39	2	4,256
Loans and advances to customers net of individual impairment provision	133,851	50,980	71,752	256,583
Portfolio impairment provision				(687)
Net loans and advances to customers				255,896
Net loans and advances to banks	71,867	2,644	158	74,669

Industry and Retail Products analysis by geographic region

This section provides analysis of the Group's loan portfolio by Industry and Region.

In the Corporate & Institutional Banking and Commercial Banking segments our largest industry exposure is financing, insurance and non-banking, which constitutes 27 per cent of Corporate & Institutional Banking and Commercial Banking loans and advances to customers (2016: 27 per cent). Lending to financing, insurance and non-banking clients is mostly to investment grade institutions and is part of the liquidity management of the Group.

The manufacturing sector makes up 13 per cent of the Corporate & Institutional Banking and Commercial Banking loans and advances (2016: 13 per cent). The manufacturing industry group is spread across a diverse range of industries, including automobiles and components, capital goods, pharmaceuticals, biotech and life sciences, technology hardware and equipment, chemicals, paper products and packaging, with lending spread over 3,900 clients.

Loans and advances to the energy sector have remained stable and constitute 11 per cent (2016: 12 per cent) of total loans and advances to Corporate & Institutional Banking and Commercial Banking. The energy sector lending is spread across five subsectors and over 350 clients.

The Group provides loans to commercial real estate (CRE) counterparties of $15.1 billion (2016: $11.3 billion), which represents 5 per cent of total customer loans and advances. In total, $8.0 billion of this lending is to counterparties where the source of repayment is substantially derived from rental or sale of real estate and is secured by real estate collateral. The remaining CRE loans comprise working capital loans to real estate corporates, loans with non-property collateral, unsecured loans and loans to real estate entities of diversified conglomerates. The average LTV ratio of the commercial real estate (CRE) portfolio has increased to 41 per cent, compared with 39 per cent in 2016. The proportion of loans with an LTV greater than 80 per cent has remained at 1 per cent during the same period.

Credit cards and personal loans (CCPL) and other unsecured lending of total Retail Products loans and advances remains broadly stable at 15 per cent.

	2017				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Industry:					
Energy	**2,855**	**6,097**	**3,303**	**6,289**	**18,544**
Manufacturing	**10,919**	**6,685**	**3,221**	**1,906**	**22,731**
Financing, insurance and non-banking	**8,213**	**6,421**	**1,308**	**29,042**	**44,984**
Transport, telecom and utilities	**6,456**	**3,965**	**4,707**	**1,036**	**16,164**
Food and household products	**2,174**	**4,126**	**2,577**	**1,179**	**10,056**
Commercial real estate	**8,429**	**5,169**	**1,479**	**62**	**15,139**
Mining and quarrying	**2,079**	**2,903**	**1,089**	**570**	**6,641**
Consumer durables	**4,432**	**2,544**	**1,300**	**790**	**9,066**
Construction	**989**	**1,118**	**1,358**	**238**	**3,703**
Trading companies and distributors	**1,192**	**573**	**432**	**128**	**2,325**
Government	**4,864**	**6,728**	**1,430**	**1,398**	**14,420**
Other	**1,839**	**2,174**	**1,075**	**583**	**5,671**
Retail Products:					
Mortgages	**54,609**	**20,105**	**2,279**	**1,785**	**78,778**
CCPL and other unsecured lending	**10,175**	**4,336**	**3,022**	**2**	**17,535**
Auto	**–**	**399**	**234**	**–**	**633**
Secured wealth products	**5,278**	**7,005**	**213**	**1,658**	**14,154**
Other	**2,365**	**2,410**	**696**	**3**	**5,474**
	126,868	**82,758**	**29,723**	**46,669**	**286,018**
Portfolio impairment provision	**(129)**	**(179)**	**(121)**	**(36)**	**(465)**
Total loans and advances to customers	**126,739**	**82,579**	**29,602**	**46,633**	**285,553**
Total loans and advances to banks	**33,226**	**16,523**	**7,428**	**24,148**	**81,325**

	2016				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Industry:					
Energy	2,781	5,334	4,076	6,586	18,777
Manufacturing	8,807	5,944	3,161	1,830	19,742
Financing, insurance and non-banking	7,959	5,007	1,451	26,816	41,233
Transport, telecom and utilities	5,562	4,570	3,659	1,708	15,499
Food and household products	1,932	4,624	2,408	1,088	10,052
Commercial real estate	5,580	4,555	1,122	27	11,284
Mining and quarrying	2,063	3,568	1,234	959	7,824
Consumer durables	4,356	2,321	1,432	1,261	9,370
Construction	1,027	1,313	1,392	84	3,816
Trading companies and distributors	938	535	657	259	2,389
Government	2,290	3,053	468	504	6,315
Other	1,437	1,644	1,015	530	4,626
Retail Products:					
Mortgages	51,219	18,903	2,245	1,140	73,507
CCPL and other unsecured lending	9,265	3,838	3,012	91	16,206
Auto	–	315	323	–	638
Secured wealth products	3,725	5,965	90	1,300	11,080
Other	1,790	1,908	522	5	4,225
	110,731	73,397	28,267	44,188	256,583
Portfolio impairment provision	(198)	(236)	(127)	(126)	(687)
Total loans and advances to customers	110,533	73,161	28,140	44,062	255,896
Total loans and advances to banks	32,239	14,739	7,552	20,139	74,669

Selected portfolios

Debt securities and other eligible bills

This section provides further detail on debt securities and treasury bills and asset backed securities.

Debt securities and other eligible bills are analysed as follows:

	2017 Debt securities and other eligible bills $million	2016 Debt securities and other eligible bills $million
Net impaired securities:		
Impaired securities	**421**	406
Impairment	**(376)**	(400)
	45	6
Securities neither past due nor impaired:		
AAA	**35,937**	44,815
AA- to AA+	**51,914**	34,112
A- to A+	**13,305**	15,316
BBB- to BBB+	**17,498**	12,598
Lower than BBB-	**5,333**	5,361
Unrated	**11,810**	9,040
	135,797	121,242
Total	**135,842**	121,248
Of which:		
Assets at fair value		
Trading	**19,318**	13,310
Designated at fair value	**393**	354
Available-for-sale	**109,161**	104,308
	128,872	117,972
Assets at amortised cost		
Loans and receivables	**2,630**	3,106
Held-to-maturity	**4,340**	170
	6,970	3,276
Total	**135,842**	121,248

The above table analyses debt securities and treasury bills that are neither past due nor impaired by external credit rating.

The standard credit ratings used by the Group are those used by Standard & Poor's or its equivalent. Debt securities held that have a short-term rating are reported against the long-term rating of the issuer. For securities that are unrated, the Group applies an internal credit rating, as described under the credit rating and measurement section (page 166).

Net impaired debt securities increased during the year, primarily due to a new impairment in Singapore.

Debt securities in the AAA rating category decreased during the year by $8.9 billion to $35.9 billion, mainly driven by a downgrade of UK-held Treasury Bills to the AA- to AA+ rating category. The resulting increase in the AA- to AA+ rating category was further enhanced by the purchase of government securities in Asia.

Unrated securities have primarily related to corporate issuers, but during 2017 the Group also purchased unrated government securities.

Using internal credit ratings, $9,109 million (2016: $7,013 million) of these securities are considered to be equivalent to investment grade.

Asset backed securities (unaudited)

Total exposures to asset backed securities

	2017				2016			
	Percentage of notional value of portfolio $million	**Notional $million**	**Carrying value $million**	**Fair value[1] $million**	Percentage of notional value of portfolio $million	Notional $million	Carrying value $million	Fair value[1] $million
Residential mortgage backed securities (RMBS)[2]	**44%**	**2,814**	**2,812**	**2,812**	37%	2,248	2,248	2,244
Collateralised debt obligations (CDOs)	**1%**	**75**	**70**	**69**	0%	28	8	7
Commercial mortgage backed securities (CMBS)	**1%**	**63**	**29**	**29**	1%	50	19	18
Other asset backed securities (other ABS)[3]	**54%**	**3,518**	**3,517**	**3,519**	62%	3,717	3,716	3,716
	100%	**6,470**	**6,428**	**6,429**	100%	6,043	5,991	5,985
Of which included within:								
Financial assets held at fair value through profit or loss	**14%**	**887**	**885**	**885**	3%	172	172	172
Investment securities – available-for-sale	**64%**	**4,145**	**4,106**	**4,109**	72%	4,380	4,331	4,331
Investment securities – loans and receivables	**22%**	**1,438**	**1,437**	**1,435**	25%	1,491	1,488	1,482
	100%	**6,470**	**6,428**	**6,429**	100%	6,043	5,991	5,985

1 Fair value reflects the value of the entire portfolio, including assets redesignated to loans and receivables

2 RMBS includes Other UK, Dutch, Australia and Korea RMBS

3 Other asset backed securities includes auto loans, credit cards, student loans, future flows and trade receivables

The carrying value of asset-backed securities (ABS) represents 1 per cent (2016: 1 per cent) of the Group's total assets.

The credit quality of the ABS portfolio remains strong, with over 99 per cent of the overall portfolio rated investment grade, and 68 per cent of the overall portfolio is rated as AAA. The portfolio is broadly diversified across asset classes and geographies, with an average credit grade of AA. Residential mortgage-backed securities (RMBS) make up 44 per cent of the overall portfolio and have a weighted averaged credit rating of AAA (AAA in 2016).

Other ABS includes Auto ABS, comprising 30 per cent of the overall portfolio, and credit card ABS (13 per cent); both maintain a weighted average credit rating of AAA. The balance of Other ABS mainly includes securities backed by diversified payment rights, and receivables ABS.

Country risk (unaudited)

Country risk is defined as the potential for default or losses due to political or economic events in a country. A key component of Country Risk is Country cross-border risk, which is the risk that the Group will be unable to obtain payment from counterparties on their contractual obligations as a result of actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency.

The profile of the Group's country cross-border exposures as at 31 December 2017 remained consistent with its strategic focus on core franchise countries, and with the scale of the larger markets in which it operates.

Country cross-border exposure to China remains predominantly short-term; 87 per cent of exposure had a tenor of less than 12 months. During 2017, the Group's cross-border exposure to China from lending and trade finance increased, driven by robust economic growth in China and support to China's Belt and Road initiative. The significant increase in China cross-border exposure was predominantly short-term in tenor and related to trade and lending facilities as well as interbank placements with strategic clients.

Country cross-border risk exposure to Hong Kong declined during 2017 with a reduction in exposure from liquidity management activity, interbank placements, and corporate business loans.

The increase in cross border exposure to South Korea in 2017 reflects an expansion of export volumes and improved economic growth compared to the previous year.

The overall size of cross-border exposure to India reflects the size of the Group's franchise in the country, and the facilitation of overseas investment and trade flows supported by parent companies in India. The increase in India cross-border exposure relates to new or expanded arrangements with chosen counterparties and product categories that are accretive to the India franchise.

Cross-border exposure to developed countries in which the Group does not have a major presence predominantly relates to short-dated money market treasury and liquidity management activities, which can change significantly from period to period. Exposure also represents global corporate business for customers with interests in our footprint. This is a key factor explaining the significant cross-border exposure to the US, Japan and Germany.

The table below, which is based on the Group's internal country cross-border risk reporting requirements, shows cross-border exposures that exceed 1 per cent of total assets.

	2017			2016[1]		
	Less than one year $million	**More than one year $million**	**Total $million**	Less than one year $million	More than one year $million	Total $million
China	**40,351**	**6,204**	**46,555**	29,727	4,414	34,141
US	**10,068**	**9,524**	**19,592**	9,675	10,255	19,930
Hong Kong	**11,685**	**7,867**	**19,552**	15,517	7,738	23,255
Singapore	**13,555**	**5,955**	**19,510**	15,101	5,086	20,187
South Korea	**14,513**	**4,331**	**18,844**	11,436	5,124	16,560
India	**11,687**	**5,819**	**17,506**	9,280	4,589	13,869
United Arab Emirates	**7,932**	**8,341**	**16,273**	7,523	7,730	15,253
Germany	**3,022**	**4,505**	**7,527**	2,600	3,536	6,136
Japan	**5,272**	**1,555**	**6,827**	8,625	1,669	10,294

1 2016 cross-border exposure data has been restated as a result of a recalibration and enhancement to the internal methodology for reporting country cross-border risk. Methodology changes have been implemented in line with BCBS239 principles

Market risk

Market risk is the potential for loss of economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises predominantly from the following sources:

- **Trading book:** The Group provides clients access to financial markets, the facilitation of which entails the Group taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk-related activities is primarily driven by the volume of client activity rather than risk-taking
- **Non-trading book:**
  - The Treasury Markets desk is required to hold a liquid assets buffer much of which is held in high-quality marketable debt securities
  - The Group has capital invested and related income streams denominated in currencies other than US dollars. To the extent that these are not hedged, the Group is subject to structural foreign exchange risk which is reflected in reserves

A summary of our current policies and practices regarding market risk management is provided in the Principal Risks section (page 169).

The primary categories of market risk for the Group are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options
- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options
- Commodity price risk: arising from changes in commodity prices and implied volatilities on commodity options; covering energy, precious metals, base metals and agriculture
- Credit spread risk: arising from changes in the credit spread of the Group's derivative counterparties through CVA accounting.

Market risk changes

The average level of total trading and non-trading VaR in 2017 was 19 per cent lower than in 2016 and the actual level of total VaR as at year end 2017 was 25 per cent lower than in 2016. These declines were driven by reduced market volatility in the historical time series. In 2016 the VaR had been elevated by events such as the devaluation of the Chinese renminbi in August 2015 and uncertainty about the timing of anticipated US interest rate rises.

Trading book interest rate VaR and trading book total VaR results are not comparable year-on-year as the 2017 figures include the XVA desk VaR but the 2016 figures do not. The average level of VaR for the XVA desk in 2017 was 44 per cent lower than in 2016 at $5.5 million (2016 $9.8 million).

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

	2017				2016			
Trading and non-trading	**Average $million**	**High[1] $million**	**Low[1] $million**	**Actual[2] $million**	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Interest rate risk[3,6]	**22.6**	**28.5**	**18.1**	**18.7**	27.7	32.7	24.1	25.3
Foreign exchange risk	**5.5**	**12.3**	**3.0**	**6.0**	6.3	12.2	3.7	9.4
Commodity risk	**1.2**	**2.0**	**0.6**	**1.0**	1.9	3.1	1.0	1.4
Equity risk	**7.7**	**8.4**	**6.4**	**6.7**	10.0	13.1	6.9	8.1
Total[4,6]	**25.7**	**32.4**	**20.3**	**22.3**	31.6	38.8	26.4	29.9

	2017				2016			
Trading[5]	**Average $million**	**High[1] $million**	**Low[1] $million**	**Actual[2] $million**	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Interest rate risk[3,6]	**10.1**	**13.1**	**7.7**	**8.5**	6.7	10.3	4.7	6.8
Foreign exchange risk	**5.5**	**12.3**	**3.0**	**6.0**	6.3	12.2	3.7	9.4
Commodity risk	**1.2**	**2.0**	**0.6**	**1.0**	1.9	3.1	1.0	1.4
Equity risk	**0.1**	**0.4**	**0.06**	**0.14**	0.4	1.3	0.1	0.1
Total[4,6]	**12.1**	**15.7**	**8.3**	**10.9**	10.6	18.7	7.5	11.6

	2017				2016			
Non-trading	**Average $million**	**High[1] $million**	**Low[1] $million**	**Actual[2] $million**	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Interest rate risk[3]	**19.5**	**23.1**	**14.4**	**14.4**	26.3	31.4	21.5	22.8
Equity risk	**7.6**	**8.1**	**6.2**	**6.6**	9.8	12.5	6.9	8.1
Total[4]	**21.7**	**27.6**	**16.3**	**16.3**	30.7	35.1	24.6	27.3

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

2 Actual one day VaR at year end date

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

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

5 Trading book for market risk is defined in accordance with the EU Capital Requirements Regulation (CRDIV/CRR) Part 3 Title I Chapter 3 which restricts the positions permitted in the trading book. This regulatory definition is narrower than the accounting definition of the trading book within IAS39 'Financial Instruments: Recognition and Measurement

6 XVA (Credit and Funding Valuation Adjustment): In 2016 the XVA desk VaR was incompletely reflected in the related total VaR lines as follows:

- Total trading and non-trading VaR and total trading and non-trading interest rate VaR reflected XVA desk VaR but only from 1 August 2016 onwards
- Total trading VaR and trading interest rate VaR figures did not reflect XVA VaR at all in 2016

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

	2017				2016			
	Average $million	**High[1] $million**	**Low[1] $million**	**Actual[2] $million**	Average $million	High[1] $million	Low[1] $million	Actual[2] $million
Trading and non-trading	**25.7**	**32.4**	**20.3**	**22.3**	31.6	38.8	26.4	29.9
Trading[4]								
Rates	**5.9**	**8.6**	**4.4**	**5.1**	5.2	8.6	3.3	5.8
Global foreign exchange	**5.5**	**12.3**	**3.0**	**6.0**	6.3	12.2	3.7	9.4
Credit trading and capital markets	**4.6**	**6.9**	**2.6**	**4.9**	3.0	5.3	2.2	3.2
Commodities	**1.2**	**2.0**	**0.6**	**1.0**	1.9	3.1	1.0	1.4
Equities	**0.1**	**0.4**	**0.1**	**0.1**	0.4	1.3	0.1	0.1
XVA[5]	**5.5**	**8.3**	**3.0**	**3.0**	9.8	12.0	6.6	6.6
Total[3]	**12.1**	**15.7**	**8.3**	**10.9**	10.6	18.7	7.5	11.6
Non-trading								
Asset & liability management	**19.5**	**23.1**	**14.4**	**14.4**	26.3	31.4	21.5	22.8
Listed private equity	**7.6**	**8.1**	**6.2**	**6.6**	9.8	12.5	6.9	8.1
Total[3]	**21.7**	**27.6**	**16.3**	**16.3**	30.7	35.1	24.6	27.3

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

2 Actual one day VaR at year end date

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

4 Trading book for market risk is defined in accordance with the EU Capital Requirements Regulation (CRDIV/CRR) Part 3 Title I Chapter 3 which restricts the positions permitted in the trading book. This regulatory definition is narrower than the accounting definition of the trading book within IAS39 'Financial Instruments: Recognition and Measurement'

5 XVA (Credit and Funding Valuation Adjustment): In 2016 the XVA desk VaR reflects a period from 1 August 2016 to 30 December 2016

Risks not in VaR (unaudited)

In 2017 the main market risk not reflected in VaR was currency risk where the exchange rate is currently pegged or managed. The historical one-year VaR observation period does not reflect the future possibility of a change in the currency regime such as sudden depegging. The other material market risk not reflected in VaR was associated with off-the-run bonds. Newly issued bonds are actively traded (on-the-run), however off-the-run bonds are less frequently traded, meaning that historical market price data for VaR is sometimes more limited. Additional capital is set aside to cover such 'risks not in VaR'. For further details on market risk capital see the Standard Chartered PLC Pillar 3 Disclosures 2017 section on market risk.

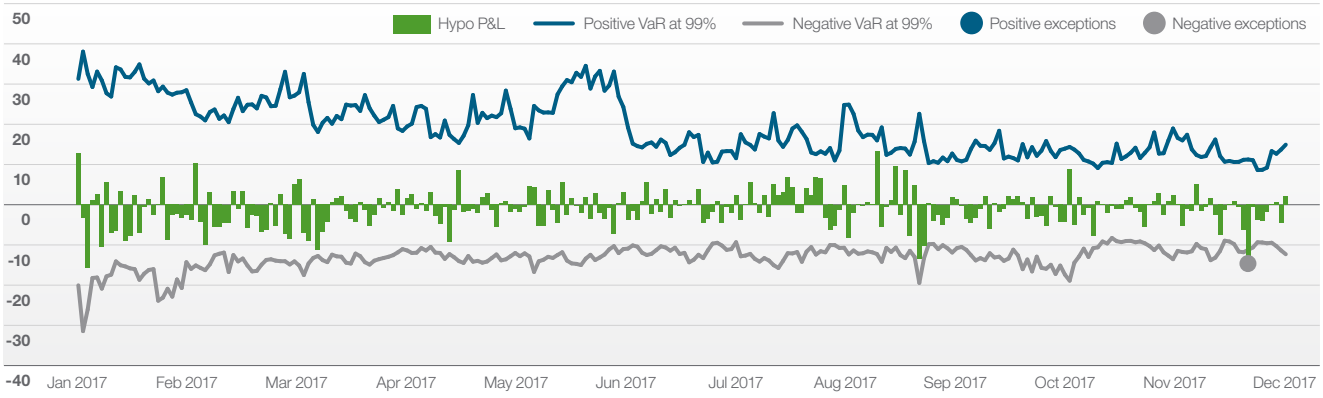
Backtesting (unaudited)

Regulatory backtesting is applied at both Group and Solo levels. In 2017 there has been one negative exception at both Group level and Solo level (in 2016 there was one exception at Group level and two at Solo level).

This exception occurred on 18 December due to yield curve moves in Nigeria. The Central Bank of Nigeria restarted their liquidity management open market operations unexpectedly, filling Nigerian treasury bill auctions below the lowest bid yields. This move caused the market to sell-off and Nigerian Naira yields to rise sharply. One exception in a year due to market events is within the 'green zone' applied internationally to internal models by bank supervisors (Basel Committee on Banking Supervision: 'Supervisory framework for the use of backtesting in conjunction with the internal models approach to market risk capital requirements', January 1996).

The graph below illustrates the performance of the VaR model used in capital calculations. It compares the 99 percentile loss confidence level given by the VaR model with the Hypothetical P&L of each day given the actual market movement without taking into account any intra-day trading activity.

2017 Backtesting chart
Internal model approach regulatory trading book at Group level
Hypothetical profit and loss (P&L) versus VaR (99 per cent, one day)



Financial Markets loss days

	2017	2016
Number of loss days reported for Financial Markets trading book total product income[1]	**15**	30

1 Reflects total product income for Financial Markets:

- Including CVA and FVA risk
- Excluding Treasury-Markets business (non-trading) and periodic valuation changes for Capital Markets, expected loss provisions and OIS discounting

There were fewer Financial Markets loss days in 2017 as market volatility dropped following the events of 2016 which saw a collapse in oil prices, a Chinese equities sell-off, the UK referendum to leave the European Union (Brexit) and the US presidential election.

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

Trading	**2017 $million**	2016 $million
Interest rate risk	**3.5**	4.5
Foreign exchange risk	**3.7**	4.6
Commodity risk	**0.6**	0.7
Equity risk	**–**	–
Total	**7.8**	9.8
Non-trading		
Interest rate risk	**2.4**	1.8
Equity risk	**0.3**	(0.2)
Total	**2.7**	1.6

1 Reflects total product income which is the sum of Client Income and Own Account Income. Includes elements of Trading Income, Interest Income and Other Income which are generated from market risk related activities. XVA income is included under Interest rate risk

Mapping of market risk items to the balance sheet (unaudited)

Market risk contributes only 8.2 per cent of the Group's regulatory capital risk-weighted asset (RWA) requirement, as shown in the risk-weighted assets tables (page 188). As highlighted in the VaR disclosure, during 2017 the majority of market risk was managed within Treasury Markets and Financial Markets, which span both trading book and non-trading book. The non-trading equity market risk is generated by listed private equity holdings within Principal Finance. Treasury manages the market risk associated with debt and equity capital issuance.

	Amounts as per financial statements $million	Exposure to trading risk $million	Exposure to non-trading risk $million	Market risk type
Financial assets				
Derivative financial instruments	47,031	46,855	176	Interest rate, foreign exchange, commodity and/or equity risk
Loans and advances to banks	81,325	19,305	62,020	Interest rate and/or foreign exchange risk
Loans and advances to customers	285,553	33,707	251,846	Interest rate and/or foreign exchange risk
Debt securities and other eligible bills	135,842	19,493	116,349	Interest rate mainly, but also foreign exchange and/or equity risk
Equities	2,345	718	1,627	Equities risk mainly, but also interest and/or foreign exchange risk
Other assets	33,490	6,266	27,224	Interest rate, foreign exchange, commodity and/or equity risk
Total	585,586	126,344	459,242	
Financial liabilities				
Deposits by banks	35,486	–	35,486	Interest rate and/or foreign exchange risk
Customer accounts	411,724	–	411,724	Interest rate and/or foreign exchange risk
Debt securities in issue	53,402	–	53,402	Interest rate mainly, but also foreign exchange and/or equity risk
Derivatives financial instruments	48,101	47,652	449	Interest rate, foreign exchange, commodity and/or equity risk
Short positions	3,637	3,608	29	Interest rate, foreign exchange, commodity and/or equity risk
Total	552,350	51,260	501,090	

Structural foreign exchange exposures

The table below sets out the principal structural foreign exchange exposures (net of investment hedges) of the Group.

	2017 $million	2016 $million
Hong Kong dollar	**7,119**	6,452
Indian rupee	**4,806**	4,450
Renminbi	**3,784**	3,370
Singapore dollar	**2,972**	2,505
Korean won	**2,361**	2,460
Taiwanese dollar	**1,589**	2,140
UAE dirham	**1,842**	1,556
Malaysian ringgit	**1,512**	1,330
Thai baht	**1,277**	1,290
Indonesian rupiah	**1,090**	1,090
Pakistani rupee	**543**	573
Other	**4,000**	3,595
	32,895	30,811

As at 31 December 2017, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial investments) of $2,003 million (2016: $1,313 million) to partly cover its exposure to the Korean won. An analysis has been performed on these exposures to assess the impact of a 1 per cent fall in the US dollar exchange rates, adjusted to incorporate the impacts of correlations of these currencies to the US dollar. The impact on the positions above would be a decrease of $357 million (2016: $225 million). Changes in the valuation of these positions are taken to reserves.

For analysis of the Group's capital position and requirements, refer to the Capital Review (page 183)

Liquidity and funding risk

Liquidity and funding risk is the potential that the Group does not have sufficient financial resources or stable sources of funding in the medium or long term, to meet its obligations as they fall due, or can access these financial resources only at excessive cost.

The Group's liquidity and funding risk framework requires each country to ensure that it operates within predefined liquidity limits and remain in compliance with Group liquidity policies and practices, as well as local regulatory requirements.

The Group achieves this through a combination of setting risk appetite and associated limits, policy formation, risk measurement and monitoring, prudential and internal stress testing, governance and review.

For further information on the Group's liquidity and funding risk framework, refer to the Risk Management Approach (page 171).

In 2017, the Group issued approximately $1.5 billion of senior debt securities and $1 billion of Additional Tier 1 (AT1) securities from its holding company Standard Chartered PLC (2016: $4.4 billion of term senior debt, $1.25 billion of subordinated debt and $2 billion of AT1).

Since the beginning of the year, there were no significant changes in treasury policies as disclosed in the 2016 Annual Report and Accounts.

Primary sources of funding

The Group's funding strategy is largely driven by its policy to maintain adequate liquidity at all times, in all geographic locations and for all currencies, and hence to be in a position to meet all obligations as they fall due. The Group's funding profile is therefore well diversified across different sources, maturities and currencies.

A substantial portion of our assets are funded by customer deposits aligned with our policy to fund customer assets predominantly using customer deposits. Wholesale funding is diversified by type and maturity and represents a stable source of funds for the Group.

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

Debt refinancing levels are low. In the next 12 months approximately $5.6 billion of the Group's holding company senior debt and subordinated debt are falling due for repayment either contractually or callable by the Group.

The information presented in the Liquidity Pool section (page 152) is on a financial view. This is the location in which the transaction or balance was booked and provides a more accurate view of where liquidity risk is actually located.

The chart below shows the composition of liabilities in which customer deposits make up 62.1 per cent of total equity and liabilities as at 31 December 2017, the majority of which are

Group's composition of liabilities 31 December 2017

current accounts, savings accounts and time deposits. Our largest customer deposit base by geography is Greater China & North Asia (in particular Hong Kong), which holds 45.2 per cent of Group customer accounts.

Liquidity and funding risk metrics

We monitor key liquidity metrics regularly, both on a country basis and in aggregate across the Group.

The following Liquidity and Funding Board Risk Appetite metrics define the maximum amount and type of risk that the Group is willing to assume in pursuit of its strategy:

liquidity coverage ratio (LCR), liquidity stress survival horizons, external wholesale borrowing and advances to deposits ratio.

Liquidity coverage ratio (LCR) (unaudited)

The LCR is a regulatory requirement set to ensure that the Group has sufficient unencumbered high quality liquid assets to meet its liquidity needs in a 30-calendar-day liquidity stress scenario.

The Group monitors and reports its liquidity position under European Commission Delegated Regulation 2015/ 61 and has maintained its liquidity position above the prudential requirement.

At the reporting date, the Group LCR was 146 per cent (2016: 133 per cent) with a prudent surplus to both Board-approved Risk Appetite and regulatory requirements. The ratio increased 13 per cent year-on-year due to a reduction in net cash outflows as we focused on high quality liquidity across our businesses. We also held adequate liquidity across our footprint to meet all local prudential LCR requirements, where applicable.

For a more detailed Group LCR disclosure, refer to Section 6 of the Group's 2017 Pillar 3 Disclosures.

	2017 $million	2016 $million
Liquidity buffer	**132,251**	136,291
Total net cash outflows	**90,691**	102,263
Liquidity coverage ratio	**146%**	133%

Stressed coverage (unaudited)

The Group intends to maintain a prudent and sustainable funding and liquidity position, in all presence countries and currencies, such that it can withstand a severe but plausible liquidity stress.

Our approach to managing liquidity and funding risk is reflected in the following Risk Appetite statement.

"The Group should hold an adequate buffer of high quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support."

The Group's internal liquidity stress testing framework covers the following stress scenarios:

- Standard Chartered-specific – this scenario captures the liquidity impact from an idiosyncratic event affecting Standard Chartered only, i.e. the rest of the market is assumed to operate normally
- Market-wide – this scenario captures the liquidity impact from a market-wide crisis affecting all participants in a country, region or globally
- Combined – this scenario assumes both Standard Chartered-specific and Market- Wide events affecting the Group simultaneously, and is hence the most severe scenario

All scenarios include, but are not limited to, modelled outflows for retail and wholesale funding, off-balance sheet funding risk, cross-currency funding risk, intraday risk, franchise risk and risks associated with a deterioration of a firm's credit rating.

Stress testing results show that a positive surplus was maintained under all scenarios at 31 December 2017, i.e. the respective countries included were able to survive for a period of time as defined under each scenario. The combined scenario at 31 December 2017 showed the Group maintaining liquidity resources to survive greater than 60 days, as per our Risk Appetite. The results take into account currency convertibility and portability constraints across all major presence countries.

Standard Chartered Bank's credit ratings as at 31 December 2017 were A+ with stable outlook (Fitch), A with stable outlook (S&P) and A1 with stable outlook (Moody's). A downgrade in the Group's long-term credit ratings would increase derivative collateral requirements and outflows due to rating-linked liabilities. At 31 December 2017, the estimated contractual outflow of a two-notch long term ratings downgrade is $1.3 billion (unaudited).

For further information on the Group's liquidity stress testing framework refer to the Risk Management Approach (page 162).

External wholesale borrowing

The Board sets a risk limit to prevent excessive reliance on wholesale borrowing. Limits are applied to all branches and operating subsidiaries in the Group and as at the reporting date the Group remained within the Board-approved Risk Appetite.

Advances-to-deposits ratio

This is defined as the ratio of total loans and advances to customers relative to total customer accounts. An advances-to-deposits ratio of below 100 per cent demonstrates that customer deposits exceed customer loans as a result of the emphasis placed on generating a high level of funding from customers.

The advances-to-deposits ratio (2017: 69.4 per cent) increased from the previous year (2016: 67.6 per cent).

Loans and advances to customers have increased 12 per cent since the end of 2016 to $286 billion. This growth was largely due to higher Corporate Finance balances in Hong Kong and increased retail mortgage lending in Singapore and Korea, benefiting in part from favourable foreign exchange movement. Our repo business also grew over the period as we benefitted from our deep client franchise and balance sheet strength.

Customer accounts have also increased 9 per cent from the end of 2016 to $412 billion as the Group focused on high-quality liquidity across its businesses with an emphasis on Retail, Transaction Banking and other deposits with high liquidity and regulatory value. Retail current and savings account balances increased significantly over the period along with growth in time deposits.

	2017 $million	2016 $million
Loans and advances to customers[1,2]	**285,553**	255,896
Customer accounts[3]	**411,724**	378,302
Advances-to-deposits ratio	**69.4%**	67.6%

1 See note 13 of the financial statements (page 229 to 231)

2 Includes reverse repurchase agreements and other similar secured lending of $55,187 million

3 Includes repurchase agreements and other similar secured borrowing of $39,783 million

Net stable funding ratio (NSFR) (unaudited)

On 23 November 2016 the European Commission, as part of a package of risk-reducing measures, proposed a binding requirement for stable funding (Net Stable Funding Ratio (NSFR)) at European Union level. The proposal aims to implement the European Banking Authority's interpretation of the Basel standard on NSFR (BCBS295). Pending implementation of the final rules, the Group continues to monitor NSFR in line with the BCBS' final recommendation (BCBS295), At the last reporting date, the Group NSFR remained above 100 per cent.

Liquidity pool (unaudited)

The liquidity value of the Group's LCR eligible liquidity pool at the reporting date was $132 billion. The figures in the below table account for haircuts, currency convertibility and portability constraints and therefore are not directly comparable with the consolidated balance sheet. The pool is held to offset stress outflows as defined in European Commission Delegated Regulation 2015/ 61.

The pool decreased $4 billion year-on-year, reflecting the improved quality of our funding base and redeployment of surplus liquidity, held primarily in Europe & Americas, into commercial assets. Our liquidity pool composition also changed over the period as we increased our holdings of Level 1 LCR eligible securities and reduced cash and central bank reserves.

	2017				
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Total $million**
Level 1 securities					
Cash and balances at central banks	**13,779**	**2,400**	**1,708**	**33,191**	**51,078**
Central banks, governments/public sector entities	**28,187**	**12,265**	**1,064**	**24,464**	**65,980**
Multilateral development banks and international organisations	**–**	**563**	**159**	**8,568**	**9,290**
Other	**–**	**–**	**–**	**130**	**130**
Total Level 1 securities	**41,966**	**15,228**	**2,931**	**66,353**	**126,478**
Level 2A securities	**2,234**	**825**	**113**	**1,147**	**4,319**
Level 2B securities	**–**	**246**	**3**	**1,206**	**1,455**
Total LCR eligible assets	**44,200**	**16,299**	**3,047**	**68,706**	**132,252**

	2016				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Level 1 securities					
Cash and balances at central banks	14,206	2,878	1,452	45,054	63,590
Central banks, governments/public sector entities	28,304	10,430	1,709	16,271	56,714
Multilateral development banks and international organisations	178	1,362	169	9,178	10,887
Other	–	–	–	200	200
Total Level 1 securities	42,688	14,670	3,330	70,703	131,391
Level 2A securities	–	1,848	152	1,597	3,597
Level 2B securities	–	59	–	1,244	1,303
Total LCR eligible assets	42,688	16,577	3,482	73,544	136,291

Encumbrance (unaudited)

Encumbered assets

Encumbered assets represent on-balance sheet assets pledged or subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. Cash collateral pledged against derivatives and Hong Kong government certificates of indebtedness, which secure the equivalent amount of Hong Kong currency notes in circulation, are included within Other assets.

Unencumbered – readily available for encumbrance

Unencumbered assets that are considered by the Group to be readily available in the normal course of business to secure funding, meet collateral needs, or be sold to reduce potential future funding requirements, and are not subject to any restrictions on their use for these purposes.

Unencumbered – other assets capable of being encumbered

Unencumbered assets that, in their current form, are not considered by the Group to be readily realisable in the normal course of business to secure funding, meet collateral needs, or be sold to reduce potential future funding requirements, and are not subject to any restrictions on their use for these purposes. Included within this category are loans and advances which would be suitable for use in secured funding structures such as securitisations.

Unencumbered – cannot be encumbered

Unencumbered assets are assets that have not been pledged and we have assessed that cannot be used to secure funding, meet collateral needs, or be sold to reduce potential future funding requirements.

Derivatives, reverse repurchase assets and stock lending

These assets are shown separately as these on-balance sheet amounts cannot be pledged. However, these assets can give rise to off-balance sheet collateral, which can be used to raise secured funding or meet additional funding requirements.

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

2017

		Assets encumbered as a result of transactions with counterparties other than central banks			Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
						Assets not positioned at the central bank				
	Assets $million	As a result of securitisations $million	Other $million	Total $million	Assets positioned at the central bank (ie pre-positioned plus encumbered) $million	Readily available for encumbrance $million	Other assets that are capable of being encumbered $million	Derivatives and reverse repo/stock lending $million	Cannot be encumbered $million	Total $million
Cash and balances at central banks	58,864	–	–	–	9,761	49,103	–	–	–	58,864
Derivative financial instruments	47,031	–	–	–	–	–	–	47,031	–	47,031
Loans and advances to banks[1]	81,325	–	–	–	–	47,380	5,333	21,260	7,352	81,325
Loans and advances to customers[1]	285,553	11	–	11	–	–	232,328	33,928	19,286	285,542
Investment securities[1]	138,187	–	8,213	8,213	178	91,928	29,967	–	7,901	129,974
Other assets	33,490	–	14,930	14,930	–	–	11,604	–	6,956	18,560
Current tax assets	491	–	–	–	–	–	–	–	491	491
Prepayments and accrued income	2,307	–	–	–	–	–	1,503	–	804	2,307
Interests in associates and joint ventures	2,307	–	–	–	–	–	–	–	2,307	2,307
Goodwill and intangible assets	5,013	–	–	–	–	–	352	–	4,661	5,013
Property, plant and equipment	7,211	–	–	–	–	–	1,148	–	6,063	7,211
Deferred tax assets	1,177	–	–	–	–	–	–	–	1,177	1,177
Assets classified as held for sale	545	–	–	–	–	–	–	–	545	545
Total	663,501	11	23,143	23,154	9,939	188,411	282,235	102,219	57,543	640,347

1 Includes assets held at fair value through profit or loss and reverse repurchase agreements and other similar secured lending

	2016									
		Assets encumbered as a result of transactions with counterparties other than central banks			Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
					Assets not positioned at the central bank					
	Assets $million	As a result of securitisations $million	Other $million	Total $million	Assets positioned at the central bank (ie pre-positioned plus encumbered) $million	Readily available for encumbrance $million	Other assets that are capable of being encumbered $million	Derivatives and reverse repo/stock lending $million	Cannot be encumbered $million	Total $million
Cash and balances at central banks	70,706	–	–	–	8,648	62,058	–	–	–	70,706
Derivative financial instruments	65,509	–	–	–	–	–	–	65,509	–	65,509
Loans and advances to banks[1]	74,669	–	–	–	–	50,561	4,092	18,568	1,448	74,669
Loans and advances to customers[1]	255,896	21	–	21	–	–	214,354	26,348	15,173	255,875
Investment securities[1]	123,812	–	5,868	5,868	35	78,535	33,083	–	6,291	117,944
Other assets	36,940	–	19,674	19,674	–	–	10,637	–	6,629	17,266
Current tax assets	474	–	–	–	–	–	–	–	474	474
Prepayments and accrued income	2,238	–	–	–	–	–	887	–	1,351	2,238
Interests in associates and joint ventures	1,929	–	–	–	–	–	–	–	1,929	1,929
Goodwill and intangible assets	4,719	–	–	–	–	–	109	–	4,610	4,719
Property, plant and equipment	7,252	–	–	–	–	–	1,039	–	6,213	7,252
Deferred tax assets	1,294	–	–	–	–	–	–	–	1,294	1,294
Assets classified as held for sale	1,254	–	–	–	–	–	–	–	1,254	1,254
Total[2]	646,692	21	25,542	25,563	8,683	191,154	264,201	110,425	46,666	621,129

1 Includes assets held at fair value through profit or loss and reverse repurchase agreements and other similar secured lending

2 The 2016 comparatives have been represented to split unencumbered assets to enhance disclosures

The Group received $72,982 million (2016: $54,473 million) as collateral under reverse repurchase agreements that was eligible for repledging; of this, the Group sold or repledged $34,018 million (2016: $33,053 million) under repurchase agreements.

Liquidity analysis of the Group's balance sheet

Contractual maturity of assets and liabilities

The following table presents assets and liabilities by maturity groupings based on the remaining period to the contractual maturity date as at the balance sheet date on a discounted basis. Contractual maturities do not necessarily reflect actual repayments or cashflow.

Within the tables below, cash and balances with central banks, interbank placements and investment securities that are available-for-sale are used by the Group principally for liquidity management purposes.

At the reporting date, assets remain predominantly short-dated, with 61 per cent maturing in under one year. Our less than three month cumulative net funding gap increased from the previous year, largely due to an increase in customer accounts as the Group focused on improving the quality of its deposit base. In practice, these deposits are recognised as stable and have behavioural profiles that extend beyond their contractual maturities.

	2017								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	49,103	–	–	–	–	–	–	9,761	58,864
Derivative financial instruments	6,284	7,706	5,930	3,537	2,601	5,427	7,111	8,435	47,031
Loans and advances to banks[1,2]	36,548	21,238	12,042	4,299	3,612	1,588	1,386	612	81,325
Loans and advances to customers[1,2]	87,794	32,618	17,459	11,357	8,545	17,500	37,237	73,043	285,553
Investment securities	14,185	18,208	13,692	11,213	9,145	22,369	31,660	17,715	138,187
Other assets	19,349	4,466	2,521	105	247	138	127	25,588	52,541
Total assets	213,263	84,236	51,644	30,511	24,150	47,022	77,521	135,154	663,501
Liabilities									
Deposits by banks[1,3]	29,365	2,484	1,437	530	730	154	135	651	35,486
Customer accounts[1,4]	327,434	37,178	19,716	10,775	9,321	3,115	1,746	2,439	411,724
Derivative financial instruments	8,018	8,035	6,068	3,544	2,685	5,057	7,794	6,900	48,101
Senior debt	67	273	1,801	53	1,937	5,053	4,747	5,585	19,516
Other debt securities in issue[1]	4,139	10,616	9,954	2,005	779	1,091	794	4,508	33,886
Other liabilities	20,428	5,988	3,672	671	303	696	897	13,150	45,805
Subordinated liabilities and other borrowed funds	–	116	1,382	–	–	–	3,887	11,791	17,176
Total liabilities	389,451	64,690	44,030	17,578	15,755	15,166	20,000	45,024	611,694
Net liquidity gap	(176,188)	19,546	7,614	12,933	8,395	31,856	57,521	90,130	51,807

1 Loans and advances, investment securities, deposits by banks, customer accounts and debt securities in issue include financial instruments held at fair value through profit or loss, see note 13 of the financial statements (pages 229 to 231)

2 Loans and advances include reverse repurchase agreements and other similar secured lending borrowing of $55.2 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of $3.8 billion

4 Customer accounts include repurchase agreements and other similar secured lending borrowing of $36 billion

	2016								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	62,058	–	–	–	–	–	–	8,648	70,706
Derivative financial instruments	7,749	10,562	8,263	5,317	4,580	8,472	10,798	9,768	65,509
Loans and advances to banks[1,2]	32,231	23,388	10,667	3,041	2,540	1,240	1,404	158	74,669
Loans and advances to customers[1,2]	71,483	27,977	17,948	7,917	7,839	18,365	32,615	71,752	255,896
Investment securities[1]	8,600	16,894	11,796	10,496	11,764	19,272	32,626	12,364	123,812
Other assets	23,357	5,379	2,857	195	1,007	60	113	23,132	56,100
Total assets	205,478	84,200	51,531	26,966	27,730	47,409	77,556	125,822	646,692
Liabilities									
Deposits by banks[1,3]	31,340	2,912	1,115	665	573	629	146	232	37,612
Customer accounts[1,4]	280,329	46,060	25,258	11,135	8,942	2,577	2,119	1,882	378,302
Derivative financial instruments	8,709	9,911	7,661	6,058	4,797	8,969	11,275	8,332	65,712
Senior debt	96	173	1,212	1,500	981	3,347	8,849	3,433	19,591
Other debt securities in issue[1]	5,916	11,188	6,883	2,687	447	860	748	4,050	32,779
Other liabilities	19,262	6,163	5,003	687	604	1,368	847	10,581	44,515
Subordinated liabilities and other borrowed funds	22	31	–	1,710	–	978	785	15,997	19,523
Total liabilities	345,674	76,438	47,132	24,442	16,344	18,728	24,769	44,507	598,034
Net liquidity gap	(140,196)	7,762	4,399	2,524	11,386	28,681	52,787	81,315	48,658

1 Loans and advances, investment securities, deposits by banks, customer accounts and debt securities in issue include financial instruments held at fair value through profit or loss, see note 13 of the financial statements (pages 229 to 231)

2 Loans and advances include reverse repurchase agreements and other similar secured lending borrowing of $44.9 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of $4 billion

4 Customer accounts include repurchase agreements and other similar secured lending borrowing of $33.7 billion

Behavioural maturity of financial assets and liabilities

The cashflows presented in the previous section reflect the cashflows that will be contractually payable over the residual maturity of the instruments. However, contractual maturities do not necessarily reflect the timing of actual repayments or cashflow. In practice, certain assets and liabilities behave differently from their contractual terms, especially for short-term customer accounts, credit card balances and overdrafts, which extend to a longer period than their contractual maturity. On the other hand, mortgage balances tend to have a shorter repayment period than their contractual maturity date. Expected customer behaviour is assessed and managed on a country basis using qualitative and quantitative techniques, including analysis of observed customer behaviour over time.

Maturity of financial liabilities on an undiscounted basis

The following table analyses the contractual cashflows payable for the Group's financial liabilities by remaining contractual maturities on an undiscounted basis. The financial liability balances in the table below will not agree to the balances reported in the consolidated balance sheet as the table incorporates all contractual cashflows, on an undiscounted basis, relating to both principal and interest payments. Derivatives not treated as hedging derivatives are included in the "On demand" time bucket and not by contractual maturity.

Within the 'More than five years and undated' maturity band are undated financial liabilities, all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful given the instruments are undated. Interest payments on these instruments are included within the relevant maturities up to five year.

	2017								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Deposits by banks	**29,427**	**2,497**	**1,460**	**545**	**743**	**160**	**150**	**697**	**35,679**
Customer accounts	**327,501**	**37,353**	**20,720**	**10,901**	**9,463**	**3,178**	**1,840**	**2,919**	**413,875**
Derivative financial instruments[1]	**47,267**	**–**	**3**	**–**	**153**	**166**	**246**	**266**	**48,101**
Debt securities in issue	**4,287**	**10,888**	**11,878**	**2,141**	**2,876**	**6,550**	**6,163**	**11,769**	**56,552**
Subordinated liabilities and other borrowed funds	**126**	**207**	**1,490**	**210**	**166**	**657**	**3,726**	**19,356**	**25,938**
Other liabilities	**20,800**	**6,052**	**3,676**	**681**	**324**	**720**	**929**	**11,241**	**44,423**
Total liabilities	**429,408**	**56,997**	**39,227**	**14,478**	**13,725**	**11,431**	**13,054**	**46,248**	**624,568**

	2016								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Deposits by banks	31,412	2,923	1,123	671	576	644	154	257	37,760
Customer accounts	280,731	46,268	25,539	11,289	9,074	2,622	2,177	2,548	380,248
Derivative financial instruments[1]	62,917	10	–	–	876	11	472	1,426	65,712
Debt securities in issue	6,159	11,361	8,228	4,240	1,606	4,574	10,271	9,362	55,801
Subordinated liabilities and other borrowed funds	173	86	163	1,949	77	1,691	2,724	23,228	30,091
Other liabilities	21,139	6,905	5,059	769	612	1,391	915	11,459	48,249
Total liabilities	402,531	67,553	40,112	18,918	12,821	10,933	16,713	48,280	617,861

1 Derivatives are on the discounted basis

Earnings sensitivity (unaudited)

The following table provides the estimated impact on the Group's earnings of a 50 basis point parallel shock (up and down) across all yield curves. The sensitivities shown represent the estimated change in base case projected net interest income (NII), plus the change in interest rate implied income and expense from FX swaps used to manage banking book currency positions, under the two interest rate shock scenarios.

The interest rate sensitivities are indicative and based on simplified scenarios, estimating the aggregate impact of an instantaneous 50 basis point parallel shock across all yield curves over a one-year horizon, including the time taken to implement changes to pricing before becoming effective. The assessment assumes that non-interest rate-sensitive aspects of the size and mix of the balance sheet remain constant and that there are no specific management actions in response to the change in rates. No assumptions are made in relation to the impact on credit spreads in a changing rate environment.

Significant modelling and behavioural assumptions are made regarding scenario simplification, market competition, pass-through rates, asset and liability re-pricing tenors, and price flooring. In particular, the assumption that interest rates of all currencies and maturities shift by the same amount concurrently, and that no actions are taken to mitigate the impacts arising from this are considered unlikely. Reported sensitivities will vary over time due to a number of factors including changes in balance sheet composition, market conditions, customer behaviour and risk management strategy and should therefore not be considered an income or profit forecast.

	2017			
Estimated one-year impact to earnings from a parallel shift in yield curves at the beginning of the period of:	USD bloc $million	HKD, SGD & KRW bloc $million	Other currency bloc $million	Total $million
+ 50 basis points	**70**	**120**	**140**	**330**
- 50 basis points	**(50)**	**(100)**	**(140)**	**(290)**

As at 31 December 2017, the Group estimates the one-year impact of an instantaneous, parallel increase across all yield curves of 50 basis points would result in an earnings benefit of $330 million. The corresponding impact from a parallel decrease of 50 basis points would result in an earnings reduction of $290 million.

The benefit from rising interest rates is primarily from reinvesting at higher yields and from assets re-pricing faster and to a greater extent than deposits. The current estimate indicates that the majority of the earnings benefit would come from our GCNA region and from non-USD currencies.

The USD sensitivity is impacted by the dampening effect due to the asymmetry of funding Trading Book assets with Banking Book liabilities. The sensitivities include the cost of Banking Book liabilities used to fund the Trading Book, however the revenue associated with the Trading Book positions is recognised in net trading income. This asymmetry in both the up and down scenarios should be broadly offset within total operating income.

Operational risk (unaudited)

Operational risks arise from the broad scope of activities carried out across the Group. Risks associated with these activities are mapped into a Group Process Universe where a standardised operational risk management approach is applied to mitigate the risks. We benchmark practices against industry standards and regulatory requirements.

A summary of our operational risk management approach is provided in the Risk management approach (page 173).

Operational risk profile

The operational risk profile is the Group's overall exposure to operational risk, at a given point in time, covering all applicable operational risk sub-types. The operational risk profile comprises both operational risk events and losses that have already occurred and the current exposures to operational risks which, at an aggregate level, includes the consideration of top risks and emerging risks.

Operational risk events and losses

Operational losses are one indicator of the effectiveness and robustness of the operational risk control environment. In addition, lessons learnt reviews and root cause analyses from external and internal loss events, including near misses, are used to improve processes and controls.

As at 31 December 2017, recorded operational losses for 2017 are lower than 2016. Operational losses in 2017 comprise of unrelated non-systemic events which were not individually significant. The largest operational loss recognised as at 31 December 2017 relates to the Group's $17.2 million settlement arising from a US class action brought against a number of banks concerning foreign exchange benchmark rates.

Losses in 2016 include incremental events that were recognised in 2017 and reclassification of Basel event types and Basel business lines. As at 31 December 2017, the largest loss recorded for 2016 relates to a credit loan impairment of $24.5 million in the Commercial Banking Basel business line.

The Group's profile of operational loss events in 2017 and 2016 is summarised in the table below. It shows the percentage distribution of gross operational losses by Basel business line.

	% Loss	
Distribution of operational losses by Basel business line	**2017**	2016[1]
Agency services	**3.2%**	2.5%
Commercial Banking	**7.2%**	25.3%
Corporate Finance	**4.6%**	0.0%
Corporate items	**3.8%**	10.7%
Payment and settlements	**1.6%**	7.0%
Retail Banking	**39.6%**	30.6%
Retail brokerage	**0.1%**	4.4%
Trading and sales	**39.9%**	19.5%

1 2016 losses are restated to reflect incremental losses recorded

The Group's profile of operational loss events in 2017 and 2016 is also summarised by Basel event type in the table below. It shows the percentage distribution of gross operational losses by Basel event type:

	% Loss	
Distribution of operational losses by Basel event type	**2017**	2016[1]
Business disruption and system failures	**0.6%**	2.1%
Client products and business practices	**41.8%**	10.6%
Damage to physical assets	**0.1%**	0.0%
Employment practices and workplace safety	**0.0%**	0.4%
Execution delivery and process management	**36.0%**	50.7%
External fraud	**20.7%**	34.2%
Internal fraud	**0.8%**	2.0%

1 2016 losses are restated to reflect incremental losses recorded

Operational losses are one indicator of the effectiveness and robustness of the operational risk control environment. In addition, lessons learnt reviews and root cause analyses from external and internal loss events, including near misses, are used to improve processes and controls.

Top risks and emerging risks

A top risk is a risk exposure, or a group of highly correlated risk exposures, that has the highest potential to breach the Group's risk capacity. The objective is to identify those risks that can materially impact the Group's risk capacity, and to calibrate metrics as early warning indicators against undesirable outcomes and performance under stress. Top risk candidates are identified through a top-down assessment of concentration of exposures or aggregation of risks.

Emerging risks are also considered, both internally from the Group's internal operational risk profile and from external events. Given their significance, top risks attract closer scrutiny from management and governance committees. Top risks change over time based on the top-down assessments by management.

The Group's operational top risks as at 31 December 2017 are shown in the table below.

Top risks

Macro-prudential, regulatory, and external risks

- Regulatory non-compliance
- Anti-money laundering and terrorist financing
- International sanctions
- External fraud
- Market misconduct
- Information and cyber security
- Critical third-party vendors
- Additional conduct matters
- Anti-bribery and corruption

Internal processes, systems, and change risks

- Change management
- Data management
- Major systems failure
- Significant business interruption
- Rogue trading
- Internal fraud
- Mis-selling
- Product management
- Collateral and Document management

Enterprise Risk Management Framework

Risk management is essential to consistent and sustainable performance for all of our stakeholders and is therefore a central part of the financial and operational management of the Group. The Group adds value to clients and therefore the communities in which they operate and generates returns for shareholders by taking and managing risk

Through our Enterprise Risk Management Framework we manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our risk appetite.

In 2017 we completed a thorough review of our Enterprise Risk Management Framework and the following key changes were approved by the Board:

Key changes

- Refreshing our risk culture and Risk Appetite Statements for our Principal Risk Types
- Changing our Principal Risk Types including:
  - Elevating Conduct, Compliance, Financial crime and Information and cyber security to Principal Risk Types
  - Broadening the scope of Country cross border risk to cover Country risk
  - Pension risk is now a risk sub-type of Market risk
  - Integrating Strategy risk as part of the overall Framework. See section on Strategic Risk Management on the right which explains how the Group approaches Strategic risk
  - Consolidating Capital and Liquidity risk types into one Principal Risk Type
- Strengthening risk assessment by introducing a dynamic risk identification process
- Further clarity on accountability and responsibility by strengthening of the three lines of defence and alignment with the objectives of the Senior Managers' Regime

The new revised Enterprise Risk Management Framework is effective from 22 January 2018 and will be further embedded in 2018.

Risk culture

The Group's risk culture provides guiding principles for the behaviours expected from our people when managing risk. The Board has approved a risk culture statement that encourages the following behaviours and outcomes:

- An enterprise level ability to identify and assess current and future risks, openly discuss these and take prompt actions
- The highest level of integrity by being transparent and proactive in disclosing and managing all types of risks
- A constructive and collaborative approach in providing oversight and challenge, and taking decisions in a timely manner
- Everyone to be accountable for their decisions and feel safe using their judgement to make these considered decisions

We acknowledge that banking inherently involves risk-taking and undesired outcomes will occur from time to time; however, we shall take the opportunity to learn from our experience and formalise what we can do to improve. We expect managers to demonstrate a high awareness of risk and control by self-identifying issues and managing them in a manner that will deliver lasting change.

Strategic risk management

The Group approaches strategic risk management by:

- Including in the strategy review process an impact analysis on the risk profile from the growth plans, strategic initiatives and business model vulnerabilities with the aim of proactively identifying and managing new risks or existing risks that need to be reprioritised
- Including in the strategy review process a confirmation that growth plans and strategic initiatives can be delivered within the approved Risk Appetite and/or proposing additional Risk Appetite for Board consideration
- Validating the Corporate Plan against the approved or proposed Risk Appetite Statement to the Board. The Board approves the strategy review and the five year Corporate Plan with a confirmation from the Group Chief Risk Officer that it is aligned with the Enterprise Risk Management Framework and the Group Risk Appetite Statement where projections allow

Roles and responsibilities

Three Lines of Defence model

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence has a specific set of responsibilities for risk management and control as shown in the table on the next page.

Senior Managers' Regime

Roles and responsibilities under the revised Enterprise Risk Management Framework are aligned to the objectives of the Senior Managers' Regime. The Group Chief Risk Officer is responsible for the overall development and maintenance of the Group's Enterprise Risk Management Framework and for identifying material risk types to which the Group may be potentially exposed. The Group Chief Risk Officer delegates effective implementation of the Principal Risk Type frameworks to risk framework owners who provide Second Line of Defence oversight for the Principal Risk Types.

Lines of Defence	Definition	Key responsibilities include
1st	The businesses and functions engaged in or supporting revenue generating activities that own and manage risks	→ Identify, monitor and escalate risks and issues to the Second Line and senior management[1] and promote a healthy risk culture and good conduct → Manage risks within Risk Appetite and ensure laws and regulations are being complied with → Ensure systems meet risk data aggregation, risk reporting and data quality requirements set by the Second Line
2nd	The control functions independent of the First Line that provide oversight and challenge of risk management to provide confidence to the Group Chief Risk Officer, the management team and the Board	→ Identify, monitor and escalate risks and issues to the Group Chief Risk Officer, senior management[1] and the Board and promote a healthy risk culture and good conduct → Oversee and challenge First Line risk taking activities and review First Line risk proposals → Propose Risk Appetite to the Board, monitor and report adherence to Risk Appetite and intervene to curtail business if it is not in line with existing or adjusted Risk Appetite → Set risk data aggregation, risk reporting and data quality requirements
3rd	The independent assurance provided by the Group Internal Audit Function, of the effectiveness of controls that support First Line's risk management of business activities, and the processes maintained by the Second Line. Its role is defined and overseen by the Audit Committee of the Board	→ Independently assess whether management has identified the key risks in the business and whether these are reported and governed in line with the established risk management processes → Independently assess the adequacy of the design of controls and their operating effectiveness

1 Senior management in this table refers to individuals designated as Senior Management Functions (SMF) under the FCA and PRA Senior Managers' Regime (SMR)

The Risk and Compliance function

The Group Chief Risk Officer directly manages the Risk and Compliance function that is separate and independent from the origination, trading and sales functions of the businesses. The role of the function is:

- → To maintain the Enterprise Risk Management Framework, ensuring it remains appropriate to the Group's activities, is effectively communicated and implemented across the Group, and to administer related governance and reporting processes
- → To uphold the overall integrity of the Group's risk/return decisions, and in particular to ensure that risks are properly assessed, that risk/return decisions are made transparently on the basis of this proper assessment, and that risks are controlled in accordance with the Group's standards and Risk Appetite
- → To oversee and challenge the management of credit, country, market, operational, reputational, compliance, conduct, information and cyber security and financial crime risk types

The independence of the Risk and Compliance function is to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues.

In addition, the Risk and Compliance function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the broader organisation.

Risk Appetite and profile

We recognise the following constraints which determine the risks that we are willing to take in pursuit of our strategy and the development of a sustainable business:

- → **Risk capacity** is the maximum level of risk the Group can assume, given its current capabilities and resources, before breaching constraints determined by capital and liquidity requirements and internal operational capability (including but not limited to technical infrastructure, risk management capabilities, expertise), or otherwise failing to meet the expectations of regulators and law enforcement agencies
- → **Risk Appetite** is defined by the Group and approved by the Board. It is the maximum amount and type of risk the Group is willing to assume in pursuit of its strategy. Risk Appetite cannot exceed risk capacity

The Board has approved a Risk Appetite Statement, which is underpinned by a set of financial and operational control parameters known as Risk Appetite metrics and associated thresholds. These directly constrain the aggregate risk exposures that can be taken across the Group. The Risk Appetite Statement is supplemented by an overarching statement outlining the Group's Risk Appetite Principles.

Risk Appetite Principles

The Group Risk Appetite is in accordance with our overall approach to risk management and our risk culture. We follow the highest ethical standards required by our stakeholders and ensure a fair outcome for our clients, the effective operation of financial markets, while at the same time meeting expectations of regulators and law enforcement agencies. We set our Risk Appetite to enable us to grow sustainably and to avoid shocks to earnings or our general financial health and to manage our reputational risk in a way that does not materially undermine the confidence of our investors and all internal and external stakeholders.

Risk Appetite Statement

The Group will not compromise adherence to its Risk Appetite in order to pursue revenue growth or higher returns.

Risk control tools such as exposure limits, underwriting standards, scorecard cut-offs and policies and other operational control parameters are used to keep the Group's risk profile within risk appetite (and therefore also risk capacity). The Group's risk profile is its overall exposure to risk at a given point in time, covering all applicable risk types. Status against Risk Appetite is reported to the Board Risk Committee and the Group Risk Committee, including the status of breaches and remediation plans where applicable.

The Group Risk Committee, the Group Financial Crime Risk Committee, the Group Operational Risk Committee and the Group Asset and Liability Committee are responsible for ensuring that our risk profile is managed in compliance with the Risk Appetite set by the Board. The Board Risk Committee and the Board Financial Crime Risk Committee (for Financial Crime Compliance) advise the Board on the Risk Appetite Statement and monitor the Group's compliance with it.

> The individual Principal Risk Types' Risk Appetite Statements along with the key associated Risk Appetite metrics approved by the Board are set out in the Principal Risks section (pages 165 to 178)

Risk identification and assessment

Identification and assessment of potential adverse risk events is an essential first step in managing the risks of any business or activity. To ensure consistency in communication we use Principal Risk Types to classify our risk exposures. Nevertheless, we also recognise the need to maintain an overall perspective since a single transaction or activity may give rise to multiple types of risk exposure, risk concentrations may arise from multiple exposures that are closely correlated, and a given risk exposure may change its form from one risk type to another.

To facilitate the above, the Group maintains a dynamic risk scanning process with inputs on the internal and external risk environment, as well as potential threats and opportunities from the business and client perspectives.

Stress testing

The objective of stress testing is to support the Group in assessing that it:

- Does not have a portfolio with excessive concentrations of risk that could produce unacceptably high losses under severe but plausible scenarios
- Has sufficient financial resources to withstand severe but plausible scenarios
- Has the financial flexibility to respond to extreme but plausible scenarios
- Understands the Group's key business model risks, considers what kind of event might crystallise those risks – even if extreme with a low likelihood of occurring – and identifies, as required, actions to mitigate the likelihood or the impact

Enterprise stress tests include Capital and Liquidity Adequacy Stress Tests including in the context of recovery and resolution, and stress tests that assess scenarios where our business model becomes unviable, such as reverse stress tests.

Stress tests are performed at Group, country, business and portfolio level. Bespoke scenarios are applied to our market and liquidity positions as described in the sections Market risk on page 169 and Liquidity and funding risk on page 171. In addition to these, our stress tests also focus on the potential impact of macroeconomic, geopolitical and physical events on relevant regions, client segments and risk types.

The Board delegates approval of stress tests to the Board Risk Committee, who reviews the recommendations from the Stress Testing Committee. The Stress Testing Committee is appointed by the Group Risk Committee to review and challenge the stress test scenarios, assumptions and results.

Based on the stress test results, the Group Chief Risk Officer and Group Chief Financial Officer can recommend strategic actions to ensure that the Group Strategy remains within the Board-approved Risk Appetite.

Principal Risk Types

Principal risks are those risks that are inherent in our strategy and our business model. These risks are managed through distinct Risk Type Frameworks (RTF). The RTFs are approved by the Group Chief Risk Officer. The principal risks and associated Risk Appetite Statements are approved by the Board.

As part of the overall risk management framework review in 2017 we also reviewed our Principal Risk Types. The table below shows the current Group's principal risks.

Principal Risks Types	Definition
Credit risk	Potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Group
Country risk	Potential for default or losses due to political or economic events in a country
Market risk	Potential for loss of economic value due to adverse changes in financial market rates or prices
Capital & liquidity risk	Capital: potential for insufficient level or composition of capital to support our normal activities Liquidity: potential for failure where we may not have sufficient stable or diverse sources of funding or financial resources to meet our obligations as they fall due
Operational risk	Potential for loss resulting from inadequate or failed internal processes and systems, human error, or from the impact of external events
Reputational risk	Potential for loss of earnings or market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions
Compliance	Potential for regulatory sanctions or loss from a failure on our part to comply with laws or regulations
Conduct	Potential regulatory sanctions or loss from a failure on our part to abide by the Group's Conduct Risk Management Framework
Information and cyber security	Potential for loss from a breach of confidentiality, integrity and availability of the Group's information systems and assets through cyber attack, insider activity, error or control failure
Financial crime	Potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to International Sanctions, Anti-Money Laundering and Anti-Bribery and Corruption

> Further details of our principal risks and how these are being managed are set out in the Principal Risks section (pages 165 to 178)

Executive and Board risk oversight

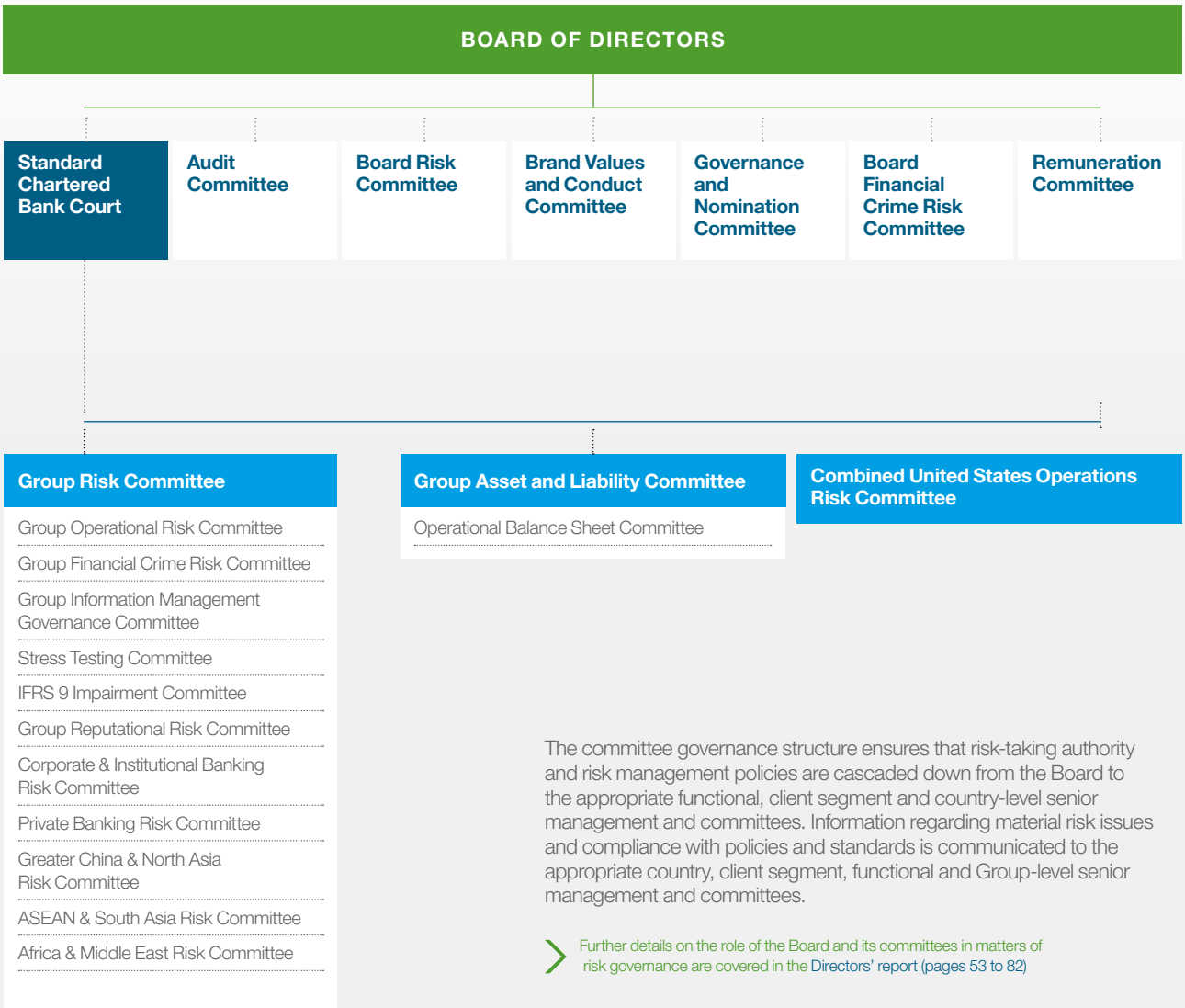
Overview

The Board has ultimate responsibility for risk management and is supported by the six Board-level committees. The Board approves the Enterprise Risk Management Framework based on the recommendation from the Board Risk Committee, which also recommends the Group Risk Appetite Statement other than financial crime risk. Financial crime risk related Risk Appetite is reviewed and recommended to the Board by the Board Financial Crime Risk Committee.

The Board appoints the Standard Chartered Bank Court to maintain a sound system of internal control and risk management. The Group Risk Committee, through its authority received from the Court, oversees effective implementation of the Enterprise Risk Management Framework. The Group Chief Risk Officer, as Chair of the Group Risk Committee, approves the use of sub-committees to support the Group Risk Committee overseeing risk at Business, Regional, Country, or Principal Risk Type level.

The Board Risk Committee receives regular reports on risk management, including the Group's portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference. The Board Risk Committee also conducts deep dive reviews on a rolling basis of different sections of the consolidated risk information report that is provided at each scheduled committee meeting.

Risk committee governance structure



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

Further details on the role of the Board and its committees in matters of risk governance are covered in the Directors' report (pages 53 to 82)

Group Risk Committee

The Group Risk Committee is responsible for ensuring the effective management of risk throughout the Group in support of the Group's strategy. The Group Chief Risk Officer chairs the Group Risk Committee, whose members are drawn from the management team. The Committee determines the overall Enterprise Risk Management Framework for the Group, including the delegation of any part of its authorities to appropriate individuals or properly constituted sub-committees.

The Committee requests and receives information to fulfil its governance mandates relating to the risks to which the Group is exposed. As with the Board Risk Committee, the Group Risk Committee and Group Asset and Liability Committee receive reports that include information on risk measures, Risk Appetite metrics and thresholds, risk concentrations, forward-looking assessments, updates on specific risk situations and actions agreed by these committees to reduce or manage risk.

Group Risk Committee sub-committees

The Corporate & Institutional Banking Risk Committee (CIBRC) covers risks arising from activities in Corporate & Institutional Banking globally and in the Europe & Americas region as well as Group-wide Market and Traded Credit Risk. The CIBRC is chaired by the Chief Risk Officer, Corporate & Institutional Banking.

The Private Banking Risk Committee covers risks arising in Private Banking globally including wealth management. It is chaired by the Chief Risk Officer, Commercial Banking and Private Banking.

The three regional risk committees, chaired by the Chief Risk Officer for each respective region, cover risks arising from their respective region including Commercial and Retail Banking.

The Group Reputational Risk Committee oversees the implementation of the reputational risk framework and takes decisions on material and thematic reputational risk issues.

The Group Operational Risk Committee, chaired by the Group Head, Operational Risk, ensures effective management of operational risk throughout the Group.

The Group Financial Crime Risk Committee, chaired by the Group Chief Risk Officer, provides oversight of the effectiveness of the Group's policies, procedures, systems, controls and assurance arrangements designed to identify, assess, manage, monitor, prevent and/or detect money laundering, non-compliance with sanctions, bribery, corruption and tax crime by third parties.

The Stress Testing Committee, chaired by the Global Head, Enterprise Risk Management, ensures the effective management of capital and liquidity related enterprise-wide stress testing in line with the Group's enterprise-wide stress testing policy and applicable regulatory requirements. The Committee also enforces model governance for Credit risk, Traded Credit risk and Market risk throughout the Group in line with Risk Appetite and in support of Group strategy. In addition, the Committee approves and provides oversight over stress testing models pertaining to Credit risk, Traded Credit and Market risk, Liquidity risk and valuation models.

The Group Information Management Governance Committee, chaired by the Group Chief Information Officer, ensures that an effective Group strategy and approach to data quality management framework, data quality management strategy, priorities, standards and metrics are in place and maintained taking into account the information-related requirements of internal and external stakeholders.

The IFRS 9 Impairment Committee, chaired by the Global Head, Enterprise Risk Management, ensures the effective management of expected credit loss computation as well as stage allocation of financial assets for quarterly financial reporting within the authorities set by the Group Risk Committee.

Group Asset and Liability Committee

Members of the Group Asset and Liability Committee are drawn principally from the Court. The Group Asset and Liability Committee is chaired by the Group Chief Financial Officer. The Group Asset and Liability Committee is responsible for determining the Group's approach to balance sheet management and ensuring that, in executing the Group's strategy, the Group operates within internally approved Risk Appetite and external requirements relating to capital, liquidity and leverage risk. It is also responsible for policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange, and interest rate exposure and tax exposure.

Combined United States Operations Risk Committee

The Combined United States Operations Risk Committee was established in 2016 to comply with the Dodd-Frank Act section 165 Enhanced Prudential Standards (EPS Rules). The EPS Rules legislated a number of enhanced obligations on the US operations commensurate with its structure, risk profile, complexity, activities and size. The Committee receives its authority from the Court of Standard Chartered Bank and is chaired by the Group Chief Risk Officer with membership drawn from the Court of Standard Chartered Bank and one iNED of Standard Chartered PLC. Its responsibilities are drawn from the EPS Rules and pertain to liquidity, risk governance and oversight.

Principal risks

We manage and control our Principal Risk Types through distinct risk type frameworks, policies and Board-approved Risk Appetite

Credit risk

The Group defines Credit risk as the potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Group

Risk Appetite Statement

The Group manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors

Roles and responsibilities

The Credit Risk Framework for the Group is set by the Chief Risk Officers for the Corporate & Institutional Banking, Commercial Banking and Private Banking, and Retail Banking segments. The Credit Risk function is the second line control function that performs independent challenge, monitoring and oversight of the credit risk management practices of the business and functions engaged in or supporting revenue generating activities which constitute the first line of defence. The first and second lines of defence are supported by the organisation structure, job descriptions and delegated authorities. Additionally, to ensure that credit risks are properly assessed and are transparent, credit decisions are controlled in accordance with the Group's Risk Appetite and credit policies and procedures. All segment Credit Officers in Group, regional and country roles are accountable to the segment Chief Risk Officers for credit risk management strategy, policy and performance.

Mitigation

Group-wide credit policies and standards are established and approved by the Group Risk Committee or individuals with authority delegated by the Risk Authorities policy. The Group Risk Committee oversees the delegation of credit approval and loan impairment provisioning authorities. The principles for the delegation, review and maintenance of credit approval authorities are defined in the Risk Authorities policy. In addition, there are other Group-wide policies integral to credit risk management such as those relating to stress testing, risk measurement and impairment provisioning.

Policies and procedures specific to each customer segment are established by individuals authorised via the Risk Authorities policy. These are consistent with our Group-wide credit policies, but are more detailed and adapted to reflect the different risk characteristics across customer segments. Policies are regularly reviewed and monitored to ensure they remain effective and consistent with the risk environment and Risk Appetite.

The Group credit policies set out the key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements. Potential credit losses from any given account, client or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees. The reliance that can be placed on risk mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation, correlation and counterparty risk of the protection provider. The requirement for risk mitigation is, however, not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

Collateral types that are eligible as risk mitigants include: cash; account receivables; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; risk participations; guarantees; derivatives; credit insurance; and standby letters of credit. Physical collateral, such as property, fixed assets and commodities, and financial collateral must be independently valued and an active secondary resale market must exist. The collateral must be valued prior to drawdown and regularly thereafter as required. The valuation frequency is at minimum annual, and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. For financial collateral to be eligible for recognition, the collateral must be sufficiently liquid, and its value over time sufficiently stable, to provide appropriate certainty as to the credit protection achieved. Risk mitigation benefits may be reduced or removed where the collateral value is not supported by a recent independent valuation.

Documentation must be held to enable the Group to realise the collateral without the cooperation of the obligor in the event that this is necessary. For certain types of lending, typically mortgages or asset financing where a first charge over the risk mitigant must be attained, the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. Physical collateral is required to be insured at all times against risk of physical loss or damage.

Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of liquidation. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios. The Group also seeks to diversify its collateral holdings across asset classes and markets.

Where guarantees, credit insurance, standby letter of credit or credit derivatives are used as credit risk mitigation, the creditworthiness of the protection provider is assessed and monitored using the same credit approval process applied to the obligor. The main types of guarantors include banks, insurance companies, parent companies, governments and export credit agencies.

Governance Committee Oversight

At a Board level, the Board Risk Committee oversees the effective management of Credit risk and the Board Audit Committee approves the Group Impairment provisioning policy and reviews judgements made by Management on key accounting issues and significant accounting estimates.

At the executive level, the Group Risk Committee delegates the authority for the management of credit risk to several committees – the Corporate & Institutional Banking Risk Committee, Private Banking Risk Committee as well as the regional risk committees for Greater China and North Asia, ASEAN and South Asia and Africa and Middle East. These committees are responsible for overseeing the credit risk profile of the Group within the respective business areas and regions. Meetings are held regularly and the committees monitor all material credit risk exposures, key internal developments and external trends, and ensure that appropriate action is taken.

In addition, there is a Credit Approval Committee and an Underwriting Committee. The Credit Approval Committee, appointed by the Group Risk Committee, reviews and approves major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures. The Underwriting Committee, appointed by the Corporate & Institutional Banking Risk Committee, approves limits for the underwriting of securities to be held for sale, and ensures effective risk management of underwritten debt securities and syndicated loans.

Decision making authorities and delegation

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Credit Approval Committee.

All other credit approval authorities are delegated by the Group Risk Committee to individuals based both on their judgement and experience. These individuals further delegate credit authorities to individual credit officers by applying Group Risk Committee approved delegated Credit Authorities matrices by customer type or portfolio. These matrices establish the maximum limits that the delegated credit officers are authorised to approve, based on risk-adjusted scales which take account of the estimated maximum expected loss from a given customer or portfolio. In Corporate & Institutional Banking, Commercial & Private Banking, the individuals delegating the credit authorities perform oversight by reviewing on a monthly basis a sample of the limit applications approved by the delegated credit officers. In Retail Banking, credit decisions are subject to periodic quality control assessment and assurance checks.

All credit proposals are subject to a robust credit risk assessment. It includes a comprehensive evaluation of the client's credit quality, including willingness, ability and capacity to repay. The primary lending consideration is based on the client's credit quality and the repayment capacity from operating cashflows for counterparties; and personal income or wealth for individual borrowers. The risk assessment gives due consideration to the client's liquidity and leverage position. Where applicable, the assessment includes a detailed analysis of the credit risk mitigation arrangements to determine the level of reliance on such arrangements as the secondary source of repayment in the event of a significant deterioration in a client's credit quality leading to default. Lending activities that are considered as higher risk or non-standard are subjected to stricter minimum requirements and require escalation to a senior credit officer or authorised body.

Monitoring

We regularly monitor credit exposures, portfolio performance, and external trends that may impact risk management outcomes.

Internal risk management reports that are presented to risk committees contain information on key political and economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance.

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

Clients or portfolios are subjected to additional review when they display signs of actual or potential weakness; for example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, non-performance of an obligation within the stipulated period, or there are concerns relating to ownership or management.

Such accounts and portfolios are subjected to a dedicated process overseen by the Credit Issues Committees in the relevant countries where client account strategies and credit grades are re-evaluated. In addition, remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of Group Special Assets Management, our specialist recovery unit for Corporate & Institutional Banking, Commercial Banking & Private Banking.

For Retail Banking exposures, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and considered for lending decisions. Accounts that are past due or charged-off are subject to a collections or recovery process respectively, and managed independently by the Risk function. In some countries, aspects of collections and recovery activities are outsourced.

Credit rating and measurement

Risk measurement plays a central role, along with judgement and experience, in informing risk-taking and portfolio management decisions.

Since 1 January 2008, we have used the advanced internal ratings-based approach under the Basel II regulatory framework to calculate credit risk capital requirements.

A standard alphanumeric credit risk grade system for Corporate & Institutional Banking and Commercial Banking is used. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower numeric credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers, while credit grade 13 and 14 are assigned to non-performing or defaulted customers. An analysis by credit quality of those loans that are neither past due nor impaired is set out in the Risk Profile section (pages 126 to 127).

Retail Banking internal ratings-based portfolios use application and behaviour credit scores that are calibrated to generate a probability of default and then mapped to the standard alphanumeric credit risk grade system. We refer to external ratings from credit bureaus (where these are available); however, we do not rely solely on these to determine Retail Banking credit grades.

Advanced internal ratings-based models cover a substantial majority of our exposures and are used in assessing risks at a customer and portfolio level, setting strategy and optimising our risk return decisions. Material internal ratings-based risk measurement models are approved by the Stress Testing Committee on the recommendation of the Credit Model Assessment Committee. The Credit Model Assessment Committee approves all other internal ratings-based risk measurement models, with key decisions noted to the Stress Testing Committee. Prior to review by the Credit Model Assessment Committee, all internal ratings-based models are validated in detail by a model validation team which is separate from the teams that develop and maintain the models. Models undergo annual validation by the model validation team. Reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process which takes place between the annual validations.

Credit concentration risk

Credit concentration risk may arise from a single large exposure to a counterparty or a group of connected counterparties, or from multiple exposures across the portfolio that are closely correlated. Large exposure concentration risk is managed through concentration limits set by a counterparty or a group of connected counterparties based on control and economic dependence criteria.

Risk Appetite metrics are set at portfolio level and monitored to control concentrations, where appropriate, by industry, specific products, tenor, collateralisation level, top 20 concentration and exposure to holding companies. Single name credit concentration thresholds are set by a Client Group depending on credit grade, and by customer segment. For concentrations that are material at a Group level, breaches and potential breaches are monitored by the respective governance committees and reported to the Group Risk and Board Risk Committees.

Traded products

Credit risk from traded products derives from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential future market movements. This counterparty credit risk is managed within the Group's overall credit Risk Appetite for corporate and financial institutions. In addition to analysing potential future movements, the Group uses various single and multi-risk factor stress test scenarios to identify and manage counterparty credit risk across derivatives and securities financing transactions.

The Group uses bilateral and multilateral netting to reduce pre-settlement and settlement counterparty credit risk. Pre-settlement risk exposures are normally netted using bilateral netting documentation in legally approved jurisdictions. Settlement exposures are generally netted using Delivery versus Payments or Payment versus Payments systems. Master netting agreements are generally enforced only in the event of default. In line with International Accounting Standards (IAS) 32, derivative exposures are presented on a net basis in the financial statements only if there is a legal right to offset and there is intent to settle on a net basis or realise the assets and liabilities simultaneously.

In addition, the Group enters into credit support annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Further details on CSAs are set out in the Risk Profile section (page 141). The netting and collateral enforceability status of previously approved jurisdictions is periodically reviewed. This is undertaken as and when industry opinions are updated or where a change in the law or significant event in a relevant jurisdiction requires a re-assessment of the conclusions previously drawn under the existing opinion.

Wrong-way risk occurs when an exposure increase is coupled with a decrease in the credit quality of the obligor. Specifically, as the mark-to-market on a derivative contract or a repurchase agreement contract increases in favour of the Group, the driver of this mark-to-market change also reduces the ability of the counterparty to meet its payment, margin call or collateral posting requirements. The Group employs various policies and procedures to ensure that wrong-way risk exposures are identified, measured and managed.

Securities

The limits for the underwriting of securities to be held for sale are approved by the Underwriting Committee, under the authority of the Corporate & Institutional Banking Risk Committee. The limits contain the overall size of the securities inventory, the maximum holding period, the daily value at risk, the sensitivity to interest rate and credit spread moves. The Underwriting Committee approves individual proposals to underwrite new security issues for our clients.

Day-to-day credit risk management activities for traded securities are carried out by a specialist team within the Risk function whose activities include oversight and approval within the levels delegated by the Underwriting Committee. Issuer credit risk, including settlement and pre-settlement risk, and price risks are controlled by the Risk function. Where an underwritten security is held for a period longer than the target sell-down period, the final decision on whether to sell the position rests with the Risk function.

Loan impairment

A loan is impaired when we assess that we will not recover a portion of the contractual cashflows. Impaired loans are classified as follows:

- In Corporate & Institutional Banking, Commercial Banking & Private Banking, a loan is considered impaired where analysis and review indicate that full payment of either interest or principal, including the timeliness of such payment, is questionable, or as soon as payment of interest or principal is 90 days overdue. Impaired accounts are managed by our Group Special Assets Management recovery unit, GSAM, which is independent from our main businesses
- In Retail Banking, a loan is considered impaired when it meets certain defined threshold conditions in terms of overdue payments (contractual impairment) or meets other objective conditions such as bankruptcy, debt restructuring, fraud or death. A loan is considered delinquent (or past due), when the customer has failed to make a principal or interest payment in accordance with the loan contract. These threshold conditions are defined in policy and are set at the point where empirical evidence suggests that the client is unlikely to meet their contractual obligations or a loss of principal is expected

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and advances. Individually impaired loans are those loans against which individual impairment provisions (IIP) have been raised.

Provisions are taken in the form of:

- Individually impaired provisions (IIP)
- Portfolio impairment provisions (PIP) held to cover the inherent risk of losses which, although not identified, are known through experience to be present in any loan portfolio

More information on the components of these calculations for Corporate & Institutional Banking, Commercial Banking & Private Banking, as well as Retail Banking, can be found in note 8 of the financial statements.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the balance sheet date are determined by taking into account past loss experience as a result of uncertainties arising from the economic environment, and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported, for example, as a result of uncertainties arising from the economic environment.

The total amount of the Group's impairment provision is inherently uncertain, being sensitive to changes in economic and credit conditions across the regions in which the Group operates. Economic and credit conditions are interdependent within each geography and as a result there is no single factor to which the Group's loan impairment provisions as a whole are sensitive. It is possible that actual events over the next year will differ from the assumptions built into our model, resulting in material adjustments to the carrying amount of loans and advances.

Effective from 1 January 2018, the impairment requirements of IFRS 9 Financial Instruments are being adopted. More information can be found in note 41 of the financial statements.

Country risk

The Group defines Country risk as the potential for default or losses due to political or economic events in a country

Risk Appetite Statement

The Group manages its country cross-border exposures following the principle of diversification across geographies and controls the business activities in line with the level of jurisdiction risk

Roles and responsibilities

The Global Head, Enterprise Risk Management is responsible for the management and control of Country Risk across the Group with the day-to-day management and control activities delegated to the Global Head, Country Risk. They are supported by the Regional Chief Risk Officers and Country Chief Risk Officers who provide second line oversight and challenge to the first line country risk management activities. The first line ownership of country risk resides with the country CEOs who are responsible for the implementation of policy and allocation of approved country risk limits across relevant businesses and product lines, as well as the identification and measurement of country risks and communication of these and any non-compliance to policy to the second line.

Mitigation

Policies and procedures are developed and deployed to put in place standards and controls that all countries must follow to ensure effective management of country risk. The policies include standards for the acceptance and effective management of country risk in particular around identification, measurement, reporting and setting, and the calibration and allocation of country risk limits. The procedures outline the process for country risk limit setting, monitoring and reporting exposures.

Governance Committee Oversight

At a Board level, the Board Risk Committee oversees the effective management of Country risk. At the executive level, the Group Risk Committee is responsible for approving policies and control risk parameters, monitoring material risk exposures and directing appropriate action in response to material risk issues or themes that come to the Committee's attention that relate to Country risk. The Group Risk Committee delegates the management of Country risk to the Group Country Risk function. At a country level, the Country Risk Committee (or Executive Risk Committee for subsidiaries) is responsible for monitoring all risk issues for their given country, including Country risk.

Decision making authorities and delegation

Decision making and approval authorities are guided by reference levels for countries. Reference levels are guidelines to set country limits in respect of Country risk. The reference levels are assessed by the Group Country Risk function and are functionally derived from factors including: Group Tier 1 capital, sovereign risk grade, with adjustment for transfer risk; Group strategy, through Country tiering; portfolio composition (short and medium-term) and Country's total foreign currency earnings.

Monitoring

Monitoring and reporting is included in the policy and procedures and covers the monitoring of exposures relative to Risk Appetite thresholds and limits, and the reporting of material exposures to internal committees and externally. The Group Risk Committee monitors Risk Appetite thresholds on a traffic-light indicator basis which provide an early warning indicator of stress and concentration risk. An escalation process to the Board Risk Committee is in place based on the traffic-light indicators monitoring system. In addition, the Group Risk Committee and the Board Risk Committee receive regular reports on exposures in excess of 1 per cent of total Group assets.

Market risk

The Group defines Market risk as the potential for loss of economic value due to adverse changes in financial market rates or prices

Risk Appetite Statement

The Group should control its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Group's franchise

Roles and responsibilities

The Market Risk Framework, which sets the roles and responsibilities in respect of Market risk for the Group, is owned by the Global Head, Market and Traded Credit Risk (MTCR). The front office acting as first line of defence is responsible for the effective management of market risks. The Market Risk Function is the second line control function that performs independent challenge, monitoring and oversight of the market risk management practices of the first line of defence. The first and second lines of defence are supported by the organisation structure, job descriptions and authorities delegated by market risk control owners.

Mitigation

The Group controls its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Group's franchise by assessing the various market risk factors. These are captured and analysed using proprietary and custom built analytical tools, in addition to risk managers' specialist market and product knowledge.

MTCR has market risk policies and procedures in place ensuring that appropriate market risk limits are implemented. The Group's market risk exposure is aligned with its appetite for market risk and assessing potential losses that might be incurred by the Group as a consequence of extreme but plausible events.

Market risk limits are applied as required by the Market Risk Limits Policy and related procedures. All businesses incurring market risk must do so in compliance with the Market Risk Limits Policy. The Policy requires that market risk limits are defined at a level appropriate to ensure that the Group remains within market Risk Appetite. The market Risk Appetite metrics are defined in terms of VaR and stress loss, therefore all material market risks must be captured by these metrics. All exposures throughout the Group that the MTCR function is responsible for aggregate up to MTCR's Group-level reporting. This aggregation approach ensures that the limits structure across the Group is consistent with the Group's Risk Appetite.

The Market Risk Stress Testing Policy is designed to ensure that adherence to Group market risk stress appetite is achieved. Stress testing aims at supplementing other risk metrics used within the bank by providing a forward-looking view of positions and an assessment of their resilience to stressed market conditions. Stress testing is performed on all Group businesses with market risk exposures, either where the risk is actively traded or where material risk remains. This additional information is used to inform the management of the market risks taken within the Group. The outcome of stress tests is discussed across the various business lines and management levels so that existing and potential risks can be reviewed and related management actions can be decided upon where appropriate.

Policies are reviewed and approved by the Global Head, MTCR annually to ensure their ongoing effectiveness and sustainability.

Stress testing

Losses beyond the 97.5 per cent confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of losses in tail event situations.

The VaR measurement is complemented by weekly stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are deemed rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books. The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. The MTCR function reviews stress testing results and, where necessary, enforces reductions in overall market risk exposure. The Group Risk Committee considers the results of stress tests as part of its supervision of Risk Appetite.

Regular stress test scenarios are applied to interest rates, credit spreads, exchange rates, commodity prices and equity prices. This covers all asset classes in the Financial Markets banking and trading books.

Ad hoc scenarios are also prepared, reflecting specific market conditions and for particular concentrations of risk that arise within the business.

Governance Committee Oversight

At a Board level, the Board Risk Committee oversees the effective management of Market risk. At the executive level, the Group Risk Committee delegates responsibilities to the Corporate & Institutional Banking Risk Committee (CIBRC) to act as the primary risk governance body for market risk and to the Stress Testing Committee for stress testing and model risk. The Group Risk Committee also delegates limit authority to the Global Head, MTCR who is responsible for the market risk.

Decision making authorities and delegation

The Group's Risk Appetite Statement, along with the key associated Risk Appetite metrics, is approved by the Board, and responsibility for market risk limits is then tiered accordingly.

Subject to the Group's Risk Appetite for market risk, the Group Risk Committee sets Group-level market risk limits and delegates authority for the supervision of all other market risk limits to the CIBRC and Market & Traded Credit Risk.

Major business limits are reviewed and approved by the CIBRC. The committee is responsible for determining which major business limits meet the criteria for categorisation. The CIBRC is appointed by the Group Risk Committee.

All other market risk limit approval authorities are delegated by the Global Head, MTCR to individual market risk managers. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. Authorities are reviewed at least annually to ensure they remain appropriate and to assess the quality of decisions taken by the authorised individual. Key risk-taking decisions are made only by certain individuals or committees with the skills, judgement and perspective to ensure that the Group's control standards and risk-return objectives are met.

Authority delegators are responsible for monitoring the quality of the risk decisions taken by their delegates and the ongoing suitability of their authorities.

VaR

The Group applies VaR as a measure of the risk of losses arising from future potential adverse movements in market rates, prices and volatilities. VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit and loss outcome.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced six times per year.

The Group applies two VaR methodologies:

- Historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors and the majority of specific (credit spread) risk VaR;
- Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets

In both methods a historical observation period of one year is chosen and applied.

VaR is calculated on our exposure as at the close of business, generally UK time. Intra-day risk levels may vary from those reported at the end of the day.

A small proportion of market risk generated by trading positions is not included in VaR or cannot be appropriately captured by VaR. This is recognised through a Risks-not-in-VaR framework, which estimates these risks and applies capital add-ons.

To assess their ongoing performance, VaR models are backtested against actual results.

See an analysis of VaR and backtesting results in 2017 in the Risk Profile section (pages 147 to 148).

Monitoring

MTCR monitors the overall portfolio risk and ensures that it is within specified limits and therefore Risk Appetite. The annual and mid-year limit review processes provide opportunities for the business and MTCR to review risk in light of performance.

Market risk exposures are monitored daily against approved limits. Intra-day risk exposures may vary from those reported at the end of the day. Limit excess approval decisions are informed by factors such as an assessment of the returns that will result from an incremental increase to the business risk exposure. Limits and excesses can only be approved by a market risk manager with the appropriate delegated authority.

Stress testing is the basis for internal economic capital and economic profit reporting for market risk. Incremental Risk Charge is also used to reflect credit default and migration risk. Financial Markets traders may adjust their market risk exposures within approved limits and assess risk/reward trade-offs according to market conditions.

In addition, stress scenario analysis is performed on all market risk exposures in Financial Markets and in portfolios outside Financial Markets such as Syndicated Loans and Principal Finance. MTCR reports and monitors limits applied to stressed exposures. Stress loss excesses are discussed with the business and approved where appropriate based on delegated authority levels. Stress loss excesses are reported to CIBRC. Where required by local statute or regulation, MTCR's Group and business-wide stress and scenario testing will be supplemented by entity stress testing at a country level. This stress testing is coordinated at the country level and subject to the relevant local governance.

Capital and liquidity risk

The Group defines capital risk as the potential for insufficient level or composition of capital to support our normal activities, and liquidity risk as the potential for failure where we may not have sufficient stable or diverse sources of funding or financial resources to meet our obligations as they fall due

Risk Appetite Statement

The Group maintains a strong capital position, including the maintenance of management buffers sufficient to support its strategic aims, and holds an adequate buffer of high quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support

Roles and responsibilities

The Treasurer is responsible for developing a risk framework for capital and liquidity risk and for complying with regulatory requirements at a Group level. The Treasury and Finance functions provide independent challenge and oversight of the first line risk management activities relating to capital and liquidity risk. In country, the Treasurer is supported by Treasury and Finance in implementing the capital and liquidity framework.

Mitigation

The Group develops policies to address material capital and liquidity risks and aims to constrain its risk profile within Risk Appetite. Risk Appetite is set for the Group and cascaded down to the countries as limits. The Group also maintains a Recovery Plan which is a live document to be used by management in a liquidity or solvency crisis. The Recovery Plan includes a set of Recovery Indicators, an escalation framework and a set of management actions that could be effectively implemented in a liquidity stress. A Recovery Plan is also maintained within each major country.

The approach to mitigation is detailed further below:

Capital Planning

On an annual basis, strategic business and capital plans are drawn up covering a five-year horizon and are approved by the Board. The capital plan ensures that adequate levels of capital and an efficient mix of the different components of capital are maintained to support our strategy and business plans. Treasury is responsible for the ongoing assessment of the demand for capital and the updating of the Group's capital plan.

Capital planning takes the following into account:

- Current regulatory capital requirements and our assessment of future standards
- Demand for capital due to the business and loan impairment outlook and potential market shocks or stresses
- Available supply of capital and capital raising options

The Funding Plan is also developed to ensure we have a credible plan to manage the future demand and supply of funds in a prudent yet commercially effective manner.

Structural FX Risk

The Group's structural position results from the Group's non-USD investment in the share capital and reserves of subsidiaries and branches. The FX translation gains or losses are recorded in the Group's 'Translation Reserves' with a direct impact on the Group's CET1 ratio.

The Group contracts hedges to manage its structural FX position in accordance with a Board-approved Risk Appetite, and as a result the Group has taken net investment hedges (using a combination of derivative and non-derivative financial investments) to partly cover its exposure to the Korean won, Chinese renminbi and Taiwanese dollar to mitigate the FX impact of such positions on its capital ratios.

Liquidity and Funding Risk

At Group and country level we implement various business-as-usual and stress risk metrics and monitor these against limits. This ensures that the Group maintains an adequate and well-diversified liquidity buffer and stable funding base. The approach to managing the risks and the Board-approved Risk Appetite metrics are assessed annually through the Internal Liquidity Adequacy Assessment Process.

Earnings Risk

Interest rate re-pricing risk is managed centrally by Treasury Markets within market risk limits. The governance of Earnings Risk will develop through 2018 in line with regulatory guidelines for interest rate risk in the banking book. This will focus on implementing this risk type within the Group's Enterprise Risk Management Framework supported by formal delegations of authority, additional policies and methodologies, data and model governance, a broader suite of Risk Appetite metrics, limits, and ongoing reporting and monitoring of exposures against these.

Stress testing

Stress testing and scenario analysis are an integral part of the capital and liquidity framework, and are used to ensure that the Group's internal assessment of capital and liquidity consider the impact of extreme but plausible scenarios on its risk profile. They provide an insight into the potential impact of significant adverse events on the Group's capital and liquidity position and how these could be mitigated through appropriate management actions to ensure the Group remains within the approved Risk Appetite and regulatory limits.

Governance Committee Oversight

At a Board level, the Board Risk Committee oversees the effective management of Capital and Liquidity risk. At the executive level, the Group Asset and Liability Committee informs the Group's strategy on balance sheet matters and ensures that the Group operates within internally approved Risk Appetite and regulatory requirements. This relates to capital, loss absorbing capacity, liquidity, leverage, earnings risk and structural foreign exchange risk. The Group Asset and Liability Committee also ensures that the Group meets internal and external recovery and resolution planning requirements. The Group Asset and Liability Committee delegates responsibilities to the Operational Balance Sheet Committee to ensure that, in executing the Group's strategy, the Group operates within internal and regulatory requirements, with a focus on ensuring alignment with business objectives.

Country oversight under the capital and liquidity framework resides with country Asset and Liability Committees. Countries must ensure they remain in compliance with Group capital and liquidity policies and practices, as well as local regulatory requirements.

The Stress Testing Committee ensures the effective management of capital and liquidity related enterprise-wide stress testing in line with the Group's enterprise-wide stress testing policy and applicable regulatory requirements. The Stress Testing Committee reviews, challenges and approves stress scenarios, results and management actions as part of the Internal Capital Adequacy Assessment Process, as well as assumptions and results as part of the Internal Liquidity Adequacy Assessment Process.

Decision making authorities and delegation

The Group Chief Financial Officer has overall responsibility for determining the Group's approach to capital and liquidity risk management and delegates this authority to the Treasurer. The Treasurer has the authority to delegate second line responsibilities to the Treasury and Finance functions to relevant and suitably qualified individuals. This includes the delegation of policy and metric development, implementation and limit setting, as well as oversight and challenge of first line processes and controls and is delegated to the most appropriate individuals.

Monitoring

On a day-to-day basis the management of capital and liquidity is performed by the country Chief Executive Officer and Treasury Markets respectively. The Group regularly reports and monitors capital and liquidity risks inherent in its business activities and those that arise from internal and external events. The management of capital and liquidity is monitored by Treasury for the Group with appropriate escalation processes in place for any breach of limits.

Internal risk management reports covering the balance sheet and the capital and liquidity position of the Group are presented to the Operational Balance Sheet Committee and the Group Asset and Liability Committee. The reports contain key information on balance sheet trends, exposures against Risk Appetite and supporting risk measures which enable members to make informed decisions around the overall management of the Group's balance sheet. Oversight at a country level is provided by the country Asset and Liability Committee, with a focus on the local capital and liquidity risks, local prudential requirements and risks that arise from local internal and external events.

Operational risk

The Group defines Operational Risk as the potential for loss resulting from inadequate or failed internal processes and systems, human error, or from the impact of external events

Risk Appetite Statement

The Group aims to control operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise

Roles and responsibilities

The Operational Risk Framework (ORF) is set by the Group Head, Operational Risk and approved by the Group Operational Risk Committee. Group Operational Risk, in its role as the second line of defence, develops the Operational Risk Framework and monitors its application across the Group. The Operational Risk function challenges process owners in ensuring the Group's operational risk profile is within Risk Appetite.

Mitigation

The ORF sets out the Group's overall approach to the management of operational risk in line with the Group's Risk Appetite. The approach reinforces the three lines of defence and serves to continually improve the Group's ability to anticipate and control material risks. It also requires the need for clear ownership and accountability for all processes across the Group. Risk assessment is used to determine the design strength and reliability of each process to prevent risks.

The operational risk management approach requires:

- All processes and risks to be identified, owned, and recorded in the Process Universe
- Control tolerance standards to be set for each control for quantity, materiality and timeliness of detection and rectification of defects
- Monitoring of control performance against tolerance standards
- Residual risks to be assessed by process owners and approved by risk framework owners
- Prompt execution of treatment actions

The Group fulfills the requirements of the approach by defining and maintaining a process universe for all client segments, products, and functions. The Process Universe is the complete set of processes that collectively describe the activities of the Group and is the common reference for the approach to operational risk management. Each process is owned by a named individual who is responsible for the outcomes of the process and the design, monitoring and effectiveness of the control environment.

Potential failures in processes are identified by process owners and risk framework owners using their expert judgment. These potential failures are risk assessed against a pre-defined operational risk assessment matrix which must be approved by individuals delegated within the Risk Authorities policy. Risks that fall above the Group's Risk Appetite levels require a time-bound treatment plan to address the potential failures, and are monitored until the risk is reduced to within acceptable levels.

Stress testing

As part of the operational risk management approach, the Group conducts stress testing using scenario analysis. Fifteen scenarios are identified that test the robustness of the Group's processes, and assess the potential impact to the Group. These scenarios include anti-money laundering, sanctions, information and cyber security and external fraud.

In 2017, we also participated in the Bank of England stress test exercise and the annual Internal Capital Adequacy Assessment Process.

Governance Committee Oversight

At a Board level, the Board Risk Committee oversees the effective management of Operational risk. At the executive level, the Group Operational Risk Committee (GORC) oversees the operational risk profile of the Group within the boundaries of the Group's Risk Appetite and any limits and policies set by authorised bodies of the Group. The GORC has the authority to challenge, constrain and, if required, stop business activities where risks are not aligned with the Group's Risk Appetite.

The GORC is supported by Business Process Governance Committees (PGCs) and Function Operational Risk Committees (FORCs) which provide global oversight of all operational risks arising from processes within the Business and Function at the Group level. In addition, the Country Operational Risk Committees (CORCs) oversee the management of operational risks at the country (or entity) level.

The GORC monitors the effectiveness of the PGCs, FORCs and CORCs and challenges the risk decisions made within these committees to remain within the Group's Risk Appetite.

Decision making authorities and delegation

Authority to make risk-related decisions is delegated to individuals or committees with the requisite skills, judgement, and perspective to ensure that the Group's control standards and risk/return objectives are met. The Group has prescribed policies defining the scope and responsibility of the authorised individuals. The authorities are reviewed at least annually to ensure they remain appropriate to assess the quality of decisions taken by the authorised individual.

To ensure the appropriate infrastructure, people, processes, and controls are in place to support change and product management, including mitigation of all operational risks within Risk Appetite, minimum governance standards are set at the Group and Country levels. Significant changes to internal and external environments may give rise to operational risks. Such changes with impact to client segments, products and functions are subject to process governance at a PGC or FORC. Standards for business products are owned by Business Heads and Business PGCs. All products must be approved to the standards set out in the policy, including completion of an operational risk assessment.

Monitoring

Operational Risk Appetite metrics are set against each top risk. These are included as part of the operational risk profile which comprises the following elements:

- Top Risk performance against Risk Appetite
- Losses, near misses and related insights
- Changes to the internal or external environment
- Results of audit and regulatory reviews, or other independent findings

The operational risk profile is aggregated and reported at relevant committees defined at Group, business, regional, country and function level. This provides senior management with the relevant information to inform their risk decisions. The completeness of the operational risk profile ensures appropriate prioritisation and promptness of risk decisions, including risk acceptances with treatment plans for risks that are beyond the acceptable threshold.

Reputational risk

The Group defines reputational risk as the potential for loss of earnings or market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions

Risk Appetite Statement

The Group aims to protect the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight

Roles and responsibilities

In February 2017, second line ownership of reputational risk was transferred from the Group Head, Corporate Affairs to the Group Chief Risk Officer, with responsibility delegated to the Global Head, Enterprise Risk Management. At country level, the responsibility of reputational risk management is delegated to Country Chief Risk Officers. Both the Global Head, Enterprise Risk Management and Country Chief Risk Officers constitute the second line of defence, overseeing and challenging the first line which resides with the CEOs, Business Heads and Product Heads in respect of risk management activities of reputational-related risks.

Mitigation

The Group's reputational risk policy sets out the principal sources of reputational risk and the responsibilities and procedures for identifying, assessing and escalating reputational risks. The policy also defines the control and oversight standards to effectively manage reputational risk.

The Group takes a structured approach to the assessment of risks associated with how individual client, transaction, product and strategic coverage decisions may affect perceptions of the organisation and its activities. Wherever a potential for stakeholder concerns is identified, issues are subject to prior approval by a management authority commensurate with the materiality of matters being considered. Such authorities may accept, decline the risk or impose conditions upon proposals, to protect the Group's reputation. The Group recognises that there is also the potential for consequential reputational risk should it fail to control other Principal Risk Types. Such secondary reputational risks are managed by the owners of each Principal Risk Type.

Stress testing

Reputational risk is incorporated into the Group's stress testing scenarios. For example, the Group may consider what impact a hypothetical event leading to loss of confidence among liquidity providers in a particular market might have, or what the implications might be for supporting part of the organisation in order to protect the brand.

Governance Committee Oversight

The Brand, Values and Conduct Committee retains Board level oversight responsibility for reputational risk. Oversight from an operational perspective falls under the remit of the Group Risk Committee and the Board Risk Committee. The Group Reputational Risk Committee appointed by the Group Risk Committee in May 2017 ensures the effective management of Reputational Risk across the Group. The Group Reputational Risk Committee's remit is to:

- Challenge, constrain and if required, to stop business activities where risks are not aligned with the Group's Risk Appetite
- Make decisions on reputational risk matters assessed as high or very high based on the Group's reputational risk materiality assessment matrix, and matters escalated from the Regions or Client Businesses
- Provide oversight of material reputational risk and/or thematic issues arising from the potential failure of other risk types

Decision making authorities and delegation

The Group Risk Committee provides Group-wide oversight on reputational risk, approves policy and monitors material risks. The Group Reputational Risk Committee is authorised to approve or decline reputational risk aspects of any business transaction, counterparty, client, product, line of business and market within the boundaries of the Group's Risk Appetite, and any limits and policies set by authorised bodies of the Group.

Monitoring

Reputational risk policies and procedures are applicable to all Group entities. However local regulators in some markets may impose additional requirements on how banks manage and track reputational risk. In such cases, these are complied with in addition to Group policies and procedures. Exposure to reputational risk is monitored through:

- A requirement that process owners establish triggers to prompt consideration of reputational risk and escalation where necessary
- The tracking of risk acceptance decisions
- The tracking of thematic trends in secondary risk arising from other Principal Risk Types
- The analysis of prevailing stakeholder concerns

Compliance risk

The Group defines compliance risk as the potential for regulatory sanctions or loss from a failure on our part to comply with laws or regulations

Risk Appetite Statement

The Group has no appetite for breaches in laws and regulations; whilst recognising that regulatory non-compliance cannot be always entirely avoided, the Group strives to reduce this to an absolute minimum

Roles and responsibilities

The Group Head, Compliance sets standards for compliance, establishes and maintains risk-based compliance frameworks and a programme for monitoring compliance; provides support to senior management on regulatory and compliance matters; and is the Risk Framework Owner for Compliance Risk.

The Compliance Risk Framework sets out the roles and responsibilities in respect of compliance risk for the Group. Businesses and functions acting as the first line of defence are responsible for ensuring that their processes operate in a way that ensures continued compliance with all applicable laws and regulations. The compliance function is the second line that provides oversight and challenge of the first line risk management activities that relate to compliance risk.

The Compliance Risk Framework defines risk sub-types and delegates these to the most appropriate control function to ensure that the Compliance function as second line, can effectively provide oversight and challenge of the first line risk management activities.

Mitigation

The Compliance function develops and deploys relevant policies and procedures setting out standards and controls for adherence by the Group to ensure continued compliance with applicable laws and regulations. Through a combination of control monitoring and attestation, the Compliance Risk Framework Owner seeks to ensure that all policies are operating as expected to mitigate the risk that they cover.

Governance Committee Oversight

Compliance risk and the risk of non-compliance with laws and regulations resulting from failed processes and controls are overseen by Process Governance Committees and Functional Operational Risk Committees, and Country Operational Risk Committees that are in place for each business, function and country. The Compliance and Regulatory Risk Committee has a consolidated view of these risks and ensures that appropriate governance is in place for these. In addition, the Committee ensures that elevated levels of Compliance Risk are reported to the Group Operational Risk Committee, Group Risk Committee and Board Audit Committee.

Decision making authorities and delegation

Decision making and approval authorities follow the Enterprise Risk Management Framework approach and risk thresholds. The Group Head, Compliance has the authority to delegate second line responsibilities within the Compliance function to relevant and suitably qualified individuals. In addition, second line responsibilities including policy development, implementation and validation as well as oversight and challenge of first line processes and controls are delegated based on the most appropriate control function for certain compliance risk sub-types.

Monitoring

The monitoring of controls designed to mitigate the risk of regulatory non-compliance in processes is carried out in line with the Operational Risk Framework. The Group has a monitoring and reporting process in place for compliance Risk Appetite metrics, which includes escalation and reporting to Compliance and Regulatory Risk Committee, Group Risk Committee and Board Risk Committee as appropriate. In addition, there is a Group Regulatory Reform team set up to monitor regulatory reforms in key markets and establish a protocol for horizon scanning.

Conduct risk

The Group defines Conduct Risk as the potential regulatory sanctions or loss from a failure on our part to abide by the Group's Conduct Risk Management Framework

Risk Appetite Statement

The Group strives to maintain the standards in our Code of Conduct and outcomes of our Conduct Framework, by continuously demonstrating that we "Do The Right Thing" in the way we conduct business

Roles and responsibilities

Conduct risk management and abiding by the Group Code of Conduct is the responsibility of all employees in the Group. The first line businesses and functions are responsible for reviewing their processes and identifying conduct-related outcomes and ensuring controls are in place to mitigate these risks. The compliance function as second line for conduct risk is responsible for providing oversight and challenge to the first line to ensure the adequacy of the conduct risk management and that we remain within Risk Appetite.

Mitigation

The Group Conduct Risk Management Framework is designed to enable dynamic risk control implementation and risk-based decision making in line with the Group's Enterprise Risk Management Framework. The framework is supported by policies including the Group conduct management policy and the Group code of conduct as well as a range of other policies and procedures which address conduct related aspects in further granular detail. The management of conduct risk includes the monitoring of Risk Appetite metrics and limits that are reported to relevant governance committees.

Conduct risk identification and mitigation are embedded in businesses and functions through an end-to-end review of the Bank's critical processes. Controls are put in place for conduct related risks that have been identified within these processes. In-country workshops are conducted to assist CEOs and management teams to identify conduct related risks in their businesses and country strategies while leader-led training on conduct issues and dilemmas are rolled out across businesses and functions as we seek to ensure conduct is seen in the broader context, as opposed to behavioural conduct.

Governance Committee Oversight

The Board Risk Committee, Brand Values and Conduct Committee, Group Risk Committee, Group Operational Risk Committee and the Compliance Regulatory Risk Committee are responsible for ensuring that the Group remains within conduct Risk Appetite. As Risk Framework Owner for conduct risk, compliance sets reporting thresholds for escalation of conduct risks to the Group Operational Risk Committee and Group Risk Committee. The Board Risk Committee and the Brand Values and Conduct Committee receive periodic reports on conduct risk assurance against businesses and functions.

Decision making authorities and delegation

Conduct risk authority is delegated through the Group ensuring appropriate spans of control and suitable persons holding roles. Responsibilities are clearly articulated and ensure the split between 'doing' and 'oversight'.

Monitoring

The Group regularly monitors the effectiveness of mitigating controls and performance against Risk Appetite. Risk Appetite metrics are defined at granular levels and take into consideration measures such as the outcome of speaking up cases in individual countries and collectively as a group. To further support managers with their responsibilities in respect of conduct risk, a conduct dashboard is in development which will provide managers with a snapshot of each respective business and function.

Information and cyber security risk

The Group defines Information and cyber security risk as the potential for loss from a breach of confidentiality, integrity or availability of the Group's information systems and assets through cyber attack, insider activity, error or control failure

Risk Appetite Statement

The Group seeks to avoid risk and uncertainty for our critical information assets and systems and has a low appetite for material incidents affecting these or the wider operations and reputation of the Group

Roles and responsibilities

In 2017 we introduced the Chief Information Security Officer function in Risk & Compliance and announced a revised operating model to address information and cyber security as a business risk, incorporating this into our overall risk management strategy. The Chief Information Security Officer (CISO) has overall responsibility for strategy, governance and oversight of information and cyber security across the Group and operates as the second line of defence.

The CISO defines policy for information and cyber security overseeing and challenging the operational implementation of controls at the first line, which includes both technical and business responsibilities. The Technology Information Security Office (TISO) operate within the ITO function at the first line, ensuring security of the Group's technology applications and infrastructure.

Mitigation

Information and cyber security risk is managed through a structured framework comprised of a risk assessment methodology and supporting policies, procedures and standards which are aligned to industry best practice models.

The Chief Information Security Officer function is responsible for the information and cyber security risk framework and associated policy documents. The framework model and policy documents must be reviewed and updated at least biennially and / or following material change to a control environment.

Stress testing

Stress testing of technical controls relating to information and cyber security risk are performed annually by an external independent party. Results of these stress tests are reported to the Chief Information Security Officer function for consideration and action. Identified actions are overseen to appropriate conclusion by the Chief Information Security Officer function with progress reports provided to the Group Operational Risk Committee.

Governance Committee Oversight

The information and cyber security risk within the bank is currently governed via the Board Risk Committee who has responsibility for approving the definition of information and cyber risk and the Group appetite. Close and continuous oversight of information and cyber security risk in the Bank is performed by the Technology Operations Risk Committee (TORC) and the Group Operational Risk Committee (GORC), with the GORC being appointed by the Group Risk Committee. Escalation of risks which fall outside the defined appetite for the Group are overseen by these committees to ensure effective mitigation.

Decision making authorities and delegation

Measurement and decision making relating to the approval and or sign off of information and cyber security risk follows the below principles:

- All first line and second line process owner roles in Information and cyber security must be covered, leaving no gaps in risk management and regulatory compliance
- Delegation authority must be consistent with the Group Enterprise Risk Management Framework, apply to IT and non-IT processes impacting in-country information and cyber security risk, cover local and Group processes impacting in-country cyber risk
- Must consider the cost to the Group and take into account any regulatory requirements
- Geographic resource span of control must be consistent with Group models

Monitoring

Following the introduction of the Chief Information Security Officer function in 2017, we are extending monitoring capability for information and cyber security risk with further enhancements planned to take place during 2018.

We have a range of roles and activities in both the Chief Information Security Officer function and the TISO that look at monitoring information and cyber security risks.

CISO activities include:

- The Business Information Security Officers who support business activities relating to information and cyber security at a country or operation level
- Control testing (e.g. phishing simulation exercises)
- Strategic assurance activities (e.g. enterprise-wide security risk assessment)
- Dispensation assessment and approval
- Deployment of the Third Party Security Assessment model

TISO activities include:

- Operation of technical controls (e.g. email monitoring)
- Security Incident response, etc.

Financial crime risk

The Group defines Financial crime risk as the potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to International Sanctions, Anti-Money Laundering and Anti-Bribery and Corruption

Risk Appetite Statement

The Group has no appetite for breaches in laws and regulations related to Financial Crime, recognising that whilst incidents are unwanted, they cannot be entirely avoided

Roles and responsibilities

The Global Head, Financial Crime Compliance has overall responsibility for financial crime risk and is responsible for the establishment and maintenance of effective systems and controls to meet legal and regulatory obligations in respect of Financial Crime. The Global Head, Financial Crime Compliance is the Group's Money Laundering Reporting Officer and performs the Financial Conduct Authority controlled function and senior management function in accordance with the requirements set out by the Financial Conduct Authority[1], including those set out in their 'Systems and Controls' Handbook.

As the first line, the business unit process owners have responsibility for the application of policy controls and the identification and measurement of risks relating to financial crime. Business units must communicate risks and any policy non-compliance to the second line for review and approval following the model for delegation of authority.

Mitigation

There are three Group policies in support of the Financial crime compliance Risk Type Framework:

- Anti-bribery and corruption as set out in the Group Anti-Bribery and Corruption Policy
- Anti-money laundering as set out in the Group Anti-Money Laundering and Terrorist Financing Policy
- Sanctions as set out in the Group Sanctions Policy.

These policies are approved by the Global Head, Financial Crime Compliance.

The Group operates risk-based controls in support of its Financial Crime programme, including (but not limited to):

- Client Due Diligence, to meet "Know Your Customer" requirements
- Surveillance, including Transaction Screening, Name Screening and Transaction Monitoring
- Global Risk Assessment; to understand and quantify the Inherent and Residual Financial Crime risk across the organisation

The strength of these controls are tested and assessed through the Group's Operational Risk Framework, in addition to oversight by the Financial Crime Compliance Assurance and Group Internal Audit functions.

Governance Committee Oversight

Financial crime risk within the Group is governed by the Group Financial Crime Risk Committee which is appointed by and reports into the Group Risk Committee. The Group Financial Crime Risk Committee is responsible for ensuring the effective management of operational risk relating to Financial crime compliance throughout the Group in support of the Group's strategy and in line with the Group's Risk Appetite, Enterprise Risk Management Framework and Group Operational Risk Procedures.

The Board Financial Crime Risk Committee is appointed by the Board, to provide oversight of the effectiveness of the Group's policies, procedures, systems, controls and assurance mechanism designed to identify, assess, manage, monitor, detect or prevent money laundering, non-compliance with sanctions, bribery, corruption, and tax crime by third parties.

Decision making authorities and delegation

The Global Head, Financial Crime Compliance is the Risk Framework Owner for financial crime under the Group's Enterprise Risk Management Framework, and has been allocated overall responsibility within the Group for the establishment and maintenance of effective systems and controls to meet legal and regulatory obligations in relation to Financial crime. Certain aspects of Financial crime compliance second line oversight and challenge are delegated within the Financial Crime Compliance function.

Approval frameworks are in place to allow for risk-based decisions on client on-boarding, for potential breaches of Sanctions regulation or Policy, and for situations of potential Money Laundering and Anti-Bribery and Corruption concerns.

Monitoring

The Group monitors Financial crime compliance risk against a set of Risk Appetite metrics that are approved by the Board. These metrics are reviewed periodically and reported regularly to both the Group Financial Crime Risk Committee and Board Financial Crime Risk Committee.

1 MLRO is a controlled/Senior Management function (SMF 17 – Money Laundering Reporting Function) under Section 59 of the Financial Services and Markets Act 2000 ("FSMA")

Principal uncertainties

In 2017 we undertook a thorough review of our principal uncertainties, using the approach described in the Enterprise Risk Management Framework section (page 160). The key results of the review are detailed below

Key changes to our principal uncertainties

The following items have been removed as principal uncertainties:

- 'Evolving financial crime and fraud' and 'cyber crime'. These form part of our Principal Risk Types which we control and mitigate through distinct risk type frameworks, policies and Board-approved Risk Appetite
- 'Operational performance eroding confidence in the Group' as the Group has a clear Strategic Plan on which it has now started to deliver

The following items have been added as new principal uncertainties:

- 'Climate-related physical risks and transition risks'. There is growing stakeholder interest in these risks, including investors, regulators and civil society, and it is anticipated that climate change will inform future regulatory approaches
- 'New technologies and digitisation. The rapid development of new technologies and digitisation, accompanied by changes in consumer behaviour, could disrupt many elements of banking

Our list of principal uncertainties, based on our current knowledge and assumptions, is set out below:

Geopolitical considerations (Risk ranked according to severity)

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
Increase in trade protectionism driven by nationalist agenda Potential impact: **High** Likelihood: **Medium** Velocity of change: **Steady**	↔	→ Protectionist policies driven by nationalist agendas could disrupt established supply chains and invoke retaliatory actions. Countries could introduce tariffs on goods and services available domestically or from other economies. Such actions would impact global trade → Several authorities in our footprint continue to adopt stringent standards on outsourcing or offshoring activities and there is an increased focus on priority sector lending requirements → The Group has a significant revenue stream from supporting cross-border trade and material off-shore support operations	→ We assessed the impact of a severe world trade downturn triggered by rising protectionism as part of our 2017 stress tests. The insights gained as part of these were reviewed through internal governance and we continue to build measures to link stress test outcomes to business objectives in order to mitigate potential downside risk from trade disruption

↑ Risk heightened in 2017 ↔ Risk remained consistent with 2016 levels

Potential impact (Gross risk assessment) Refers to the extent to which a risk event might affect the Bank	**Likelihood (Gross risk assessment)** Refers to the possibility that a given event will occur	**Velocity of change** Refers to when the risk event might materialise
High *(significant financial or non-financial risk)*	High *(almost certain)*	Fast *(risk of sudden developments with limited time to respond)*
Medium *(some financial or non-financial risk)*	Medium *(likely or possible)*	Moderate *(good pace of developments with sufficient time to respond)*
Low *(marginal financial or non-financial risk)*	Low *(unlikely or rare)*	Steady *(gradual or orderly developments)*

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
Korean peninsula geopolitical tensions Potential impact: High Likelihood: Low Velocity of change: Fast	↑	→ Tensions could exacerbate weak investment spending and low growth in the developed world → The Group has a material presence in South Korea and nearby countries	→ Country level crisis management and contingency plans are in place for South Korea focused on the business activities, credit risk, liquidity and capital risk, operations and employee safety. We have enhanced the process for daily monitoring of key indicators and actively review geopolitical risk levels → A North Korea stress scenario is run weekly as part of the global stress test of market and traded risk → We are also assessing contagion risks arising from Korean geopolitical risk levels and associated contingency plans → Regular stress testing on exposures to South Korea and Japan are conducted to support any required action plans
Middle East political situation Potential impact: Medium Likelihood: Medium Velocity of change: Steady	↔	→ In June 2017, the governments of Kingdom of Saudi Arabia, Bahrain, United Arab Emirates and Egypt announced that they were severing diplomatic ties with Qatar escalating tensions in the Middle East region → A number of prominent Saudi Arabian princes, government ministers, and business people were arrested in Saudi Arabia in November 2017 → A decision by the US president to recognise Jerusalem as the capital of Israel, and start preparations for the US to move its embassy from Tel Aviv, has the potential to further increase tensions across the Middle East → The Group has a material presence across the region	→ The impact of the diplomatic crisis on our portfolio has been limited so far, however we are closely monitoring a small number of clients which have been affected. → Tightened controls over transactions and general governance have been put in place → Potential for further event risks is constantly monitored at country and regional level
Post-Brexit implications Potential impact: Low Likelihood: High Velocity of change: Moderate	↔	→ The outcome of the UK referendum to leave the European Union (Brexit) could have implications on economic conditions globally because of changes in policy direction, which might in turn influence the economic outlook for the eurozone. The uncertainties linked to the Brexit negotiations process could delay corporate investment decisions until there is more clarity → Both the EU and UK have indicated their support for a transition period following the UK's formal departure from the EU in March 2019, although it is not clear how long this period will be for → The full implications of Brexit will only be known over the next 12-18 months as negotiations progress. → The first order impact of Brexit on the Group is limited given the nature of the Group's activity	→ We continue to assess and manage post-Brexit risk and the practical implications through the Brexit Executive Committee chaired by a Management Team Member → We are setting up a new European Union (EU) subsidiary and optimising our EU structure to mitigate any potential impact to our clients, our colleagues and the Group as a result of Brexit, including loss of EU passporting rights

Macroeconomic considerations

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
Moderation of growth in key footprint markets led by China Potential impact: High Likelihood: Medium Velocity of change: Steady	↔	→ Asia remains the main driver of global growth supported by internal drivers, led by China → Debt levels in China and the pace of transition to more consumption-led growth remain a concern → Highly trade oriented economies such as Hong Kong and Singapore with close ties to China would weaken in the event of an economic slowdown in China. Regional supply chain economies such as Korea, Taiwan and Malaysia would be impacted from a fall in economic activity → Greater China and South East Asian economies remain key strategic regions for the Group	→ As part of our stress tests, severe stress in the global economy associated with a sharp slowdown in China was assessed in 2017 and a refreshed scenario will be run in 2018 → Exposures that result in material loan impairment charges and risk-weighted assets inflation under stress tests are regularly reviewed and actively managed → A global downturn with shocks concentrated on China and countries with close trade links with China is one of the regular market and traded risk stress tests

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
Sharp interest rate rises and asset price corrections Potential impact: **High** Likelihood: **Medium** Velocity of change: **Moderate**	↑	→ Significant increases in interest rates from the historically low levels currently prevailing in many markets could have an impact on the highly leveraged corporate sector, as well as countries with high current account deficits or high foreign currency share of domestic debt. Property, commodities and asset prices would also come under pressure → Such sharp increases in interest rates could adversely impact the credit quality of the Group's exposures, and our ability to reprice these exposures in response to changes in the interest rate environment	→ We monitor on a centralised basis the contractual and behavioural interest rate risk exposures, and manage these within a clearly defined risk management framework and Risk Appetite → In many of our markets we have implemented loan-to-value and debt-to-income restrictions in response to rising property prices → The Group has been actively managing its commodities portfolio, including energy, metals and mining exposures over the last few years. For new business, we are focused on deals that are resilient to further price volatility → Relevant scenarios will be run as part of our stress test programme in 2018

Environmental and social considerations

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
Climate-related physical risks and transition risks[1] Potential impact: **Medium** Likelihood: **Medium** Velocity of change: **Steady**	**NEW**	→ National governments have, through the UN Framework Convention on Climate Change (UNFCCC) process and Paris Agreement, made commitments to enact policies which support the transition to a lower-carbon economy, limiting global warming to less than 2ºC and therefore mitigating the most severe physical effects of climate change. → Such policies may however have significant impacts, for example, on energy infrastructure developed in our markets, and thus present 'transition' risks for our clients → Conversely, if governments fail to enact policies which limit global warming, the Group's markets are particularly susceptible to 'physical' risks of climate change such as droughts, floods, sea level change and average temperature change → There is growing stakeholder interest in these risks, including investors, regulators and civil society	→ We are developing an approach for assessing energy utilities clients' power generation assets against a range of physical and transition risks, under multiple climate scenarios and a range of time horizons. We are considering how we extend this to other sectors in 2018 → We have, over time, reduced our Risk Appetite to carbon-intensive sectors by introducing technical standards for coal-fired power plants, and restrictions on new coal mining clients and projects. These standards are reviewed on a regular basis → We have made a public commitment to fund and facilitate $4 billion toward clean technology between 2016 and 2020

Legal considerations

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
Regulatory reviews and investigations, legal proceedings Potential impact: **High** Likelihood: **High** Velocity of change: **Moderate**	↔	→ The Group has been, and may continue to be, subject to regulatory actions, reviews, requests for information (including subpoenas and requests for documents) and investigations across our markets, the outcomes of which are generally difficult to predict and could be material to the Group → The Group is also party to legal proceedings from time to time, which may give rise to financial losses or adversely impact our reputation in the eyes of our customers, investors and other stakeholders → In recent years, authorities have exercised their discretion to impose increasingly severe penalties on financial institutions that have been accused of violated laws and regulations, and there can be no assurance that future penalties will not be of increased severity	→ We have invested in improving compliance controls, including increasing the capacity and capabilities of compliance resources, enhancing systems and controls, and implementing remediation programmes (where relevant) → We are cooperating with all relevant ongoing reviews, requests for information and investigations

1 Physical risk refers to the risk of increased extreme weather events while transition risk refers to the risk of changes to market dynamics due to governments' responses to climate change

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
Regulatory changes and tax reforms Potential impact: **Medium** Likelihood: **High** Velocity of change: **Fast**	⇔	→ Revised rules have been defined in many key areas of regulation that could impact our business model and how we manage our capital and liquidity. In particular, the upcoming Basel III proposed changes to capital calculation methodology for credit and operational risk, revised framework for Securitisation and Credit Valuation Adjustment (CVA) risk, Fundamental Review of the Trading Book, Large Exposures and implementation of Margin Reforms, and Bank Recovery and Resolution Directive for Total Loss Absorbing Capacity (TLAC) → Increased global efforts in detecting tax evasion through the use of offshore bank accounts and facilitating cross-border tax compliance require the Group to comply with five extraterritorial client tax information regimes. These tax regimes impact the jurisdictions in which the Group operates, as well as all client segments and products → There may be implications on cross-border tax compliance for our clients following the recent US tax reform → There is increasing regulatory scrutiny and emphasis on local responsibilities of remotely booked business. The degree of reliance on global controls is reducing, and the focus is on local controls and governance	→ We actively monitor regulatory initiatives across our footprint to identify any potential impact and change to our business model → With respect to Basel III: – We are closely monitoring developments, and conducting sensitivity analyses on the potential headwinds and opportunities – We continuously review a menu of prospective capital accretive actions, along with impact to the Group Strategy and financial performance → We have established specific programmes to ensure effective and efficient implementation of changes required by new or existing tax regulations and reforms → Relevant product areas have implemented project management or programme oversight to review and improve the end-to-end process, including oversight and accountability, policies and standards, transparency and management information, permission and controls, legal-entity level limits and training

Technological considerations

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
New technologies and digitisation Potential impact: **High** Likelihood: **High** Velocity of change: **Moderate**	**NEW**	→ New technologies, accompanied by changes in consumer behaviour and digitisation, are likely to significantly disrupt both, the basis of competition and the economics of many elements of banking → The banking landscape for retail banking, for example, is witnessing a significant change where start-ups, Fintechs and existing payment players are able to offer traditional retail banking products and services in real-time with competitive pricing. In addition, regulators are also encouraging Fintechs and start-ups. The impact to the banking sector arises by way of migration of clients and balances to competition or Fintechs due to a more user-friendly client experience → There is a risk of business model disruption arising from inability or failure of the bank to adapt to changing client and regulatory requirements or expectations due to rapidly evolving product and technology innovation	→ We continuously monitor developments in the technology space which affect the banking sector, to keep abreast of the latest trends and announced partnerships. The Management Team has increased its focus on business innovation, given that a large driver of uncertainty is the possible disruption to banking from new entrants and the blurring of barriers between sectors → The Group continuously scans the market for innovative companies that can bring value to the bank through collaborations. Our Exellerator (the Group's innovation lab) in Singapore and Hong Kong engages with start-ups and established companies that can bring specific capabilities to support the Bank with our digitisation agenda. Our SC Studios in San Francisco identifies companies that we believe can bring significant advancements to our business → We also participate in industry-wide initiatives, such as the Ripple Consortium, to allow us to build our own capabilities and be able to capitalise on opportunities, should such technologies 'take-off'

Capital review

The Capital review provides an analysis of the Group's capital and leverage position and requirements

Capital summary

The Group's capital and leverage position is managed within the Board-approved Risk Appetite. The Group is well capitalised with low leverage and high levels of loss-absorbing capacity.

Capital, leverage and RWA	2017	2016
CET1 capital %	**13.6**	13.6
Tier 1 capital %	**16.0**	15.7
Total capital %	**21.0**	21.3
UK leverage %	**6.0**	6.0
RWA ($ million)	**279,748**	269,445

The Group's Common Equity Tier 1 (CET1) capital and leverage position was ahead of both the current requirements and the expected end-state requirements for 2019. For further detail see the Standard Chartered PLC Pillar 3 Disclosures 2017 section on Capital.

The Group was advised during the period that its Pillar 2A requirement, as reviewed regularly by the PRA for all banks, has increased. The Group's current Pillar 2A requirement is 3.1 per cent of RWA of which at least 1.7 per cent must be held in CET1. This requirement is expected to vary over time.

In January 2017, the Group issued $1 billion of Additional Tier 1 (AT1) capital and currently has 2.4 per cent of RWA in AT1. The Group continued its programme of senior issuance from the holding company, with around $1.5 billion issued during the year, including Standard Chartered PLC's inaugural issuance of callable senior notes.

The Bank of England (BoE) confirmed the Group's non-binding, indicative minimum requirement for own funds and eligible liabilities (MREL). As at 31 December 2017 the Group estimates that its MREL requirement is 16.0 per cent of RWA in 2019 rising to 19.1 per cent of RWA in 2020 and 22.2 per cent of RWA from 1 January 2022.

The Group's combined buffer (comprising the capital conservation, global systemically important institution (G-SII) and countercyclical buffers) sits above any MREL requirement, resulting in a total loss-absorbing capacity requirement of 26.0 per cent of RWA from 1 January 2022 based on the Group's CRD IV capital buffers that are known at this time.

The Group currently estimates that its MREL position was around 25.5 per cent of RWA and around 10.0 per cent of leverage exposure at 31 December 2017.

In November 2017, the Bank of England released the results of the 2017 stress test exercise. The 2017 annual cyclical scenario (ACS) incorporated a severe and synchronised global macroeconomic and financial market stress with growth in China, Hong Kong and Singapore particularly impacted. The results showed that, under the ACS, the Group exceeded all hurdle rates and systemic reference points after strategic management actions. The Group has a strong and liquid balance sheet and these results demonstrate the benefits of the actions recently undertaken by the Group to improve its resilience to an extreme stress scenario.

Regulatory update

The Group has been in discussions with the Prudential Regulation Authority (PRA) about changes to the treatment of certain exposures where the country-specific default experience is not deemed sufficient for modelling purposes, including the application of various loss given default (LGD) floors based on the Foundation IRB approach.

Following an agreement reached in the third quarter with the PRA, as of September 2017 the Group has applied a LGD floor to certain financial institutions exposures, which resulted in a RWA increase equivalent to about a 35 basis points reduction in the Group's CET1 ratio. Similar model changes relating to certain corporate exposures will be introduced during the first half of 2018. These changes are expected to have a lower impact on the Group's CET1 ratio than the changes taken in 2017.

The European Commission is proposing amendments to the Capital Requirements Regulation, CRD IV, the Bank Recovery and Resolution Directive and the Single Resolution Mechanism Regulation. Any proposed reforms remain subject to change and until the proposals are in final form it is uncertain how they will affect the Group.

The Group remains a G-SII with a 1.0 per cent G-SII CET1 buffer which began to be phased in from 1 January 2016 and will be fully implemented by 1 January 2019. The buffer phases in at a rate of 0.25 per cent per year. The Standard Chartered PLC 2016 G-SII disclosure is published at: investors.sc.com/fullyearresults

IFRS 9

Under IFRS 9 it is estimated that on day 1 the Group's CET1 ratio would not be impacted after applying 95 per cent transitional relief. The day 1 end point impact (with no transitional relief) reduces CET1 by an estimated 15 basis points, which is attributed to the following factors:

- The increase in IFRS 9 expected credit loss (ECL) allowances for AIRB portfolios has been mostly offset by the existing regulatory excess expected loss (EL) deduction
- The increase in IFRS 9 ECL for standardised portfolios directly impacts CET1 as there is no existing regulatory deduction to absorb the increase
- The increase in deferred tax assets recognised from IFRS 9 re-measurements and the increase in asset fair values as a result of classification and measurement partially mitigates the impact of ECL.

CET1 ratio (phasing in of transition)

13.6	IAS 39 at 31 December 2017
13.5	IFRS 9 at 1 January 2018 before transitional relief
13.6	IFRS 9 at 1 January 2018 after transitional relief

Transitional relief relates to the phasing in of the impact of the initial adoption of the ECL component of IFRS 9 into CET1, as permitted by Regulation (EU) 2017/2395 of the European Parliament and of the Council. Under this approach, the balance of ECL allowances in excess of the regulatory excess EL and standardised portfolios are phased into the CET1 capital base over 5 years. The proportion phased in for the balance at each reporting period is: 2018 5 per cent; 2019 15 per cent; 2020 30 per cent; 2021 50 per cent; 2022 75 per cent. From 2023 onwards there is no transitional relief.

Capital ratios

	2017	2016
CET1	**13.6%**	13.6%
Tier 1 capital	**16.0%**	15.7%
Total capital	**21.0%**	21.3%

CRD IV Capital base

	2017 $million	2016 $million
CET1 instruments and reserves		
Capital instruments and the related share premium accounts	**5,603**	5,597
Of which: share premium accounts	**3,957**	3,957
Retained earnings[1]	**25,316**	26,000
Accumulated other comprehensive income (and other reserves)	**12,766**	11,524
Non-controlling interests (amount allowed in consolidated CET1)	**850**	809
Independently reviewed interim and year-end profits/(losses)	**1,227**	(247)
Foreseeable dividends net of scrip	**(399)**	(212)
CET1 capital before regulatory adjustments	**45,363**	43,471
CET1 regulatory adjustments		
Additional value adjustments (prudential valuation adjustments)	**(574)**	(660)
Intangible assets (net of related tax liability)	**(5,112)**	(4,856)
Deferred tax assets that rely on future profitability (excludes those arising from temporary differences)	**(125)**	(197)
Fair value reserves related to net losses on cash flow hedges	**45**	85
Deduction of amounts resulting from the calculation of excess expected loss	**(1,142)**	(740)
Net gains on liabilities at fair value resulting from changes in own credit risk	**(53)**	(289)
Defined-benefit pension fund assets	**(40)**	(18)
Fair value gains arising from the institution's own credit risk related to derivative liabilities	**(59)**	(20)
Exposure amounts which could qualify for risk weighting of 1,250%	**(141)**	(168)
Total regulatory adjustments to CET1	**(7,201)**	(6,863)
CET1 capital	**38,162**	36,608
Additional Tier 1 capital (AT1) instruments	**6,719**	5,704
AT1 regulatory adjustments	**(20)**	(20)
Tier 1 capital	**44,861**	42,292
Tier 2 capital instruments	**13,927**	15,176
Tier 2 regulatory adjustments	**(30)**	(30)
Tier 2 capital	**13,897**	15,146
Total capital	**58,758**	57,438
Total risk-weighted assets (unaudited)	**279,748**	269,445

1 CET1 capital before regulatory adjustments is prepared on the regulatory scope of consolidation

Movement in total capital

	2017 $million	2016 $million
CET1 at 1 January	**36,608**	38,182
Ordinary shares issued in the year and share premium	**6**	1
Profit/(loss) for the year	**1,227**	(247)
Foreseeable dividends net of scrip deducted from CET1	**(399)**	(212)
Difference between dividends paid and foreseeable dividends	**(233)**	(116)
Movement in goodwill and other intangible assets	**(256)**	(36)
Foreign currency translation differences	**1,363**	(779)
Non-controlling interests	**41**	227
Movement in eligible other comprehensive income	**119**	(579)
Deferred tax assets that rely on future profitability	**72**	15
(Increase) / decrease in excess expected loss	**(402)**	(171)
Additional value adjustments (Prudential Valuation Adjustment)	**86**	(96)
Own credit gains	**(39)**	342
Exposure amounts which could qualify for risk weighting	**27**	31
Other	**(58)**	46
CET1 at 31 December	**38,162**	36,608
AT1 at 1 January	**5,684**	4,591
Issuances net of redemptions	**992**	1,010
Foreign currency translation difference	**23**	(47)
Other	**–**	130
AT1 at 31 December	**6,699**	5,684
Tier 2 capital at 1 January	**15,146**	16,248
Regulatory amortisation	**779**	(181)
Issuances net of redemptions	**(2,907)**	(697)
Foreign currency translation difference	**676**	(577)
Tier 2 ineligible minority interest	**233**	374
Other	**(30)**	(21)
Tier 2 capital at 31 December	**13,897**	15,146
Total capital at 31 December	**58,758**	57,438

The main movements in capital in 2017 were:

- The CET1 ratio remained flat at 13.6 per cent with a $10.3 billion increase in RWA offsetting a $1.6 billion increase in CET1 capital as described below
- CET1 capital increased by $1.6 billion as underlying profits and favourable foreign currency translation were offset in part by distributions and higher regulatory adjustments
- AT1 capital increased to $6.7 billion due to the issuance of $1 billion of AT1 securities in the period
- Tier 2 reduced by $1.2 billion to $13.9 billion as calls and maturities were not replaced by new issuance. This was in part offset by foreign currency translation and the net impact of regulatory amortisation and deductions.

Risk-weighted assets by business

	2017			
	Credit risk $million	**Operational risk $million**	**Market risk $million**	**Total risk $million**
Corporate & Institutional Banking	**109,368**	**14,740**	**22,994**	**147,102**
Retail Banking	**36,345**	**7,761**	**–**	**44,106**
Commercial Banking	**29,712**	**3,356**	**–**	**33,068**
Private Banking	**5,134**	**809**	**–**	**5,943**
Central and other items	**45,671**	**3,812**	**46**	**49,529**
Total risk-weighted assets	**226,230**	**30,478**	**23,040**	**279,748**

	2016			
	Credit risk $million	Operational risk $million	Market risk $million	Total risk $million
Corporate & Institutional Banking	106,834	16,703	19,228	142,765
Retail Banking	33,210	8,953	–	42,163
Commercial Banking	27,553	4,385	–	31,938
Private Banking	5,129	959	–	6,088
Central and other items	41,149	2,693	2,649	46,491
Total risk-weighted assets	213,875	33,693	21,877	269,445

Risk-weighted assets by geographic region[1]

	2017 $million	2016 $million
Greater China & North Asia	**84,593**	76,665
ASEAN & South Asia	**96,733**	96,673
Africa & Middle East	**56,437**	52,849
Europe & Americas	**44,735**	43,487
Central & other items	**(2,750)**	(229)
Total risk weighted assets	**279,748**	269,445

1 Risk-weighted assets by geographic region is presented on a basis consistent with Note 2 Segmental information (pages 210 to 211)

Movement in risk weighted assets

	Credit risk								
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million	Operational risk $million	Market risk $million	Total risk $million
At 1 January 2016	127,528	38,007	30,825	6,302	42,740	245,402	35,610	21,913	302,925
Assets (decline)/growth	(15,860)	(1,221)	(3,221)	(1,120)	493	(20,929)			(20,929)
Net credit migration	156	116	(61)	–	(179)	32	–	–	32
Risk-weighted assets efficiencies	(2,722)	–	–	–	–	(2,722)	–	–	(2,722)
Model, methodology and policy changes	(917)	(2,708)	437	–	(1,316)	(4,504)	–	5,500	996
Disposals	–	(471)	–	–	–	(471)	–	–	(471)
Foreign currency translation	(1,351)	(513)	(427)	(53)	(589)	(2,933)			(2,933)
Other non-credit risk movements	–	–	–	–	–	–	(1,917)	(5,536)	(7,453)
At 31 December 2016	106,834	33,210	27,553	5,129	41,149	213,875	33,693	21,877	269,445
Assets (decline)/growth	**(6,363)**	**2,349**	**1,973**	**445**	**2,273**	**677**	**–**	**–**	**677**
Net credit migration	**4,035**	**74**	**(465)**	**–**	**9**	**3,653**	**–**	**–**	**3,653**
Risk-weighted assets efficiencies	**(2,295)**	**–**	**–**	**–**	**–**	**(2,295)**	**–**	**–**	**(2,295)**
Model, methodology and policy changes	**4,990**	**(368)**	**–**	**(575)**	**2,372**	**6,419**	**–**	**(2,178)**	**4,241**
Disposals	**–**	**(710)**	**–**	**–**	**(443)**	**(1,153)**	**–**	**–**	**(1,153)**
Foreign currency translation	**2,167**	**1,790**	**651**	**135**	**311**	**5,054**	**–**	**–**	**5,054**
Other non-credit risk movements	**–**	**–**	**–**	**–**	**–**	**–**	**(3,215)**	**3,341**	**126**
At 31 December 2017	**109,368**	**36,345**	**29,712**	**5,134**	**45,671**	**226,230**	**30,478**	**23,040**	**279,748**

RWA increased by $10.3 billion, or 3.8 per cent from 31 December 2016 to $279.7 billion. This was due to a $12.4 billion increase in credit risk RWA and a $1.2 billion increase in market risk RWA partly offset by a $3.2 billion decrease in operational risk RWA.

Corporate & Institutional Banking

Credit risk RWA increased by $2.5 billion to $109.4 billion mainly due to:

- $4.0 billion increase due to credit migration in the AME and GCNA regions
- $5.0 billion increase in model, methodology and policy changes, of which $5.2 billion was due to PRA approved IRB model changes in financial institutions relating to LGD floors
- Financial markets and corporate finance asset decline of $6.4 billion driven by asset reduction and change in product mix
- $2.3 billion reduction from efficiencies in financial markets through optimisation and process enhancements, including CVA RWA saves
- $2.2 billion increase from foreign currency translation due to appreciation of currencies in Europe, India, and China

Retail Banking

Credit risk RWA increased by $3.1 billion to $36.3 billion, due to:

- $2.3 billion increase from mortgage and secured lending growth
- $0.4 billion RWA save due to model, methodology and policy changes
- $0.7 billion due to the disposal of our Thailand retail portfolio
- $1.8 billion increase from foreign currency translation due to appreciation of currencies in Korea, Singapore and India

Commercial Banking

Credit risk RWA increased by $2.2 billion to $29.7 billion mainly due to:

- $2.0 billion increase from new business, with growth in transaction banking and lending
- Credit migration reduction of $0.5 billion due to increased provisions in the ASA and GCNA regions
- $0.7 billion increase from foreign currency translation due to appreciation of currencies in Korea, India and Europe

Private Banking

Credit risk RWA is broadly flat at $5.1 billion year on year. Changes in asset balances and foreign currency translation in Europe and Singapore, were offset by RWA saves achieved through recognition of eligible collateral.

Central & other items

Credit risk RWA increased by $4.5 billion to $45.7 billion due to:

- An increase of $2.3 billion in credit RWA mainly due to treasury activities, offset in part by lower RWA balances for investments in Associates
- $2.4 billion increase due to PRA approved IRB model changes in financial institutions relating to LGD floors in treasury markets
- $0.4 billion saving from the disposal of an investment in the GCNA region
- $0.3 billion increase from foreign currency translation due to appreciation of currencies in India, Korea and China

Market risk

Total market risk RWA increased by $1.2 billion, or 5.3 per cent from 31 December 2016 to $23.0 billion. This was mainly due to increases in trading book debt security holdings partly offset by lower market volatility. Methodology and policy changes contributed RWA savings of $2.2 billion.

Operational risk

Operational risk RWA reduced by $3.2 billion to $30.5 billion, due to a decrease in the average income over a rolling three-year time horizon, as lower 2016 income replaced higher 2013 income. This represents a 9.5 per cent year-on-year reduction in operational risk RWA.

UK leverage ratio

The Group's UK leverage ratio, which excludes qualifying claims on central banks in accordance with a PRA waiver, was 6.0 per cent, which is above the current minimum requirement of 3.5 per cent.

The UK leverage ratio in the period remained flat as the increase in Tier 1 capital (end point) was offset by an increase in the UK leverage exposure measure.

UK leverage ratio (unaudited)

	2017 $million	2016 $million
Tier 1 capital (transitional)	**44,861**	42,292
Additional Tier 1 capital subject to phase out	**(1,758)**	(1,735)
Tier 1 capital (end point)	**43,103**	40,557
Derivative financial instruments	**47,031**	65,509
Derivative cash collateral	**9,513**	14,230
Securities financing transactions (SFTs)	**55,187**	44,916
Loans and advances and other assets	**551,770**	522,037
Total on-balance sheet assets	**663,501**	646,692
Regulatory consolidation adjustments[1]	**(31,712)**	(31,491)
Derivatives adjustments		
Derivatives netting	**(29,830)**	(38,737)
Adjustments to cash collateral	**(18,411)**	(23,449)
Net written credit protection	**1,360**	7,311
Potential future exposure on derivatives	**30,027**	49,607
Total derivatives adjustments	**(16,854)**	(5,268)
Counterparty risk leverage exposure measure for SFTs	**13,238**	10,412
Off-balance sheet items	**96,260**	60,535
Regulatory deductions from Tier 1 capital	**(7,089)**	(6,553)
UK leverage exposure (end point)	**717,344**	674,327
UK leverage ratio (end point)	**6.0%**	6.0%
UK leverage exposure quarterly average	**723,508**	N/A
UK leverage ratio quarterly average	**6.0%**	N/A
Countercyclical leverage ratio buffer	**0.1%**	0.0%
G-SII additional leverage ratio buffer	**0.2%**	0.1%

1 Includes adjustment for qualifying central bank claims

FLEXIBLE WORKING

Supporting SCB colleagues through flexible working

Katie Hasson | Business & Change Manager | Singapore

My family and my work

I'm an Australian-born mother of two: Mason (three) and Mia (one and a half). My husband and I moved to Singapore over five years ago as a newly married couple looking for a new experience. I currently work as a business and change manager, which involves ensuring that the bank complies with the customer due diligence standards that apply in our markets.

I always knew that I wanted to return to work on a part-time basis after giving birth so, after Mason came along, I used remaining maternity and annual leave entitlements to work a shorter week.

"I feel I have moved on to the next step in my career and that flexible working has allowed me to develop in a way that suited me."

Best of both worlds

Part-time work enables me to continue to advance in my career, while being a full-time, hands-on mother. The best part is that I can take my kids on various outings and play dates during what would be a 'typical' work day, while helping to get important initiatives rolled out within the bank on the other days.

Attitudes are changing

Not all companies in Singapore would consider hiring someone on a flexible basis, and some people may assume I am less ambitious than everyone else because I work part time, which is certainly not the case.

Financial statements

192 Independent auditor's report
200 Consolidated income statement
201 Consolidated statement of comprehensive income
202 Consolidated balance sheet
203 Consolidated statement of changes in equity
204 Cash flow statement
205 Company balance sheet
206 Company statement of changes in equity
207 Notes to the financial statements

Independent auditor's report

to the members of Standard Chartered PLC

1. Our opinion is unmodified

We have audited the financial statements of Standard Chartered PLC ("the Company"), and its subsidiaries (together "the Group"), for the year ended 31 December 2017 which comprise the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the Group and Company cash flow statement, the Company balance sheet, the Company statement of changes in equity and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the Group before 1973. The period of total uninterrupted engagement is for more than the 45 financial years ended 31 December 2017.

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	2017	2016
Materiality:		
Group financial statements	**$100m**	$150m
Benchmark[1]	**4.1% of group profit before tax**	4.3% of four-year normalised average group profit before tax
Coverage:		
of group profit before tax	**88%**	92%
Risks of material misstatement		**vs 2016**
Legal and regulatory matters		↑
Impairment on loans and advances		↓
Goodwill impairment		↔
Valuation of financial instruments held at fair value		↔
Information technology		↑
Recoverability of Parent Company's investment in subsidiaries[2]		↔

1 Further determination of benchmark is included on page 197

2 Separately set out in the auditor's report for the first time in 2017

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter	The risk	Our response
Legal and regulatory matters Refer to page 64 (Audit Committee Report), page 258 (note 24 Provisions for liabilities and charges) and page 259 (note 26 Legal and regulatory matters) including accounting policies	**Dispute Outcome** There are a number of pending and ongoing legal disputes and regulatory investigations involving the Group. In certain litigation and regulatory matters significant judgement is required by management to determine whether a present obligation exists and whether a provision should be recognised. If there is a present obligation there are significant judgements in determining the measurement of provisions, which are subject to the future outcome of legal or regulatory processes. We focused on the risk of material misstatement arising from ongoing investigations by regulators, specifically in the US relating to the possible violation of US sanction laws and regulations. Refer to note 26 (under 'Other ongoing investigations and review') in relation to the Group's ongoing discussions with the relevant US authorities regarding the resolution of this investigation. As discussed in note 26, it is acknowledged that the resolution of the investigation may involve a range of civil and criminal penalties for sanctions compliance violations including substantial monetary penalties. As also discussed in note 26 there are ongoing discussions with the UK regulators in relation to financial crime controls in the correspondent banking business.	Our procedures included: **Enquiry of lawyers:** Meetings with the Group's external counsel in the US and UK and the PRA (who are in regular contact with US and other regulatory bodies) to understand the nature and status of legal disputes and regulatory investigations to determine whether or not a provision should recognised. **Assessing provisions:** We critically assessed and challenged the adequacy of provisions and contingent liability disclosures including management's ability to reliably estimate any monetary penalties. Our procedures included comparing assumptions to historical data, approved settlement agreements and enquiry of lawyers. **Assessing transparency:** Assessed whether the disclosures related to significant litigation and regulatory matters adequately disclose the potential liabilities and the significant uncertainties that exist. **Our results:** We considered the provisions for legal and regulatory matters recognised, including the related disclosures and the contingent liability disclosure made in note 26, to be acceptable (2016: acceptable).

Key audit matter	The risk	Our response
Impairment of loans and advances Charge: $1,362 million (2016: $2,791 million) Provision: $5,707 million (2016: $6,518 million) Corporate & Institutional Banking (CIB) clients, Commercial Banking (CB) clients and Private Banking clients (collectively 'larger clients') represent 72 per cent ($264 billion) of the Group's net loan exposure, whereas Retail clients represent 28 per cent ($103 billion). Refer to page 64 (Audit Committee Report), page 218 (note 8 Impairment losses on loans and advances and other credit risk provisions) and page 249 (note 16 Loans and advances to banks and customers) including accounting policies	**Subjective estimate** The carrying value of loans and advances to banks and customers held at amortised cost may be materially misstated if individual or collective impairments are not appropriately identified and estimated. The identification of impaired assets and the estimation of impairment including estimates of future cash flows and valuation of collateral involve significant management judgement. The collective impairment on CIB, CB and Retail loans and advances include overlays to the model calculated collective impairment. These overlays are calculated and assessed based on management's judgement of the performance of the book. The most significant areas are: → Loan exposures in India due to high debt levels and weak balance sheets, regulatory reform and the poor performance of certain sectors such as telecoms and power → Oil and gas support service related exposures following sustained depression of oil prices in prior years	Our procedures included: **Control design, observation and operation:** We tested the design and operation of manual and automated controls over the individual impairment provision including: → the accuracy of data input into the system used for credit grading and the approval of credit facilities → the ongoing monitoring and identification of loans displaying indicators of impairment and whether they are migrating, on a timely basis, to early alert or to grades 12 to 14 including generation of days past due reports. **Assessing overlays:** We assessed the adequacy of management overlays to the modelled collective provision for CIB, CB and Retail by recalculating the coverage provided by the collective impairment provision (including overlays) to loan book, taking into account recent loss history, performance and de-risking of the relevant portfolios. We assessed the areas identified as most significant opposite using external data and challenged whether the modelled collective impairment provision already appropriately reflected them or if an overlay was required. **Assessing individual exposures:** We selected a sample (based on quantitative thresholds) of larger clients where impairment indicators had been identified by management. We obtained management's assessment of the recoverability of these exposures (including individual provisions calculations) and challenged whether individual impairment provisions, or lack of, were appropriate. This included the following procedures: → challenging the recoverability of the forecast cash flows by comparing them to historical performance of the customer and the expected future performance where applicable; and → assessing external collateral valuer's credentials and comparing external valuations to values used in management's impairment assessments For a risk based sample of CIB and CB loans credit grades 1 to 11 not identified as displaying indicators of impairment by management, challenged this assessment by reviewing the historical performance of the customer and formed our own view whether any impairment indicators were present. **Our results:** We considered the credit impairment charge and provision recognised and the related disclosures to be acceptable (2016: acceptable).

Key audit matter	The risk	Our response
Goodwill impairment Impairment: $320 million (2016: $166 million) Goodwill: $3,252 million (2016: $3,456 million) Refer to page 64 (Audit Committee Report) and page 251 (note 18 Goodwill and Intangible assets including accounting policies)	**Forecast-based valuation** Goodwill may be misstated if the carrying value of goodwill in the balance sheet is not supported by the estimated discounted future cash flows of the underlying businesses. **Subjective estimate** The identification of indicators of impairment and the preparation of the estimate of recoverable amount involves subjective judgments and uncertainties. Our work focused on the CGUs which have low headroom or significantly reduced headroom following the re-segmentation (see note 18), including: → Taiwan → India	Our procedures included: **Methodology assessment:** Assessed whether the resegmentation of the CGUs reflects our understanding of the business and how it operates including assessment of the independence of the underlying cash flows. **Benchmarking assumptions:** For a sample of CGUs including those identified opposite, compared the growth rate assumptions to externally derived data for key inputs, including projected economic growth. **Our expertise:** Our valuation specialists critically assessed the appropriateness of the discount rates for a sample of CGUs including those identified opposite, independently calculating discount rate ranges using external data sources and peer bank data for local risk free rates, betas and market/country/entity risk premiums. **Sensitivity analysis:** Performing breakeven analysis on the discount rate, the future cash flows and gross domestic product projections. **Historical comparison:** Assessed management's ability to accurately prepare forecasts compared to actual results. **Consistency comparison:** Assessed the consistency of projected cash flows to the Board approved corporate plan. **Our results:** We considered the goodwill impairment charge, carrying value of goodwill recognised and the related disclosures to be acceptable (2016: acceptable).
Valuation of financial instruments held at fair value Fair value of level 3 asset positions $1,938 million comprising 1.0 per cent of total fair value financial instrument assets (2016: $2.3 billion, 1.2 per cent) Fair value of level 3 liability positions $536 million comprising 0.8% of total fair value financial instrument liabilities (2016: $0.8 billion, 1.0%) Refer to page 64 (Audit Committee Report), page 234 (accounting policy) and page 227 (note 13 Financial instruments)	**Subjective estimate** The valuation of level 3 financial instruments held at fair value through profit or loss or as available-for-sale may be misstated due to the application of valuation techniques which often involve the exercise of judgement and the use of assumptions and estimates. A subjective estimate exists for instruments where the valuation method uses significantly unobservable inputs, which is principally the case for level 3 financial instruments. Our work focused on the following: → Valuation of level 3 positions, including unlisted investments in the Principal Finance business and derivatives with significant unobservable pricing inputs → Modelling of, and key inputs into, the valuation of derivative and other instruments classified as level 3 → Disclosure of level 3 financial assets and liabilities held at fair value, including the assessment of observability of pricing inputs	Our procedures included: **Controls operation:** We tested the Group's controls over the identification and measurement of level 3 financial instruments including independent price verification controls and pricing inputs. **Methodology assessment:** We assessed, for a selection of level 3 investments, the reasonableness of valuation methodology, model calculation, inputs and assumptions used, considering potential alternatives and sensitivities to key factors, for example EBITDA and PE multiples for Principal Finance investments. **Disclosures:** We assessed the methodology applied for the fair value hierarchy. For a sample of level 2 and 3 financial instruments we challenged the appropriateness of the levelling classification. This included determining whether level 2 financial instruments met the requisite criteria to be classified as such. For level 3 positions, we assessed the transparency of the financial statement disclosures, including sensitivity to key inputs reflect the Group's exposure to valuation risk. **Our results:** We considered the valuation of level 3 financial instruments held at fair value and the related disclosures to be acceptable (2016: acceptable).

Key audit matter	The risk	Our response
Information technology Refer to page 66 (Audit Committee Report)	**Processing error** The Group's key financial accounting and reporting processes are highly dependent on the automated controls over the Group's information systems, such that there exists a risk that gaps in the IT control environment could result in the financial accounting and reporting records being materially misstated. We have focused on user access management, segregation of duties and controls over system change over key financial accounting and reporting systems.	Our procedures included: **General IT controls design, observation and operation:** Tested a sample of key controls operating over the information technology in relation to financial accounting and reporting systems, including system access and system change management, program development and computer operations. **User access controls operation:** We obtained management's evaluation of the access rights granted to applications relevant to financial accounting and reporting systems and tested resolution of a sample of exceptions. We also assessed the operating effectiveness of controls over granting, removal and appropriateness of access rights. **Our results:** We considered the user access management, segregation of duties and change management controls in relation to financial accounting and reporting systems to be acceptable (2016: acceptable).
Company: recoverability of Parent Company's investment in subsidiaries Investment in subsidiaries $34,853 million (2016: $33,853 million) Refer to page 64 (Audit Committee Report), page 274 (note 32 Investment in subsidiary undertakings, joint ventures and associates including accounting policies)	**Low risk, high value** The carrying value of the Parent Company's investment in subsidiaries represents 55 per cent of the company's total assets. Recoverability of the investment is not considered a high risk of significant misstatement or subject to significant judgement. However, due to the materiality of the investment in the context of the parent company financial statements, this is considered to be the area that had the greatest focus of our overall parent company audit.	Our procedures included: **Tests of detail:** Comparing the carrying amount of a sample of the highest value investments, representing 99 per cent of the total investment balance with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. **Assessing subsidiary audits:** We assessed the work performed by the subsidiary audit team on that sample of those subsidiaries and considered the results of that work, on those subsidiaries' profits and net assets. **Our results:** We considered the Company's assessment of the recoverability of the investment in subsidiaries to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality

Materiality for the financial statements as a whole was set with reference to a benchmark of profit before tax for the period (representing 4.1 per cent of the benchmark). The prior year materiality used 4.3 per cent of a four-year normalised average Group profit before tax to mitigate volatility in determining our materiality. As results are less volatile, an average benchmark was no longer considered necessary.

Materiality for the Parent Company financial statements as a whole was set at $100 million (2016: $150 million), determined with reference to a benchmark of net assets, of which it represents 0.4 per cent (2016: 0.5 per cent).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements affecting Group profit and loss or Group shareholders' funds exceeding $5 million (2016: $7.5 million) and affecting Group assets or liabilities exceeding $50 million (2016: $75 million), in addition to other identified misstatements that warrant reporting on qualitative grounds.

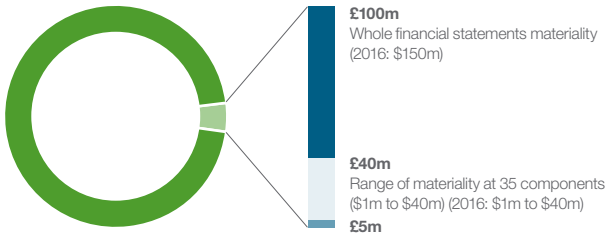
The Group team instructed component and hub auditors as to the significant areas to be covered, including the relevant risks and the information to be reported to the Group team. The Group team approved the component materiality levels, which ranged from $1 million to $40 million, having regard to the size and risk profile of the components.

Group profit before tax

$2.4bn (2016: $3.5bn)

Group materiality

$100m (2016: $150m)



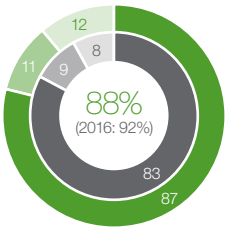
Scope – general

The scoping of our audit is focused on those components which are either individually significant or contain significant risks. Components subject to specified audit procedures (as shown in the table below) were not individually financially significant to require an audit for Group reporting purposes, but were either scoped on the basis of the significant volume of liquid assets and transactions processed in those components or contained significant risks which were covered centrally. Additionally we continued to scope specified audit procedures on one of the Group joint ventures, which had high levels of credit impairment in the previous year. All central processing hubs (shared service centres) where in-scope financial reporting processes are performed were subject to specified audit procedures, primarily over transaction processing and IT controls.

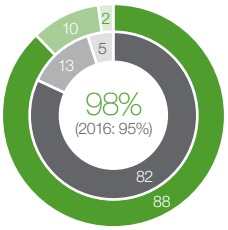
	2017	2016
Total Group components[1]	**172**	178
– Subject to full scope audit	**35**	35
– Subject to specified procedures	**4**	4
Hubs subject to specified audit procedures	**8**	8

1 Component defined as a reporting component within the Group's consolidation system, typically these are a branch or subsidiary of the Group

Group profit before tax[1] %



Group total assets %



2017 2016

Full scope for group audit purposes
Specified risk-focused audit procedures
Residual components

1 Calculation used absolute profit before tax. Specified risk focused audit procedures coverage was calculated using absolute income and expense.

Scope – disclosure of IFRS 9 effect

The Group is adopting IFRS 9 Financial Instruments from 1 January 2018 and have included an estimate of the financial impact of the change in accounting standard in accordance with IAS 8 Changes in Accounting Estimates and Errors as set out in note 41. This disclosure notes that the Group continues to refine its expected credit loss model and embed its operational processes which may change the actual impact on adoption. While further testing of the financial impact will be performed as part of our 2018 year end audit, we have performed sufficient audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. Specifically we have:

- Considered the appropriateness of key technical decisions, judgements, assumptions and elections made by management
- Considered key Classification and Measurement decisions, including Business Model Assessments and Solely Payment of Principal and Interest (SPPI) outcomes
- Involved credit risk modelling and economic specialists in the consideration of credit risk modelling decisions and macroeconomic variables, including forward economic guidance and generation of multiple economic scenarios
- Considered transitional controls and governance processes related to the approval of the estimated transitional impact

Team structure

As part of determining the scope and preparing the audit plan and strategy, the Group team led a global planning conference to discuss key audit risks and obtain input from component and hub teams.

Aside from the audit of the parent company, consolidation, valuation of financial instruments, collective impairment provision methodology, goodwill impairment, material litigation and regulatory provisions, US deferred tax asset and IAS 8 disclosures in relation to IFRS 9, all audit work was performed by component or hub auditors.

Further, the Group team visited 8 (2016: 11) component and hub locations, including China, Hong Kong, India, Bangladesh, Singapore, South Korea, Malaysia and US. At these visits and meetings, the findings reported to the Group team and any further work required by the Group team were discussed in more detail. Regular conference calls were also held with these component auditors and the majority of the other countries that were not physically visited.

The Group team inspected the component team's key work papers related to the significant risks and assessed the appropriateness of conclusions and the consistency between reported findings and work performed.

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability statement on page 43 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the directors' viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 115, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

+ A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

Irregularities – ability to detect

We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

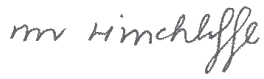
In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, conduct and financial crime including money laundering, sanctions list and market abuse regulations recognising the financial and regulated nature of the Groups activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual accounts items. Further detail in respect of legal and regulatory matters is set out in the key audit matter disclosures in section 2 of this report.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at Group level, with a request to report on any indications of potential existence of irregularities in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Michelle Hinchliffe
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor Chartered Accountants
15 Canada Square
London E14 5GL

27 February 2018

Consolidated income statement

For the year ended 31 December 2017

	Notes	2017 $million	2016 $million
Interest income		**14,435**	13,010
Interest expense		**(6,254)**	(5,216)
Net interest income	3	**8,181**	7,794
Fees and commission income		**3,942**	3,671
Fees and commission expense		**(430)**	(440)
Net fee and commission income	4	**3,512**	3,231
Net trading income	5	**1,527**	1,886
Other operating income	6	**1,205**	1,149
Operating income		**14,425**	14,060
Staff costs		**(6,758)**	(6,303)
Premises costs		**(823)**	(797)
General administrative expenses		**(2,007)**	(2,372)
Depreciation and amortisation		**(829)**	(739)
Operating expenses	7	**(10,417)**	(10,211)
Operating profit before impairment losses and taxation		**4,008**	3,849
Impairment losses on loans and advances and other credit risk provisions	8	**(1,362)**	(2,791)
Other impairment			
Goodwill	9	**(320)**	(166)
Other	9	**(179)**	(446)
Profit/(loss) from associates and joint ventures	32	**268**	(37)
Profit before taxation		**2,415**	409
Taxation	10	**(1,147)**	(600)
Profit/(loss) for the year		**1,268**	(191)
Profit/(loss) attributable to:			
Non-controlling interests	29	**49**	56
Parent company shareholders		**1,219**	(247)
Profit/(loss) for the year		**1,268**	(191)

		cents	cents
Earnings per share:			
Basic earnings/(loss) per ordinary share	12	**23.5**	(14.5)
Diluted earnings/(loss) per ordinary share	12	**23.3**	(14.5)

The notes on pages 208 to 307 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Notes	2017 $million	2016 $million
Profit/(loss) for the year		**1,268**	(191)
Other comprehensive income/(loss)			
Items that will not be reclassified to income statement:		**(238)**	(445)
Own credit losses on financial liabilities designated at fair value through profit or loss		**(249)**	(372)
Actuarial gains/(losses) on retirement benefit obligations	30	**32**	(105)
Taxation relating to components of other comprehensive income	10	**(21)**	32
Items that may be reclassified subsequently to income statement:		**1,532**	(968)
Exchange differences on translation of foreign operations:			
Net gains/(losses) taken to equity		**1,637**	(817)
Net (losses)/gains on net investment hedges		**(288)**	30
Share of other comprehensive loss from associates and joint ventures		**(1)**	(11)
Available-for-sale investments:			
Net valuation gains taken to equity		**369**	48
Reclassified to income statement		**(233)**	(188)
Cash flow hedges:			
Net gains/(losses) taken to equity		**35**	(79)
Reclassified to income statement	14	**11**	57
Taxation relating to components of other comprehensive income	10	**2**	(8)
Other comprehensive income/(loss) for the year, net of taxation		**1,294**	(1,413)
Total comprehensive income/(loss) for the year		**2,562**	(1,604)
Total comprehensive income/(loss) attributable to:			
Non-controlling interests	29	**50**	45
Parent company shareholders		**2,512**	(1,649)
		2,562	(1,604)

Consolidated balance sheet

As at 31 December 2017

	Notes	2017 $million	2016 $million
Assets			
Cash and balances at central banks	13,35	**58,864**	70,706
Financial assets held at fair value through profit or loss	13	**27,564**	20,077
Derivative financial instruments	13,14	**47,031**	65,509
Loans and advances to banks	13	**57,494**	54,538
Loans and advances to customers	13	**248,707**	226,693
Reverse repurchase agreements and other similar secured lending	13,17	**54,275**	44,097
Investment securities	13,15	**117,025**	108,972
Other assets	21	**33,490**	36,940
Current tax assets	10	**491**	474
Prepayments and accrued income		**2,307**	2,238
Interests in associates and joint ventures	32	**2,307**	1,929
Goodwill and intangible assets	18	**5,013**	4,719
Property, plant and equipment	19	**7,211**	7,252
Deferred tax assets	10	**1,177**	1,294
Assets classified as held for sale	21	**545**	1,254
Total assets		**663,501**	646,692
Liabilities			
Deposits by banks	13	**30,945**	32,872
Customer accounts	13	**370,509**	338,185
Repurchase agreements and other similar secured borrowing	13,17	**39,783**	37,692
Financial liabilities held at fair value through profit or loss	13	**16,633**	16,598
Derivative financial instruments	13,14	**48,101**	65,712
Debt securities in issue	13,22	**46,379**	46,700
Other liabilities	23	**35,257**	33,146
Current tax liabilities	10	**376**	327
Accruals and deferred income		**5,493**	5,223
Subordinated liabilities and other borrowed funds	13,27	**17,176**	19,523
Deferred tax liabilities	10	**404**	353
Provisions for liabilities and charges	24	**183**	213
Retirement benefit obligations	30	**455**	525
Liabilities included in disposal groups held for sale	23	**–**	965
Total liabilities		**611,694**	598,034
Equity			
Share capital and share premium account	28	**7,097**	7,091
Other reserves		**12,767**	11,524
Retained earnings		**26,641**	25,753
Total parent company shareholders' equity		**46,505**	44,368
Other equity instruments	28	**4,961**	3,969
Total equity excluding non-controlling interests		**51,466**	48,337
Non-controlling interests	29	**341**	321
Total equity		**51,807**	48,658
Total equity and liabilities		**663,501**	646,692

The notes on pages 208 to 307 form an integral part of these financial statements.

These financial statements were approved by the Board of directors and authorised for issue on 27 February 2018 and signed on its behalf by:

José Viñals
Group Chairman

Bill Winters
Group Chief Executive

Andy Halford
Group Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2017

	Share capital and share premium account $million	Capital and merger reserves[1] $million	Own credit adjustment reserve $million	Available-for-sale reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company shareholders' equity $million	Other equity instruments $million	Non-controlling interests $million	Total $million
At 1 January 2016	7,088	17,122	–	132	(46)	(5,026)	26,934	46,204	1,987	321	48,512
Transfer of own credit adjustment, net of taxation[2]	–	–	631	–	–	–	(631)	–	–	–	–
(Loss)/profit for the year	–	–	–	–	–	–	(247)	(247)	–	56	(191)
Other comprehensive loss	–	–	(342)	(136)	(39)	(779)	(106)[3]	(1,402)	–	(11)	(1,413)
Distributions	–	–	–	–	–	–	–	–	–	(37)	(37)
Shares issued, net of expenses	3	7	–	–	–	–	–	10	–	–	10
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	1,982	–	1,982
Net own shares adjustment	–	–	–	–	–	–	(46)	(46)	–	–	(46)
Share option expense, net of taxation	–	–	–	–	–	–	80	80	–	–	80
Dividends[4]	–	–	–	–	–	–	(231)	(231)	–	–	(231)
Other movements[5]	–	–	–	–	–	–	–	–	–	(8)	(8)
As at 31 December 2016	**7,091**	**17,129**	**289**	**(4)**	**(85)**	**(5,805)**	**25,753**	**44,368**	**3,969**	**321**	**48,658**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**1,219**	**1,219**	**–**	**49**	**1,268**
Other comprehensive (loss)/income	**–**	**–**	**(235)**	**87**	**40**	**1,351**	**50[3]**	**1,293**	**–**	**1**	**1,294**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(51)**	**(51)**
Shares issued, net of expenses	**6**	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**–**	**–**	**6**
Other equity instruments issued, net of expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**992**	**–**	**992**
Net own shares adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**10**	**10**	**–**	**–**	**10**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**125**	**125**	**–**	**–**	**125**
Dividends[4]	**–**	**–**	**–**	**–**	**–**	**–**	**(445)**	**(445)**	**–**	**–**	**(445)**
Other movements[6]	**–**	**–**	**–**	**–**	**–**	**–**	**(71)**	**(71)**	**–**	**21**	**(50)**
As at 31 December 2017	**7,097**	**17,129**	**54**	**83**	**(45)**	**(4,454)**	**26,641**	**46,505**	**4,961**	**341**	**51,807**

1 Includes capital reserve of $5 million, capital redemption reserve of $13 million and merger reserve of $17,111 million

2 The Group early adopted IFRS 9 Financial Instruments to present own credit adjustments within Other comprehensive income (rather than Net trading income)

3 Comprises actuarial gain/(loss), net of taxation and share from associates and joint ventures $50 million (2016: $(106) million)

4 Comprises of dividends on preferences shares classified as equity and Additional Tier 1 securities $445 million (2016: $231 million)

5 Mainly due to completion of sale of businesses with non-controlling interest in Pakistan and issuance of shares to non-controlling interest in Angola

6 Mainly due to additional share capital issued including the premium by Nepal to its non-controlling interests of $31 million, non-controlling interest with respect to an acquisition during 2017 of $9 million and offset by other equity adjustments of $90 million

Note 28 includes a description of each reserve.

The notes on pages 208 to 307 form an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2017

	Notes	Group 2017 $million	Group 2016 $million	Company 2017 $million	Company 2016 $million
Cash flows from operating activities:					
Profit before taxation		**2,415**	409	**207**	192
Adjustments for non-cash items and other adjustments included within income statement	34	**3,241**	4,615	**615**	703
Change in operating assets	34	**(13,625)**	(8,286)	**459**	110
Change in operating liabilities	34	**5,819**	13,080	**575**	(619)
Contributions to defined benefit schemes	30	**(143)**	(98)	**–**	–
UK and overseas taxes paid	10	**(915)**	(1,287)	**(14)**	(12)
Net cash (used in)/from operating activities		**(3,208)**	8,433	**1,842**	374
Cash flows from investing activities:					
Purchase of property, plant and equipment	19	**(165)**	(195)	**–**	–
Disposal of property, plant and equipment		**29**	23	**–**	–
Acquisition of investment in subsidiaries, associates, and joint ventures, net of cash acquired	32	**(44)**	(238)	**(1,000)**	(5,500)
Dividends received from subsidiaries, associates and joint ventures	32	**2**	3	**392**	204
Disposal of subsidiaries		**–**	636	**–**	–
Purchase of investment securities	15	**(265,186)**	(207,274)	**–**	(4,000)
Disposal and maturity of investment securities		**261,316**	210,857	**2,850**	1,300
Net cash (used in)/from investing activities		**(4,048)**	3,812	**2,242**	(7,996)
Cash flows from financing activities:					
Issue of ordinary and preference share capital, net of expenses	28	**6**	10	**6**	10
Exercise of share options		**10**	5	**10**	5
Purchase of own shares		**–**	(51)	**–**	(51)
Issue of Additional Tier 1 capital, net of expenses	28	**992**	1,982	**992**	1,982
Gross proceeds from issue of subordinated liabilities	34	**–**	1,250	**–**	1,250
Interest paid on subordinated liabilities	34	**(743)**	(920)	**(353)**	(604)
Repayment of subordinated liabilities	34	**(2,984)**	(2,666)	**(1,249)**	(105)
Proceeds from issue of senior debts	34	**2,292**	5,453	**1,501**	4,385
Repayment of senior debts	34	**(4,162)**	(6,470)	**(3,237)**	(3,941)
Interest paid on senior debts	34	**(896)**	(454)	**(825)**	(365)
Investment from/(repayment to) non-controlling interests		**21**	(8)	**–**	–
Dividends paid to non-controlling interests and preference shareholders		**(496)**	(268)	**(445)**	(231)
Net cash (used in)/from financing activities		**(5,960)**	(2,137)	**(3,600)**	2,335
Net (decrease)/increase in cash and cash equivalents		**(13,216)**	10,108	**484**	(5,287)
Cash and cash equivalents at beginning of the year		**96,977**	88,428	**15,230**	20,517
Effect of exchange rate movements on cash and cash equivalents		**3,470**	(1,559)	**–**	–
Cash and cash equivalents at end of the year	35	**87,231**	96,977	**15,714**	15,230

The notes on pages 208 to 307 form an integral part of these financial statements.

Company balance sheet

As at 31 December 2017

	Notes	2017 $million	2016 $million
Non-current assets			
Investments in subsidiary undertakings	32	**34,853**	33,853
Current assets			
Derivative financial instruments	36, 39	**70**	529
Investment securities	39	**12,159**	15,009
Amounts owed by subsidiary undertakings	39	**15,714**	15,230
Taxation		**3**	–
		27,946	30,768
Current liabilities			
Derivative financial instruments	39	**492**	1,541
Other creditors		**405**	399
Taxation		**–**	14
		897	1,954
Net current assets		**27,049**	28,814
Total assets less current liabilities		**61,902**	62,667
Non-current liabilities			
Debt securities in issue	39	**16,169**	17,132
Subordinated liabilities and other borrowed funds	27, 39	**13,882**	14,582
		30,051	31,714
Total assets less liabilities		**31,851**	30,953
Equity			
Share capital and share premium account	28	**7,097**	7,091
Other reserves		**17,129**	17,129
Retained earnings		**2,664**	2,764
Total shareholders' equity		**26,890**	26,984
Other equity instruments	28	**4,961**	3,969
Total equity		**31,851**	30,953

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these financial statements. The Company profit for the year after tax is $210 million (2016: $189 million).

The notes on pages 208 to 307 form an integral part of these financial statements.

These financial statements were approved by the Board of directors and authorised for issue on 27 February 2018 and signed on its behalf by:

José Viñals
Group Chairman

Bill Winters
Group Chief Executive

Andy Halford
Group Chief Financial Officer

Company statement of changes in equity

For the year ended 31 December 2017

	Share capital and share premium account $million	Capital and merger reserve[1] $million	Retained earnings $million	Other equity instruments $million	Total $million
At 1 January 2016	7,088	17,122	2,772	1,987	28,969
Profit for the year	–	–	189	–	189
Shares issued, net of expenses	3	7	–	–	10
Other equity instruments issued, net of expenses	–	–	–	1,982	1,982
Net own shares adjustment	–	–	(46)	–	(46)
Share option expense	–	–	80	–	80
Dividends[2]	–	–	(231)	–	(231)
At 31 December 2016	**7,091**	**17,129**	**2,764**	**3,969**	**30,953**
Profit for the year	**–**	**–**	**210**	**–**	**210**
Shares issued, net of expenses	**6**	**–**	**–**	**–**	**6**
Other equity instruments issued, net of expenses	**–**	**–**	**–**	**992**	**992**
Net own shares adjustment	**–**	**–**	**10**	**–**	**10**
Share option expense	**–**	**–**	**125**	**–**	**125**
Dividends[2]	**–**	**–**	**(445)**	**–**	**(445)**
At 31 December 2017	**7,097**	**17,129**	**2,664**	**4,961**	**31,851**

1 Includes capital reserve of $5 million, capital redemption reserve of $13 million and merger reserve of $17,111 million

2 Comprises dividends on preference shares classified as equity and Additional Tier 1 securities $445 million (2016: $231 million)

Note 28 includes a description of each reserve.

The notes on pages 208 to 307 form an integral part of these financial statements.

Contents –
Notes to the financial statements

Section	Note		Page
Basis of preparation	**1**	Accounting policies	208
Performance/return	**2**	Segmental information	210
	3	Net interest income	215
	4	Net fees and commission	216
	5	Net trading income	216
	6	Other operating income	217
	7	Operating expenses	217
	8	Impairment losses on loans and advances and other credit risk provisions	218
	9	Other impairment	221
	10	Taxation	222
	11	Dividends	226
	12	Earnings per ordinary share	227
Assets and liabilities held at fair value	**13**	Financial instruments	227
	14	Derivatives financial instruments	245
	15	Investment securities	248
Financial instruments held at amortised cost	**16**	Loans and advances to banks and customers	249
	17	Reverse repurchase and repurchase agreements including other similar secured lending and borrowing	250
Other assets and investments	**18**	Goodwill and intangible assets	251
	19	Property, plant and equipment	254
	20	Operating lease commitments	255
	21	Other assets	256
Funding, accruals, provisions, contingent liabilities and legal and regulatory matters	**22**	Debt securities in issue	257
	23	Other liabilities	257
	24	Provisions for liabilities and charges	258
	25	Contingent liabilities and commitments	258
	26	Legal and regulatory matters	259
Capital instruments, equity and reserves	**27**	Subordinated liabilities and other borrowed funds	261
	28	Share capital, other equity instruments and reserves	262
	29	Non-controlling interests	264
Employee benefits	**30**	Retirement benefit obligations	265
	31	Share-based payments	270
Scope of consolidation	**32**	Investment in subsidiary undertakings, joint ventures and associates	274
	33	Structured entities	278
Cash flow statement	**34**	Cash flow statement	280
	35	Cash and cash equivalents	281
Other disclosure matters	**36**	Related party transactions	282
	37	Post balance sheet events	283
	38	Auditor's remuneration	283
	39	Standard Chartered PLC (Company)	284
	40	Related undertakings of the Group	286
	41	IFRS 9 Financial Instruments	304

Notes to the financial statements

1. Accounting policies

Statement of compliance

The Group financial statements consolidate Standard Chartered PLC (the Company) and its subsidiaries (together referred to as the Group) and equity account the Group's interest in associates and jointly controlled entities.

The parent company financial statements present information about the Company as a separate entity.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as endorsed by the European Union (EU). EU-endorsed IFRS may differ from IFRS published by the International Accounting Standards Board (IASB) if a standard has not been endorsed by the EU.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these financial statements.

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

a) From the start of Risk profile section (page 122) to the end of Top risks and emerging risks in the same section (page 159) excluding:

- Asset backed securities (page 145)
- Country risk (page 146)
- Market risk changes – risks not in value at risk (page 148)
- Market risk changes – backtesting (page 148)
- Mapping of market risk items to the balance sheet (page 149)
- Stressed coverage and liquidity coverage ratio (page 151)
- Net stable funding ratio (page 152)
- Liquidity pool (page 152)
- Encumbrance (page 153 to 154)
- Earnings sensitivity (page 157)
- Operational risk (page 158)

b) From the start of Principal risks (page 165) to the end of Capital and Liquidity risk (page 172), excluding Country risk (page 168)

c) From the start of the CRD IV capital base section (page 185) to the end of Movement in total capital section (page 186)

Basis of preparation

The consolidated and Company financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of cash-settled share-based payments, available-for-sale assets, and financial assets and liabilities (including derivatives) at fair value through profit or loss.

Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty and judgement, are set out in the relevant disclosure notes for the following areas:

- Impairment of loans and advances (note 8)
- Taxation (note 10)
- Valuation of financial instruments held at fair value (note 13)
- Goodwill impairment (note 18)
- Provisions for liabilities and charges (note 24)
- Retirement benefit obligations (note 30)
- Investments in associates and joint ventures (note 32)

1. Accounting policies continued

IFRS and Hong Kong accounting requirements

As required by the Hong Kong Listing Rules, an explanation of the differences in accounting practices between EU-endorsed IFRS and Hong Kong Financial Reporting Standards is required to be disclosed. There would be no significant differences had these accounts been prepared in accordance with Hong Kong Financial Reporting Standards.

Comparatives

Certain comparatives have been changed to comply with current year disclosures.

Reverse repurchase and repurchase agreements including other similar secured lending and borrowing have been separated from loans and advances to banks and customers and deposits by banks and customer accounts on the balance sheet.

Details of these changes are set out in the relevant notes below:

- Liquidity and funding risk (pages 150 to 152)
- Note 13 Financial instruments
- Note 15 Investment securities
- Note 18 Goodwill and intangible assets
- Note 25 Contingent liabilities and commitments
- Note 27 Subordinated liabilities and other borrowed funds
- Note 33 Structured entities

These changes have not resulted in any amendments to the reported income statement or balance sheet of the Group.

New accounting standards adopted by the Group

There were no new standards applied during the year ended 31 December 2017.

The accounting policies used by the Group are detailed in the relevant note to the financial statements, except those set out below. All have been applied consistently across the Group and to all years presented in these financial statements.

Foreign currencies

Items included in the Group financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency of that entity). Both the Group and Company financial statements are presented in millions of US dollars ($ million), which is the functional and presentation currency of the Company and the presentation currency of the Group.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost, or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the income statement or shareholders' equity depending on the treatment of the gain or loss on the asset or liability.

Foreign currency translation

The results and financial position of all the entities included in the Group financial statements that have a functional currency different from the Group's presentation currency are accounted for as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date
- Income and expenses for each income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly
- All resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or capital repatriated they are recognised in the income statement as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

New accounting standards in issue but not yet effective

The following new standards are effective for periods beginning on or after 1 January 2018 and have not been applied in preparing these consolidated financial statements:

IFRS 9 Financial Instruments

IFRS 9 was issued in July 2014 and has an effective date of 1 January 2018. It was endorsed by the EU in November 2016.

In October 2017, the IASB published an amendment to IFRS 9, *Prepayment Features with Negative Compensation*, which is effective from 1 January 2019, with earlier application permitted.

1. Accounting policies continued

This has not yet been endorsed by the EU. The amendment amends the existing requirements regarding termination rights in order to allow measurement at amortised cost (or fair value through OCI) even in the case of negative compensation payments. This is consistent with Management's treatment of these clauses.

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*, introducing new requirements for the classification and measurement of financial instruments, the recognition and measurement of credit impairment provisions, and providing for a simplified approach to hedge accounting. The Group has elected to continue hedge accounting in line with the IAS 39 requirements and has not therefore applied the IFRS 9 hedging requirements. The Group will, however, adopt these revised disclosures set out in IFRS 7, which includes those relating to hedge accounting. The changes in measurement arising on initial application of IFRS 9 will be incorporated through an adjustment to the opening reserves and retained earnings position as at 1 January 2018.

Although IFRS 9 will be retrospectively applied, the Group is only permitted to restate comparatives if, and only if, it is possible without the use of hindsight.

The Group does not consider it possible to restate comparatives for impairment without the use of hindsight. For further details on the effect and implementation of IFRS 9 refer to note 41.

IFRS 15 Revenue from Contracts with Customers

The effective date of IFRS 15 is 1 January 2018 and the standard has been endorsed by the EU in September 2016. The standard provides a more detailed principles-based approach for income recognition than the current standard IAS 18 Revenue, with revenue being recognised as or when promised services are transferred to customers. The standard applies to 'fees and commission income' but not to financial instruments or lease contracts. IFRS 15 will not have a material impact on the Group's consolidated financial statements and there will not be an adjustment to retained earnings in respect of adoption.

IFRS 16 Leases

The effective date of IFRS 16 is 1 January 2019 and the standard was endorsed by the EU in November 2017. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The work to assess the impact of the standard is ongoing and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements. The Group will have a balance sheet increase in lease liabilities and right-of-use assets on adoption of IFRS 16.

2. Segmental information

The Group's segmental reporting is in accordance with IFRS 8 *Operating Segments* and is reported consistently with the internal performance framework and as presented to the Group's Management Team. The four client segments are Corporate & Institutional Banking, Retail Banking, Commercial Banking and Private Banking. The four geographic regions are Greater China & North Asia, ASEAN & South Asia, Africa & Middle East, and Europe & America. Activities not directly related to a client segment and/or geographic region are included in Central & other items. These mainly include Corporate Centre costs, Asset and Liability Management, treasury activities, certain strategic investments and the UK bank levy.

The following should also be noted:

- Transactions and funding between the segments are carried out on an arm's-length basis
- Corporate Centre costs represent stewardship and central management services roles and activities that are not directly attributable to business or country operations
- Asset and Liability Management, joint ventures and associate investments are managed in the regions and are included within the applicable region. However, they are not managed directly by a client segment and therefore included in the Central & other items segment
- In addition to treasury activities, Corporate Centre costs and other Group related functions, Central & other items for regions includes globally run businesses or activities that are managed by the client segments but not directly by geographic management. These include Principal Finance and Portfolio Management
- The Group allocated central costs (excluding Corporate Centre costs) relating to client segments and geographic regions using appropriate business drivers (such as in proportion to the direct cost base of each segment before allocation of indirect costs) and these are reported within operating expenses

An analysis of the Group's performance by client segment and region is set out in the Strategic report (pages 18 to 26).

2. Segmental information continued

Basis of preparation

The analysis reflects how the client segments and geographic regions are managed internally. This is described as the Management View and is principally the location from which a client relationship is managed, which may differ from where it is financially booked and may be shared between businesses and/or regions. In certain instances this approach is not appropriate and a Financial View is disclosed, that is, the location in which the transaction or balance was booked. Typically the Financial View is used in areas such as the Market and Liquidity Risk reviews where actual booking location is more important for an assessment. Segmental information is therefore on a Management View unless otherwise stated.

Restructuring items excluded from underlying results

Income, costs and impairment relating to identifiable business units, products or portfolios from the date that have been approved for restructuring, disposal, wind down or redundancy as a consequence of the Strategy Review announced 3 November 2015 are presented as restructuring and excluded from the underlying results of the Group. This includes realised and unrealised gains and losses from management's decisions to dispose of assets as well as residual income, direct costs and impairment of related legacy assets of those identifiable business units, products or portfolios.

A reconciliation between underlying and statutory results is set out in the table below:

	2017				
	Underlying $million	**Restructuring $million**	**Net gain on businesses disposed/ held for sale $million**	**Goodwill impairment $million**	**Statutory $million**
Operating income	**14,289**	**58**	**78**	**–**	**14,425**
Operating expenses	**(10,120)**	**(297)**	**–**	**–**	**(10,417)**
Operating profit/(loss) before impairment losses and taxation	**4,169**	**(239)**	**78**	**–**	**4,008**
Impairment losses on loans and advances and other credit risk provisions	**(1,200)**	**(162)**	**–**	**–**	**(1,362)**
Other impairment	**(169)**	**(10)**	**–**	**(320)**	**(499)**
Profit from associates and joint ventures	**210**	**58**	**–**	**–**	**268**
Profit/(loss) before taxation	**3,010**	**(353)**	**78**	**(320)**	**2,415**

	2016					
	Underlying $million	Restructuring $million	Net gain on businesses disposed/ held for sale $million	Goodwill impairment $million	Gains arising on repurchase of subordinated liabilities $million	Statutory $million
Operating income	13,808	(85)	253	–	84	14,060
Operating expenses	(9,975)	(236)	–	–	–	(10,211)
Operating profit/(loss) before impairment losses and taxation	3,833	(321)	253	–	84	3,849
Impairment losses on loans and advances and other credit risk provisions	(2,382)	(409)	–	–	–	(2,791)
Other impairment	(383)	(63)	–	(166)	–	(612)
Profit from associates and joint ventures	25	(62)	–	–	–	(37)
Profit/(loss) before taxation	1,093	(855)	253	(166)	84	409

2. Segmental information continued

Underlying performance by client segment

	2017					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	**6,496**	**4,834**	**1,333**	**500**	**1,126**	**14,289**
Operating expenses	**(4,409)**	**(3,585)**	**(881)**	**(500)**	**(745)**	**(10,120)**
Operating profit before impairment losses and taxation	**2,087**	**1,249**	**452**	**–**	**381**	**4,169**
Impairment (losses)/release on loans and advances and other credit risk provisions	**(658)**	**(375)**	**(167)**	**(1)**	**1**	**(1,200)**
Other impairment	**(168)**	**(1)**	**(3)**	**–**	**3**	**(169)**
Profit from associates and joint ventures	**–**	**–**	**–**	**–**	**210**	**210**
Underlying profit/(loss) before taxation	**1,261**	**873**	**282**	**(1)**	**595**	**3,010**
Restructuring	**(275)**	**(19)**	**(13)**	**(15)**	**(31)**	**(353)**
Net gains on businesses disposed/ held for sale	**–**	**–**	**–**	**–**	**78**	**78**
Goodwill impairment	**–**	**–**	**–**	**–**	**(320)**	**(320)**
Statutory profit/(loss) before taxation	**986**	**854**	**269**	**(16)**	**322**	**2,415**
Total assets	**293,334**	**105,178**	**31,650**	**13,469**	**219,870**	**663,501**
Of which: loans and advances to customers	**131,738**	**103,013**	**28,108**	**13,351**	**9,343**	**285,553**
Total liabilities	**353,582**	**132,819**	**36,385**	**22,203**	**66,705**	**611,694**
Of which: customer accounts	**222,714**	**129,536**	**33,880**	**22,222**	**3,372**	**411,724**

	2016					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	6,472	4,669	1,295	496	876	13,808
Operating expenses	(4,268)	(3,413)	(929)	(463)	(902)	(9,975)
Operating profit/(loss) before impairment losses and taxation	2,204	1,256	366	33	(26)	3,833
Impairment losses on loans and advances and other credit risk provisions	(1,401)	(489)	(491)	(1)	–	(2,382)
Other impairment	(368)	(1)	5	–	(19)	(383)
Profit from associates and joint ventures	–	–	–	–	25	25
Underlying profit/(loss) before taxation	435	766	(120)	32	(20)	1,093
Restructuring	(459)	(47)	(26)	(73)	(250)	(855)
Net gains on businesses disposed/ held for sale	–	–	–	–	253	253
Goodwill impairment	–	–	–	–	(166)	(166)
Gains arising on repurchase of subordinated liabilities	–	–	–	–	84	84
Statutory (loss)/profit before taxation	(24)	719	(146)	(41)	(99)	409
Total assets	289,183	96,834	27,151	11,974	221,550	646,692
Of which: loans and advances to customers	122,231	93,488	24,013	11,908	4,256	255,896
Total liabilities	347,865	121,015	35,576	21,840	71,738	598,034
Of which: customer accounts	204,279	117,355	32,570	21,767	2,331	378,302

2. Segmental information continued

Underlying performance by region

	2017					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	**5,616**	**3,833**	**2,764**	**1,601**	**475**	**14,289**
Operating expenses	**(3,681)**	**(2,654)**	**(1,819)**	**(1,407)**	**(559)**	**(10,120)**
Operating profit/(loss) before impairment losses and taxation	**1,935**	**1,179**	**945**	**194**	**(84)**	**4,169**
Impairment (losses)/release on loans and advances	**(141)**	**(653)**	**(300)**	**(107)**	**1**	**(1,200)**
Other impairment	**(81)**	**(12)**	**(3)**	**(16)**	**(57)**	**(169)**
Profit/(loss) from associates and joint ventures	**229**	**(22)**	**–**	**–**	**3**	**210**
Underlying profit/(loss) before taxation	**1,942**	**492**	**642**	**71**	**(137)**	**3,010**
Restructuring	**35**	**(161)**	**(33)**	**(25)**	**(169)**	**(353)**
Net gains on businesses disposed/ held for sale	**–**	**19**	**–**	**–**	**59**	**78**
Goodwill impairment	**–**	**–**	**–**	**–**	**(320)**	**(320)**
Statutory profit/(loss) before taxation	**1,977**	**350**	**609**	**46**	**(567)**	**2,415**
Net interest margin	**1.4%**	**1.9%**	**3.3%**	**0.5%**		**1.6%**
Total assets	**257,692**	**148,467**	**59,166**	**185,345**	**12,831**	**663,501**
Of which: loans and advances to customers	**126,739**	**82,579**	**29,602**	**46,633**	**–**	**285,553**
Total liabilities	**228,093**	**128,165**	**39,413**	**177,525**	**38,498**	**611,694**
Of which: customer accounts	**186,517**	**95,310**	**31,797**	**98,100**	**–**	**411,724**

	2016					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	5,190	4,052	2,742	1,664	160	13,808
Operating expenses	(3,546)	(2,518)	(1,730)	(1,302)	(879)	(9,975)
Operating profit/(loss) before impairment losses and taxation	1,644	1,534	1,012	362	(719)	3,833
Impairment losses on loans and advances and other credit risk provisions	(424)	(762)	(563)	(511)	(122)	(2,382)
Other impairment	(47)	3	(18)	1	(322)	(383)
Profit/(loss) from associates and joint ventures	167	(146)	–	–	4	25
Underlying profit/(loss) before taxation	1,340	629	431	(148)	(1,159)	1,093
Restructuring	(137)	(443)	(82)	(113)	(80)	(855)
Net gains on businesses disposed/ held for sale	253	–	–	–	–	253
Goodwill impairment	–	–	–	–	(166)	(166)
Gains arising on repurchase of subordinated liabilities	–	–	–	–	84	84
Statutory profit/(loss) before taxation	1,456	186	349	(261)	(1,321)	409
Net interest margins	1.3%	2.0%	3.2%	0.5%		1.5%
Total assets	239,740	143,704	56,980	195,937	10,331	646,692
Of which: loans and advances to customers	110,533	73,161	28,140	44,062	–	255,896
Total liabilities	210,795	126,701	38,020	181,639	40,879	598,034
Of which: customer accounts	169,957	88,141	29,931	90,273	–	378,302

2. Segmental information continued

Additional segmental information (statutory)

	2017					
	Corporate & Institutional Banking $million	**Retail Banking $million**	**Commercial Banking $million**	**Private Banking $million**	**Central & other items $million**	**Total $million**
Net interest income	**3,225**	**3,006**	**802**	**286**	**862**	**8,181**
Other income	**3,298**	**1,897**	**527**	**214**	**308**	**6,244**
Operating income	**6,523**	**4,903**	**1,329**	**500**	**1,170**	**14,425**

	2016					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Net interest income	3,051	2,977	782	287	697	7,794
Other income	3,437	1,692	511	209	417	6,266
Operating income	6,488	4,669	1,293	496	1,114	14,060

	2017					
	Greater China & North Asia $million	**ASEAN & South Asia $million**	**Africa & Middle East $million**	**Europe & Americas $million**	**Central & other items $million**	**Total $million**
Net interest income	**2,950**	**2,402**	**1,619**	**692**	**518**	**8,181**
Other income	**2,663**	**1,468**	**1,145**	**904**	**64**	**6,244**
Operating income	**5,613**	**3,870**	**2,764**	**1,596**	**582**	**14,425**

	2016					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Net interest income	2,684	2,485	1,566	744	315	7,794
Other income	2,698	1,557	1,171	911	(71)	6,266
Operating income	5,382	4,042	2,737	1,655	244	14,060

	2017							
	Hong Kong $million	**Korea $million**	**China $million**	**Singapore $million**	**India $million**	**UAE $million**	**UK $million**	**US $million**
Net interest income	**1,564**	**625**	**540**	**965**	**577**	**394**	**428**	**158**
Other income	**1,823**	**340**	**163**	**470**	**406**	**339**	**314**	**517**
Operating income	**3,387**	**965**	**703**	**1,435**	**983**	**733**	**742**	**675**

	2016							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Net interest income	1,375	586	505	817	680	392	451	179
Other income	1,959	295	187	683	275	357	331	482
Operating income	3,334	881	692	1,500	955	749	782	661

3. Net interest income

Accounting policy

Interest income and expense on available-for-sale assets, held-to-maturity assets and financial assets and liabilities held at amortised cost, is recognised using the effective interest method.

Interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instruments original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

	2017 $million	2016 $million
Balances at central banks	**287**	213
Loans and advances to banks	**1,955**	1,282
Loans and advances to customers	**8,845**	8,461
Listed debt securities	**928**	604
Unlisted debt securities	**1,501**	1,569
Other eligible bills	**836**	593
Accrued on impaired assets (discount unwind)	**83**	288
Interest income	**14,435**	13,010
Deposits by banks	**891**	494
Customer accounts	**3,859**	3,187
Debt securities in issue	**756**	700
Subordinated liabilities and other borrowed funds	**748**	835
Interest expense	**6,254**	5,216
Net interest income	**8,181**	7,794
Of which from financial instruments held at:		
Amortised cost	**10,861**	10,040
Available-for-sale	**2,657**	2,291
Fair value through profit or loss	**847**	663
Held-to-maturity	**70**	16
Interest income	**14,435**	13,010
Of which from financial instruments held at:		
Amortised cost	**6,128**	5,107
Fair value through profit or loss	**126**	109
Interest expense	**6,254**	5,216
Net interest income	**8,181**	7,794

4. Net fees and commission

Accounting policy

Fees and commissions charged for services provided or received by the Group are recognised on an accrual basis when the service has been provided or significant act performed.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself, or retained a part at the same effective interest rate as for the other participants.

The Group can act as trustee or in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets and income of the Group.

	2017 $million	2016 $million
Fees and commissions income	**3,942**	3,671
Fees and commissions expense	**(430)**	(440)
Net fees and commission	**3,512**	3,231
Transaction Banking	**1,277**	1,194
Financial Markets	**193**	(62)
Corporate Finance	**226**	521
Wealth Management	**1,355**	1,089
Retail Products	**443**	464
Lending and Portfolio Management	**51**	50
Principal Finance	**17**	3
Treasury[1]	**(20)**	(30)
Others[1]	**(30)**	2
Net fees and commission	**3,512**	3,231

1 Treasury net fees and commission comprises items previously reported under Asset and Liability Management ($(22) million) and Treasury-related aspects of Other income ($(8) million). This reflects the reorganisation of the Group's balance sheet, liquidity, and capital management activities such that they are now managed within one Treasury function. 2016 has been re-presented as a result

Total fee income arising from financial instruments that are not fair valued through profit or loss is $1,067 million (2016: $1,035 million) and arising from trust and other fiduciary activities of $130 million (2016: $115 million).

Total fee expense arising from financial instruments that are not fair valued through profit or loss is $74 million (2016: $56 million) and arising from trust and other fiduciary activities of $22 million (2016: $17 million).

5. Net trading income

Accounting policy

Gains and losses arising from changes in the fair value of financial instruments held at fair value through profit or loss are included in the income statement in the period in which they arise.

Income is recognised from the sale and purchase of trading positions, margins on market making and customer business and fair value changes.

	2017 $million	2016 $million
Net trading income	**1,527**	1,886
Significant items within net trading income include:		
Gains on instruments held for trading	**1,716**	2,106
Gains/(losses) on financial assets designated at fair value through profit or loss	**167**	(73)
Losses on financial liabilities designated at fair value through profit or loss	**(202)**	(178)

6. Other operating income

Accounting policy

Operating lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Dividends on equity instruments are recognised when the Group's right to receive payment is established.

On disposal of available-for-sale financial instruments, the cumulative gain or loss recognised in other comprehensive income is recycled to the profit or loss in other operating income/expense.

When the Group loses control of the subsidiary or disposal group, the difference between the consideration received and the carrying amount of the subsidiary or disposal group is recognised as a gain or loss on sale of the business.

	2017 $million	2016 $million
Other operating income includes:		
Rental income from operating lease assets	**670**	561
Gains less losses on disposal of available-for-sale financial instruments	**235**	192
Net gain on sale of businesses	**28**	284
Net gain on derecognition of Investment in associate	**64**	–
Dividend income	**46**	52
Other	**162**	60
	1,205	1,149

7. Operating expenses

Accounting policy

Short-term employee benefits: salaries and social security expenses are recognised over the period in which the employees provide the service. Variable compensation is included within share-based payments costs and wages and salaries. Further details are disclosed in the Directors' remuneration report (pages 83 to 106).

Pension costs: contributions to defined contribution pension schemes are recognised in profit or loss when payable. For defined benefit plans, net interest expense, service costs and expenses are recognised to the income statement. Further details are provided in note 30.

Share-based compensation: the group operates equity-settled and cash-settled share-based payment compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Further details are provided in note 31.

	2017 $million	2016 $million
Staff costs:		
Wages and salaries	**5,047**	4,713
Social security costs	**159**	145
Other pension costs (note 30)	**357**	316
Share-based payment costs (note 31)	**152**	100
Other staff costs	**1,043**	1,029
	6,758	6,303

Other staff costs include redundancy and other restructuring expenses of $85 million (2016: $236 million). Further costs in this category include training, travel costs and other staff-related costs.

The following table summarises the number of employees within the Group:

	2017			2016		
	Business	**Support services**	**Total**	Business	Support services	Total
At 31 December	**40,636**	**45,385**	**86,021**	43,286	43,407	86,693
Average for the year	**41,806**	**44,988**	**86,794**	42,605	42,311	84,916

The Company employed nil staff at 31 December 2017 (2016: nil) and it incurred costs of $5 million (2016: $3 million).

Details of directors' pay and benefits and interests in shares are disclosed in the Directors' remuneration report (pages 83 to 106).

Transactions with directors, officers and other related parties are disclosed in note 36.

7. Operating expenses continued

	2017 $million	2016 $million
Premises and equipment expenses:		
Rental of premises	**379**	400
Other premises and equipment costs	**427**	379
Rental of computers and equipment	**17**	18
	823	797
General administrative expenses:		
UK bank levy	**220**	383
Other general administrative expenses	**1,787**	1,989
	2,007	2,372
Depreciation and amortisation:		
Property, plant and equipment (note 19):		
Premises	**85**	98
Equipment	**85**	84
Operating lease assets	**328**	271
	498	453
Intangibles (note 18):		
Software	**320**	272
Acquired on business combinations	**11**	14
	829	739

The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting. The 2017 charge was lower than expected after updating estimates made in previous years. The rate of the levy for 2017 is the blended rate of 0.17 per cent for chargeable short-term liabilities, with a lower rate of 0.085 per cent generally applied to chargeable equity and long-term liabilities (i.e. liabilities with a remaining maturity greater than one year). The rates will be gradually reduced over the next five years, from 1 January 2021 they will be 0.10 per cent for short-term liabilities and 0.05 per cent for long-term liabilities. In addition, the scope of the bank levy will be restricted to the balance sheet of UK operations only from that date.

8. Impairment losses on loans and advances and other credit risk provisions

Accounting policy

Significant accounting estimates and judgements

The calculation of impairment involves key judgements to be made by the Group:

- Loan loss provisions are management's best estimate of incurred loss in the loan portfolio at the balance sheet date. Management has to exercise judgement in making assumptions and estimates of the loan portfolio on both individually and collectively assessed loan and advances
- For individually significant financial assets, the Group will consider judgements that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geopolitical climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/forbearance options. Many of the key judgement factors have a degree of interdependency, therefore a higher level of judgement is required for loans to borrowers showing signs of financial difficulty/failure to pay in market sectors experiencing economic stress, particularly where the likelihood of repayment is affected by the ability of the client to refinance or sell a specified asset
- The difference between the loan carrying amount and the discounted expected future cash flows will result in the impairment amount. The future cash flow calculation involves significant judgements and estimates. As new information becomes available and further negotiations/forbearance measures are taken, the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis
- For financial assets which are not individually significant, such as the Retail Banking portfolio or small business loans, which comprise a large number of homogenous loans that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis. These techniques use models which analyse historical repayment and default rates over a time horizon. Where various models are used, management's judgement is required to analyse the available information provided and to select the appropriate model or combination of models to use. Further judgement is required to determine whether the current economic climate, behavioural and credit conditions are such that the actual level of incurred losses, and losses inherent in the collective portfolio is likely to be greater or less than historical experience, and is not fully reflective in the allowance estimated through the use of statistical models and historical data. Factors are applied in different geographical regions and countries to reflect local economic conditions, geopolitical risk, laws and regulations (e.g. new industry debt relief programme), credit bureau data, analysis of credit grade migration and delinquency trends. Further judgement is required to determine overlays on the models (described below in Retail Banking)

8. Impairment losses on loans and advances and other credit risk provisions continued

Objective evidence of impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group considers the following factors in assessing objective evidence of impairment:

- Whether the counterparty is in default of principal or interest payments
  - the disappearance of an active market for that financial asset because of financial difficulties
  - significant financial difficulty of the issuer or obligor
- When a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation
- Where the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation
- Where the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments
- Where the Group sells a credit obligation at a material credit-related economic loss; or where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets

Assets at amortised cost

Corporate & Institutional Banking and Commercial Banking

The assessment of the credit risk of corporate and commercial loans is done by the Credit Risk department, based upon counterparty information they receive from various sources including relationship managers and on external market information, or as soon as payment of interest or principal is 90 days overdue.

Once a loan starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and when it is classified as Credit Grade (CG) 12 as defined in the Risk review and Capital review (page 125), the credit assessment and oversight of the loan will be performed by Group Special Asset Management (GSAM).

Where GSAM's assessment indicates that a loan is impaired, GSAM will calculate an Individual Impairment Provision (IIP) based on estimated cash flows revised to reflect anticipated recoveries. GSAM's assessment and calculation of impairment involves a significant level of judgement.

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The individual circumstances of each client are taken into account when GSAM estimates future cash flows. All available sources, such as cash flow arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees are considered. In any decision relating to the raising of provisions, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Further details on collateral held by the Group is discussed in the Risk review and Capital review (pages 138 to 141).

In cases where the impairment assessment indicates that there will be a loss of principal, the loan is graded CG 14 while other impaired loans will be graded CG 13. Loans graded CG 13–CG 14 are classified as non-performing loans.

The performing loan portfolio is subject to a Portfolio Impairment Provision (PIP) to cover latent losses i.e. those that are not specifically identified but are known, by experience, to be present in any performing portfolio. The PIP is based on models using risk sizing (including probability of default and loss given default), environmental parameters and exceptional adjustment overlays. The calculation of the PIP uses regulatory expected credit loss (ECL) models. ECL is subject to an emergence risk factor that is generally understood as the hypothetical amount of time between a loss event occurrence and the bank recognition of impairment. The emergence risk factor is the principal means of translating a risk position to an impairment estimate, and the main scaling factor to adjust the conservative regulatory Expected Loss to an effective PIP level, as the regulatory ECL models are more punitive than the incurred loss model under IAS 39. On a portfolio basis, the emergence risk factor ranges between 2 and 3 months based on structural economic drivers that might influence the accurate and timely discovery of credit issues in each country.

8. Impairment losses on loans and advances and other credit risk provisions continued

Retail Banking

An IIP is recognised for Retail Banking when an account meets a defined threshold condition in terms of overdue payments ('contractual default') or meets other objective conditions (such as bankruptcy, debt restructuring, fraud or death) as further described above in the assessment factors. The threshold conditions are set at the point where empirical evidence suggests that the client is unlikely to meet their contractual obligations or a loss of principal is expected.

A credit obligation in Retail Banking clients portfolio that is more than 150 Days Past Due (DPD) or, a credit obligation secured by Wealth Management products that is 90 DPD, is recognised as 'impaired' and IIP is provided for accordingly. There are, however, exceptions to this rule for portfolios where empirical evidence suggests that they should be set more conservatively. In addition, the credit account is recognised as 'impaired' immediately if the borrower files for bankruptcy or other equivalent forbearance programme, or the borrower is deceased, or the business is closed in the case of small business clients, or the borrower's other credit accounts with the Group are impaired. The core components of the IIP calculation are the value of gross charge-off and recoveries. Gross charge-off and/or provisions are recognised when it is established that the account is unlikely to pay. Recovery of unsecured debt post-impairment is recognised based on actual cash collected, either directly from clients or through the sale of defaulted loans to third-party institutions. Provision release of secured loans post-impairment is recognised if the loan outstanding is paid in full (release of full provision), or the provision is higher than the loan outstanding (release of the excess provision), or the loan is paid to current and remains in current for more than 180 days (release of full provision).

Retail Banking PIP, covering the inherent losses in the portfolio that exist at the balance sheet date but have not been individually identified, is computed on performing loans (no IIP), using EL rates, to determine latent losses in the portfolio. The EL utilises probability of default and loss given default inherent within the portfolio of impaired loans or receivables and the historical loss experience for assets with credit risk characteristics similar to those in the Group. For defaulted yet non-impaired accounts (greater than 90 days past due) full EL is used, while for non-defaulted accounts, a three month emergence period is applied. An adjustment is added to the PIP calculation to take into the account instances where the EL-based PIP is deemed imprecise due to under-prediction or over-prediction of EL by underlying models. An overlay in the form of Special Risk Adjustment (SRA) is added to the EL-based PIP calculation to take into account instances where EL-based PIP is deemed insufficient to incorporate the impact of a specific credit event. An overlay in the form of Business Cycle Adjustment (BCA) is taken to account for the impact of cyclical volatility in the operating environment, which is not adequately covered in the underlying models.

The assessment and calculation of the Retail Banking IIP and PIP involve a significant level of judgement.

Write-off and reversal of impairment

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement during the period.

Forborne loans

A forborne loan arises when a concession has been made to the contractual terms of a loan in response to a customer's financial difficulties.

In certain circumstances, the Group may renegotiate client loans. Loans that are renegotiated for commercial reasons, such as when a client had a credit rating upgrade, are not included as part of forborne loans because they are not indicative of any credit stress or event.

Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Bank or a third party (including government-sponsored programmes or a conglomerate of credit institutions) and includes debt restructuring such as a new repayment schedule, payment deferrals, tenor extensions and interest-only payments.

Loans that are renegotiated on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared with the original terms of the loans, are considered for impairment. If the terms of the renegotiation are such that, where the present value of the new cash flows is lower than the present value of the original cash flows, the loan would be considered to be impaired and, at a minimum, a discount provision would be raised and are disclosed as 'Loans subject to forbearance – impaired', which is a subset of impaired loans. All other loans that have been subject to a forbearance contract amendment, but which are not considered impaired (not classified as CG 13 or 14) are classified as 'Forborne – not impaired' (previously disclosed as 'other renegotiated loans').

If a loan enters the forbearance process and the terms are substantially modified, the original loan will be derecognised, and a new loan will be recognised.

For Retail Banking clients, all forborne loans are managed within a separate portfolio. If such loans subsequently become past due, charge-off and IIP is accelerated to 90 days past due for unsecured loans and automobile finance or 120 days past due for secured loans. The accelerated loss rates applied to this portfolio are derived from experience with other forborne loans, rather than the Retail Banking clients portfolio as a whole, to recognise the greater degree of inherent risk.

For Corporate & Institutional Banking, Commercial Banking and Private Banking clients, forbearance is applied on a case-by-case basis and is not subject to business-wide programmes. In some cases, the asset is derecognised and a new loan is granted as part of the restructure. In others, the contractual terms and repayment of the existing loans are changed or extended (for example, interest only for a period). Loans classified as subject to forbearance are managed by GSAM and are kept under close review to assess the client's ability to adhere to the restructured repayment strategy and to identify any events that could result in a deterioration in the client's ability to repay.

8. Impairment losses on loans and advances and other credit risk provisions continued

Curing of forborne loans

During the year the Group changed its methodology, to allow curing of forborne loans. Comparatives have been re-presented.

A forborne loan can only be removed from the disclosure (cured) if the loan is performing and a further two year probation period is met.

In order for a forborne loan to become performing, the following criteria have to be satisfied:

- At least a year has passed with no default based upon the forborne contract terms
- The customer is likely to repay its obligations in full without realising security
- The customer has no accumulated impairment against amount outstanding

Subsequent to the criteria above, a further two year probation period has to be fulfilled, whereby regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

Forborne loans are disclosed by client segments (pages 126 to 129).

Further details on the application of these policies are set out in the Risk review and Capital review (pages 128 to 129).

The following table reconciles the charge for impairment provisions on loans and advances to the total impairment charge and other credit risk provision:

	2017 $million	2016 $million
Net charge against profit on loans and advances:		
Individual impairment charge	**1,604**	2,553
Portfolio impairment (release)/charge	**(239)**	52
	1,365	2,605
Impairment (release)/charges related to credit commitments	**(23)**	45
Impairment charges relating to debt securities classified as loans and receivables	**20**	97
Impairment charges relating to credit risk mitigation instruments	**–**	44
Total impairment losses and other credit risk provisions on loans and advances	**1,362**	2,791

Impairment charges relating to credit risk mitigation instruments

The Group executed funded credit mitigation transactions related to the Liquidation Portfolio, which did not achieve derecognition and are recorded as liabilities on an amortised cost basis. The liability balances are adjusted for revisions to the impairment estimates for the loans referenced in the transactions. Both impairment losses on the referenced loans and the related impairment on these credit mitigation transactions are recorded in total impairment losses and other credit risk provisions on loans and advances.

An analysis of impairment provisions on loans and advances by geography and client segment is set out within the Risk review and Capital review (pages 130 to 137).

9. Other impairment

Accounting policy

Available-for-sale assets

Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is reclassified from equity and recognised in the income statement.

Available-for-sale debt securities are assessed for impairment in the same way as assets carried at amortised cost (see note 8 – Objective evidence of impairment, for impairment 'trigger' events).

Further, the extent, observability and depth of market price decreases and collateral rights are considered when assessing objective evidence of listed impairment for available-for-sale instruments.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

For equity securities, a significant or prolonged decline in the fair value of an equity security below its cost is considered, among other factors, in assessing objective evidence of impairment. In assessing significance, the decline in fair value is evaluated against the original fair value of the asset upon recognition.

In assessing prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its initial recognition amount. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Refer to the below referenced notes for the relevant accounting policy.

9. Other impairment continued

	2017 $million	2016 $million
Impairment of goodwill (note 18)	**320**	166
Other impairment		
Impairment of fixed assets (note 19)	**137**	131
Impairment losses on available-for-sale financial assets:		
Debt securities	**–**	54
Equity shares	**16**	246
Impairment of other intangible assets (note 18)	**23**	14
Other	**3**	1
	179	446
	499	612

10. Taxation

Accounting policy

Income tax payable on profits is based on the applicable tax law in each jurisdiction and is recognised as an expense in the period in which profits arise.

Deferred tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted as at the balance sheet date, and that are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the current or deferred gain or loss.

Significant accounting estimates and judgements

- Determining the Group's tax charge for the year involves estimation and judgement, which includes an interpretation of local tax laws and an assessment of whether the tax authorities will accept the position taken. These judgements take account of external advice where appropriate, and the Group's view on settling with tax authorities
- The Group provides for current tax liabilities at the best estimate of the amount that is expected to be paid to the tax authorities where an outflow is probable. In making its estimates the Group assumes that the tax authorities will examine all the amounts reported to them and have full knowledge of all relevant information
- The recoverability of the Group's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax assets will be utilised

The following table provides analysis of taxation charge in the year:

	2017 $million	2016 $million
The charge for tax based upon the profit for the year comprises:		
Current tax:		
United Kingdom corporation tax at 19.25 per cent (2016: 20 per cent):		
Current tax charge on income for the year	**–**	10
Adjustments in respect of prior years (including double tax relief)	**1**	(74)
Foreign tax:		
Current tax charge on income for the year	**977**	786
Adjustments in respect of prior years	**(13)**	84
	965	806
Deferred tax:		
Origination/reversal of temporary differences	**156**	(136)
Adjustments in respect of prior years	**26**	(70)
	182	(206)
Tax on profits on ordinary activities	**1,147**	600
Effective tax rate	**47.5%**	nm[1]
Tax on profits on ordinary activities excluding the impact of US Tax Reform	**927**	600
Effective tax rate excluding the impact of US Tax Reform	**38.4%**	nm[1]

1 Not meaningful as the tax charge is greater than profit before tax

10. Taxation continued

The US Tax Cuts and Jobs Act of 2017, effective from 1 January 2018, reduces the US corporate tax rate from 35 per cent to 21 per cent and introduces a Base Erosion and Anti Abuse Tax. The combined impact of these changes in tax rates reduced the US deferred tax asset, increasing the deferred taxation charge for the year by $220 million.

Foreign tax includes current tax on Hong Kong profits of $167 million (31 December 2016: $109 million) on the profits assessable in Hong Kong.

Deferred tax includes origination or reversal of temporary differences in Hong Kong profits of $5 million (2016: $(4) million) provided at a rate of 16.5 per cent (2016: 16.5 per cent) on the profits assessable to Hong Kong.

The tax charge for the year of $1,147 million (2016: $600 million) on a profit before tax of $2,415 million (2016: $409 million) reflects the impact of US Tax Reform, non-deductible expenses and the impact of countries with tax rates higher or lower than the UK, the most significant of which is India.

Tax rate: The tax charge for the year is higher than the charge at the rate of corporation tax in the UK, 19.25 per cent. The differences are explained below:

	2017 $million	2016 $million
Profit on ordinary activities before tax	**2,415**	409
Tax at 19.25 per cent (2016: 20.00 per cent)	**465**	82
Lower tax rates on overseas earnings	**(17)**	(5)
Higher tax rates on overseas earnings	**351**	269
Tax-free income	**(130)**	(117)
Share of associates and joint ventures	**(45)**	13
Non-deductible expenses	**217**	201
Bank levy	**42**	77
Non-taxable losses on investments	**9**	120
Non-taxable gains on disposals of businesses	**(12)**	(41)
Goodwill impairment	**63**	33
US Tax Reform	**220**	–
Deferred tax not recognised	**39**	93
Adjustments to tax charge in respect of prior years	**14**	(60)
Other items	**(69)**	(65)
Tax on profit on ordinary activities	**1,147**	600

Factors affecting the tax charge in future years: The Group's tax charge, and effective tax rate in future years could be affected by several factors including acquisitions, disposals and restructuring of our businesses, the mix of profits across jurisdictions with different statutory tax rates, changes in tax legislation and tax rates and resolution of uncertain tax positions.

The evaluation of uncertain tax positions involves an interpretation of local tax laws which could be subject to challenge by a tax authority, and an assessment of whether the tax authorities will accept the position taken. The Group does not currently consider that the assumptions or judgements made in assessing tax liabilities have a significant risk of resulting in a material adjustment within the next financial year.

	2017			2016		
	Current tax $million	**Deferred tax $million**	**Total $million**	Current tax $million	Deferred tax $million	Total $million
Tax recognised in other comprehensive income						
Available-for-sale assets	**1**	**7**	**8**	10	(1)	9
Cash flow hedges	**–**	**(6)**	**(6)**	–	(17)	(17)
Own credit adjustment	**–**	**14**	**14**	29	1	30
Retirement benefit obligations	**–**	**(35)**	**(35)**	–	2	2
Total tax credit/(charge) recognised in equity	**1**	**(20)**	**(19)**	39	(15)	24

10. Taxation continued

	2017 $million	2016 $million
Current tax assets	**474**	388
Current tax liabilities	**(327)**	(769)
Net current tax balance as at 1 January	**147**	(381)
Movements in income statement	**(965)**	(806)
Movements in other comprehensive income	**1**	39
Taxes paid	**915**	1,287
Other movements	**17**	8
Net current tax balance as at 31 December	**115**	147
Current tax assets	**491**	474
Current tax liabilities	**(376)**	(327)
Total	**115**	147

Deferred tax: The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year:

	At 1 January 2017 $million	Exchange & other adjustments $million	(Charge)/credit to profit $million	(Charge)/credit to equity $million	At 31 December 2017 $million
Deferred tax comprises:					
Accelerated tax depreciation	**(399)**	**(12)**	**(2)**	**–**	**(413)**
Impairment provisions on loans and advances	**934**	**36**	**101**	**–**	**1,071**
Tax losses carried forward	**396**	**8**	**(114)**	**–**	**290**
Available-for-sale assets	**(27)**	**(2)**	**–**	**7**	**(22)**
Cash flow hedges	**5**	**(1)**	**–**	**(6)**	**(2)**
Own credit adjustment	**–**	**(3)**	**–**	**14**	**11**
Retirement benefit obligations	**76**	**3**	**(6)**	**(35)**	**38**
Share-based payments	**16**	**–**	**–**	**–**	**16**
Other temporary differences	**(60)**	**5**	**(161)**	**–**	**(216)**
Net deferred tax assets	**941**	**34**	**(182)**	**(20)**	**773**

	At 1 January 2016 $million	Exchange & other adjustments $million	(Charge)/credit to profit $million	(Charge)/credit to equity $million	At 31 December 2016 $million
Deferred tax comprises:					
Accelerated tax depreciation	(319)	7	(87)	–	(399)
Impairment provisions on loans and advances	767	(22)	189	–	934
Tax losses carried forward	396	1	(1)	–	396
Available-for-sale assets	(29)	1	2	(1)	(27)
Cash flow hedges	2	1	19	(17)	5
Retirement benefit obligations	71	2	1	2	76
Share-based payments	26	–	(10)	–	16
Other temporary differences	(148)	(6)	93	1	(60)
Net deferred tax assets	766	(16)	206	(15)	941

10. Taxation continued

Deferred tax comprises assets and liabilities as follows:

	2017			2016		
	Total $million	**Asset $million**	**Liability $million**	Total $million	Asset $million	Liability $million
Deferred tax comprises:						
Accelerated tax depreciation	**(413)**	**17**	**(430)**	(399)	13	(412)
Impairment provisions on loans and advances	**1,071**	**1,037**	**34**	934	914	20
Tax losses carried forward	**290**	**134**	**156**	396	217	179
Available-for-sale assets	**(22)**	**(8)**	**(14)**	(27)	(10)	(17)
Cash flow hedges	**(2)**	**(7)**	**5**	5	–	5
Own credit adjustment	**11**	**(2)**	**13**	–	–	–
Retirement benefit obligations	**38**	**38**	**–**	76	76	–
Share-based payments	**16**	**16**	**–**	16	16	–
Other temporary differences	**(216)**	**(48)**	**(168)**	(60)	68	(128)
	773	**1,177**	**(404)**	941	1,294	(353)

At 31 December 2017, the Group has net deferred tax assets of $773 million (2016: $941 million). The recoverability of the Group's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax assets will be utilised.

Of the Group's total deferred tax assets, $290 million relates to tax losses carried forward. These tax losses have arisen in individual legal entities and will be offset as future taxable profits arise in those entities.

- $151 million of the deferred tax assets relating to losses has arisen in Ireland, where there is no expiry date for unused tax losses. These losses relate to aircraft leasing and are expected to be fully utilised over the useful economical life of the assets being up to 18 years
- $33 million of the deferred tax assets relating to losses has arisen in Korea. These losses have no expiry date, and there is a defined profit stream against which they are forecast to be utilised
- $31 million of the deferred tax assets relating to losses has arisen in the US. Management forecasts show that the losses are expected to be fully utilised over a period of nine years. The tax losses have no expiry date
- $26 million of the deferred tax assets relating to losses has arisen in Taiwan. Management forecasts show that the losses are expected to be fully utilised over a period of three years. The tax losses expire after 10 years
- The remaining deferred tax assets of $49 million relating to losses has arisen in other jurisdictions and is expected to be recovered in less than 10 years

	2017 $million	2016 $million
No account has been taken of the following potential deferred tax assets/(liabilities):		
Withholding tax on unremitted earnings from overseas subsidiaries	**(343)**	(333)
Foreign exchange movements on investments in branches	**(339)**	(263)
Tax losses[1]	**1,311**	1,197
Held over gains on incorporation of overseas branches	**(399)**	(417)
Other temporary differences	**47**	53

1 Primarily in the UK

11. Dividends

Accounting policy

Dividends on ordinary shares and preference shares classified as equity are recognised in equity in the year in which they are declared.

Dividends on ordinary equity shares are recorded in the year in which they are declared and, in respect of the final dividend, have been approved by the shareholders.

The Board considers a number of factors which include the rate of recovery in the Group's financial performance, the macroeconomic environment, and opportunities to further invest in our business and grow profitably in our markets.

There was no interim dividend declared in 2017 or during the comparative reporting periods.

Preference shares and Additional Tier 1 securities

Dividends on these preference shares and securities classified as equity are recorded in the period in which they are declared.

		2017 $million	2016 $million
Non-cumulative redeemable preference shares:	7.014 per cent preference shares of $5 each	**53**	53
	6.409 per cent preference shares of $5 each	**39**	48
		92	101
Additional Tier 1 securities: $5 billion fixed rate resetting perpetual subordinated contingent convertible securities		**353**	130
		445	231
Dividends on these preference shares are treated as interest expense and accrued accordingly.			
Non-cumulative irredeemable preference shares:	7 3/8 per cent preference shares of £1 each	**10**	10
	8 1/4 per cent preference shares of £1 each	**11**	11
		21	21

The 2017 ordinary equity share dividend recommended by the Board is 11 cents per share. The financial statements for the year ended 31 December 2017 do not reflect this dividend as this will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2018.

The dividend will be paid in either pounds sterling, Hong Kong dollars or US dollars on 17 May 2018 to shareholders on the UK register of members at the close of business in the UK on 9 March 2018. The dividend will be paid in Indian rupees on 17 May 2018 to Indian Depository Receipt holders on the Indian register at the close of business in India on 9 March 2018.

It is intended that shareholders on the UK register and Hong Kong branch register will be able to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend arrangements will be sent to shareholders on or around 26 March 2018. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

12. Earnings per ordinary share

Accounting policy

The Group measures earnings per share on an underlying basis. This differs from earnings defined in IAS 33 Earnings per share. Underlying earnings is profit/(loss) attributable to ordinary shareholders adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.

The table below provides the basis of underlying earnings.

	2017 $million	2016 $million
Profit/(loss) for the year attributable to equity holders	**1,268**	(191)
Non-controlling interest	**(49)**	(56)
Dividend payable on preference shares and AT1 classified as equity	**(445)**	(231)
Profit/(loss) for the year attributable to ordinary shareholders	**774**	(478)
Items normalised:		
Restructuring	**353**	855
Gains arising on repurchase of subordinated liabilities	**–**	(84)
Goodwill impairment (note 9)	**320**	166
Net gain on business disposed and available-for-sale financial instruments (included within note 6)	**(78)**	(253)
Impact of US Tax Reform (note 10)	**220**	–
Tax on normalised items[1]	**(36)**	(95)
Underlying profit	**1,553**	111
Basic – Weighted average number of shares (millions)	**3,293**	3,291
Diluted – Weighted average number of shares (millions)	**3,325**	3,305
Basic earnings/(loss) per ordinary share (cents)	**23.5**	(14.5)
Diluted earnings/(loss) per ordinary share (cents)	**23.3**	(14.5)[2]
Underlying basic earnings per ordinary share (cents)	**47.2**	3.4
Underlying diluted earnings per ordinary share (cents)	**46.7**	3.4[2]

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

2 The impact of any diluted options has been excluded from this amount as required by IAS 33 *Earnings per share*

13. Financial instruments

Classification and measurement

Accounting policy

The Group classifies its financial assets into the following measurement categories: financial assets held at fair value through profit or loss; loans and receivables; held-to-maturity; or available-for-sale.

Financial liabilities are classified as either held at fair value through profit or loss or at amortised cost.

Management determines the classification of its financial assets and liabilities at initial recognition.

The following details the approach for the categories:

a) Financial assets and liabilities held at fair value through profit or loss: This category has two sub-categories:

- Financial assets and liabilities held for trading: A financial asset or liability is classified as held for trading if acquired principally for the purpose of selling in the short term, or forms part of a portfolio of financial instruments which are managed together and for which there is evidence of short-term profit-taking or is a derivative (excluding qualifying hedging relationships)
- Designated at fair value through profit or loss: Financial assets and liabilities may be designated at fair value through profit or loss when:
  - The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis (for example, the Group may designate certain fixed rate loans and receivables that are managed with derivative interest rate swaps)
  - A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis (for example, the Group may designate issued debt to fund a portfolio of trading assets and liabilities that are all managed on a fair value basis)
  - The assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately

b) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that apart from credit deterioration substantially all of the initial investment will be recovered.

13. Financial instruments continued

c) Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

d) Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

e) Financial liabilities held at amortised cost: Financial liabilities, which include borrowings not classified as held at fair value through profit or loss, are classified as amortised cost instruments. Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholders, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

A financial guarantee issued is a special case of financial liability. Under a financial guarantee contract, the Group, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Amortisation is calculated so as to recognise fees receivable in profit or loss over the period of the guarantee.

Initial recognition of financial instruments

All financial instruments are initially recognised at fair value, which is normally the transaction price plus, for those financial assets and liabilities not carried at fair value through profit or loss, directly attributable transaction costs.

In certain circumstances the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based primarily on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated.

Regular way purchases and sales of financial assets and liabilities held at fair value through profit or loss, and financial assets classified as held-to-maturity and available-for-sale, are initially recognised on the trade date (the date on which the Group commits to purchase or sell the asset). Regular way loans are recognised on settlement date when cash is advanced to the borrowers.

Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are carried at fair value, with gains and losses arising from changes in fair value taken directly to the net trading income line in the income statement except for changes in fair value on financial liabilities designated at fair value attributable to the Group's own credit presented directly within other comprehensive income.

Available-for-sale financial assets are carried at fair value, with gains and losses arising from changes in fair value taken to the available-for-sale reserve within equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables are carried at amortised cost using the effective interest method.

Held-to-maturity financial assets are carried at amortised cost using the effective interest method.

Financial liabilities are stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

In addition to these instruments, the carrying value of a financial instrument carried at amortised cost that is the hedged item in a qualifying fair value hedge relationship is adjusted by the fair value gain or loss attributable to the hedged risk.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other income.

13. Financial instruments continued

Reclassification of financial instruments:

Reclassifications of financial assets or financial liabilities between measurement categories are not permitted following initial recognition, other than:

- Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity
- Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity

Change in comparatives

Reverse repurchase agreements and other similar secured lending have been reported separately from loans and advances to banks and customers. Similarly, repurchase agreements and other similar secured borrowing have been reported separately from deposits by banks and customer accounts. Prior year comparatives have been re-presented to reflect this change.

The Group's classification of its financial assets and liabilities is summarised in the following tables.

		Assets at fair value					Assets at amortised cost		
Assets	Notes	Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Available-for-sale $million	Total financial assets at fair value $million	Loans and receivables $million	Held-to-maturity $million	Total $million
Cash and balances at central banks		–	–	–	–	–	58,864	–	58,864
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		320	–	2,252	–	2,572	–	–	2,572
Loans and advances to customers[1]		1,689	–	1,229	–	2,918	–	–	2,918
Reverse repurchase agreements and other similar secured lending	17	454	–	458	–	912	–	–	912
Debt securities and other eligible bills	13	19,318	–	393	–	19,711	–	–	19,711
Equity shares	13	718	–	733	–	1,451	–	–	1,451
		22,499	–	5,065	–	27,564	–	–	27,564
Derivative financial instruments	14	46,333	698	–	–	47,031	–	–	47,031
Loans and advances to banks[1]	16	–	–	–	–	–	57,494	–	57,494
Loans and advances to customers[1]	16	–	–	–	–	–	248,707	–	248,707
Reverse repurchase agreements and other similar secured lending	17	–	–	–	–	–	54,275	–	54,275
Investment securities									
Debt securities and other eligible bills	15	–	–	–	109,161	109,161	2,630	4,340	116,131
Equity shares	15	–	–	–	894	894	–	–	894
		–	–	–	110,055	110,055	2,630	4,340	117,025
Other assets	21	–	–	–	–	–	29,922	–	29,922
Assets held for sale	21	–	–	466	–	466	62	–	528
Total at 31 December 2017		68,832	698	5,531	110,055	185,116	451,954	4,340	641,410

1 Further analysed in Risk review and Capital review (pages 122 to 143)

13. Financial instruments continued

Assets	Notes	Assets at fair value: Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Available-for-sale $million	Total financial assets at fair value $million	Assets at amortised cost: Loans and receivables $million	Held-to-maturity $million	Total $million
Cash and balances at central banks		–	–	–	–	–	70,706	–	70,706
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		267	–	1,296	–	1,563	–	–	1,563
Loans and advances to customers[1]		614	–	2,241	–	2,855	–	–	2,855
Reverse repurchase agreements and other similar secured lending	17	322	–	497	–	819	–	–	819
Debt securities and other eligible bills	13	13,310	–	354	–	13,664	–	–	13,664
Equity shares	13	425	–	751	–	1,176	–	–	1,176
		14,938	–	5,139	–	20,077	–	–	20,077
Derivative financial instruments	14	64,433	1,076	–	–	65,509	–	–	65,509
Loans and advances to banks[1]	16	–	–	–	–	–	54,538	–	54,538
Loans and advances to customers[1]	16	–	–	–	–	–	226,693	–	226,693
Reverse repurchase agreements and other similar secured lending	17	–	–	–	–	–	44,097	–	44,097
Investment securities									
Debt securities and other eligible bills	15	–	–	–	104,308	104,308	3,106	170	107,584
Equity shares	15	–	–	–	1,388	1,388	–	–	1,388
		–	–	–	105,696	105,696	3,106	170	108,972
Other assets	21	–	–	–	–	–	33,942	–	33,942
Assets held for sale	21	–	–	–	–	–	1,102	–	1,102
Total at 31 December 2016		79,371	1,076	5,139	105,696	191,282	434,184	170	625,636

1 Further analysed in Risk review and Capital review (pages 122 to 143)

Liabilities	Notes	Liabilities at fair value: Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Total financial liabilities at fair value $million	Amortised cost $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		**–**	**–**	**737**	**737**	**–**	**737**
Customer accounts		**–**	**–**	**5,236**	**5,236**	**–**	**5,236**
Debt securities in issue	22	**–**	**–**	**7,023**	**7,023**	**–**	**7,023**
Short positions		**3,637**	**–**	**–**	**3,637**	**–**	**3,637**
		3,637	**–**	**12,996**	**16,633**	**–**	**16,633**
Derivative financial instruments	14	**46,558**	**1,543**	**–**	**48,101**	**–**	**48,101**
Deposits by banks		**–**	**–**	**–**	**–**	**30,945**	**30,945**
Customer accounts		**–**	**–**	**–**	**–**	**370,509**	**370,509**
Repurchase agreements and other similar secured borrowing	17	**–**	**–**	**–**	**–**	**39,783**	**39,783**
Debt securities in issue	22	**–**	**–**	**–**	**–**	**46,379**	**46,379**
Other liabilities	23	**–**	**–**	**–**	**–**	**34,982**	**34,982**
Subordinated liabilities and other borrowed funds	27	**–**	**–**	**–**	**–**	**17,176**	**17,176**
Liabilities included in disposal groups held for sale	23	**–**	**–**	**–**	**–**	**–**	**–**
Total at 31 December 2017		**50,195**	**1,543**	**12,996**	**64,734**	**539,774**	**604,508**

13. Financial instruments continued

Liabilities	Notes	Liabilities at fair value: Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Total financial liabilities at fair value $million	Amortised cost $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	718	718	–	718
Customer accounts		–	–	6,447	6,447	–	6,447
Debt securities in issue	22	–	–	5,670	5,670	–	5,670
Short positions		3,763	–	–	3,763	–	3,763
		3,763	–	12,835	16,598	–	16,598
Derivative financial instruments	14	62,917	2,795	–	65,712	–	65,712
Deposits by banks		–	–	–	–	32,872	32,872
Customer accounts		–	–	–	–	338,185	338,185
Repurchase agreements and other similar secured borrowing	17	–	–	–	–	37,692	37,692
Debt securities in issue	22	–	–	–	–	46,700	46,700
Other liabilities	23	–	–	–	–	32,958	32,958
Subordinated liabilities and other borrowed funds	27	–	–	–	–	19,523	19,523
Liabilities included in disposal groups held for sale	23	–	–	–	–	958	958
Total at 31 December 2016		66,680	2,795	12,835	82,310	508,888	591,198

Debt securities, other eligible bills and equity shares held at fair value through profit or loss

	2017		
	Debt securities and other eligible bills $million	**Equity shares $million**	**Total $million**
Issued by public bodies:			
Government securities	**10,540**		
Other public sector securities	**68**		
	10,608		
Issued by banks:			
Certificates of deposit	**512**		
Other debt securities	**3,270**		
	3,782		
Issued by corporate entities and other issuers:			
Other debt securities	**5,321**		
Total debt securities and other eligible bills	**19,711**		
Of which:			
Listed on a recognised UK exchange	**238**	**92**	**330**
Listed elsewhere	**13,430**	**575**	**14,005**
Unlisted	**6,043**	**784**	**6,827**
	19,711	**1,451**	**21,162**
Market value of listed securities	**13,668**	**667**	**14,335**

13. Financial instruments continued

Debt securities, other eligible bills and equity shares held at fair value through profit or loss continued

	2016		
	Debt securities and other eligible bills $million	Equity shares $million	Total $million
Issued by public bodies:			
Government securities	8,628		
Other public sector securities	77		
	8,705		
Issued by banks:			
Certificates of deposit	406		
Other debt securities	1,546		
	1,952		
Issued by corporate entities and other issuers:			
Other debt securities	3,007		
Total debt securities and other eligible bills	13,664		
Of which:			
Listed on a recognised UK exchange	164	–	164
Listed elsewhere	8,099	44	8,143
Unlisted	5,401	1,132	6,533
	13,664	1,176	14,840
Market value of listed securities	8,263	44	8,307

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

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

The following tables set out the impact of netting on the balance sheet. This comprises derivative transactions settled through an enforceable netting agreement where we have the intent and ability to settle net and which are offset on the balance sheet.

	2017					
	Gross amounts of recognised financial instruments $million	Impact of offset in the balance sheet $million	Net amounts of financial instruments presented in the balance sheet $million	Related amount not offset in the balance sheet		
				Financial instruments $million	Financial collateral $million	Net amount $million
Assets						
Derivative financial instruments	**54,619**	**(7,588)**	**47,031**	**(29,135)**	**(9,825)**	**8,071**
Reverse repurchase agreements and other similar secured lending	**61,520**	**(6,333)**[1]	**55,187**	**–**	**(55,187)**	**–**
At 31 December 2017	**116,139**	**(13,921)**	**102,218**	**(29,135)**	**(65,012)**	**8,071**
Liabilities						
Derivative financial instruments	**55,689**	**(7,588)**	**48,101**	**(29,135)**	**(9,513)**	**9,453**
Repurchase agreements and other similar secured borrowing	**46,116**	**(6,333)**[1]	**39,783**	**–**	**(39,783)**	**–**
At 31 December 2017	**101,805**	**(13,921)**	**87,884**	**(29,135)**	**(49,296)**	**9,453**

1 Increase in offset has been achieved through confirmation of single settlement from each bilateral counterparty. As a result the repurchase and reverse repurchase balances have decreased at year end by $6.3 billion

13. Financial instruments continued

Offsetting of financial instruments continued

	2016					
	Gross amounts of recognised financial instruments $million	Impact of offset in the balance sheet $million	Net amounts of financial instruments presented in the balance sheet $million	Related amount not offset in the balance sheet		Net amount $million
				Financial instruments $million	Financial collateral $million	
Assets						
Derivative financial instruments	73,822	(8,313)	65,509	(40,391)	(9,624)	15,494
Reverse repurchase agreements and other similar secured lending	44,916	–	44,916	–	(44,916)	–
At 31 December 2016	118,738	(8,313)	110,425	(40,391)	(54,540)	15,494
Liabilities						
Derivative financial instruments	74,025	(8,313)	65,712	(40,391)	(14,230)	11,091
Repurchase agreements and other similar secured borrowing	37,692	–	37,692	–	(37,692)	–
At 31 December 2016	111,717	(8,313)	103,404	(40,391)	(51,922)	11,091

Related amounts not offset in the balance sheet comprises:

- Financial instruments not offset in the balance sheet, but covered by an enforceable netting arrangement. This comprises master netting arrangements held against derivative financial instruments and excludes the effect of over-collateralisation
- Financial collateral – This comprises cash collateral pledged and received for derivative financial instruments and collateral bought and sold for reverse repurchase and repurchase agreements respectively and excludes the effect of over-collateralisation

Loans and advances designated at fair value through profit or loss

The maximum exposure to credit risk for loans and advances to banks and customers and reverse repurchase and other similar secured lending designated at fair value through profit or loss was $3,939 million (2016: $4,034 million). The net fair value gain on loans and advances to banks and customers and reverse repurchase and other similar secured lending designated at fair value through profit or loss was $23 million (2016: $17 million). Of this, $1 million (2016: $1 million) relates to changes in credit risk. The cumulative fair value loss attributable to changes in credit risk was $1 million (2016: $2 million). Further details of the Group's valuation technique is described in this note (page 234).

Financial liabilities designated at fair value through profit or loss

	2017 $million	2016 $million
Carrying balance aggregate fair value	**12,996**	12,835
Amount contractually obliged to repay at maturity	**13,052**	12,941
Difference between aggregate fair value and contractually obliged to repay at maturity	**(56)**	(106)
Cumulative change in fair value accredited to credit risk difference	**82**	331

The net fair value loss on financial liabilities designated at fair value through profit or loss was $202 million for the period (2016: net loss of $178 million). Further details of the Group's own credit adjustment (OCA) valuation technique is described later in this note.

13. Financial instruments continued

Valuation of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in the absence of this, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects the Group's non-performance risk. The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risks or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments held by the Group. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison with instruments that have characteristics similar to those of the instruments held by the Group.

The Valuation Control function is responsible for independent price verification, oversight of fair value and prudent value adjustments and escalation of valuation issues. Independent price verification is the process of determining that the valuations incorporated into the financial statements are validated independent of the business area responsible for the product. The Valuation Control function has oversight of the fair value adjustments to ensure the financial instruments are priced to exit. These are key controls in ensuring the material accuracy of the valuations incorporated in the financial statements. The market data used for price verification may include data sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. Valuation Control performs a semi-annual review of the suitability of the market data used for price testing. Price verification uses independently sourced data that is deemed most representative of the market the instruments trade in. To determine the quality of the market data inputs, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are taken into consideration.

Formal committees for the business clusters, consisting of representatives from Group Market Risk, Product Control, Valuation Control and the business meet monthly to discuss and approve the valuations of the inventory. For Principal Finance, the Investment Committee meeting is held on a quarterly basis to review investments and valuations. The business cluster valuation committees fall under the Valuation Benchmarks Committee as part the of the valuation governance structure.

Significant accounting estimates and judgements

The Group evaluates the significance of financial instruments and material accuracy of the valuations incorporated in the financial statements as they involve a high degree of judgement and estimation uncertainty in determining the carrying values of financial assets and liabilities at the balance sheet date.

- Fair value of financial instruments are determined using valuation techniques (see below) which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Changes in the observability of significant valuation inputs can materially affect the fair values of financial instruments
- When establishing the exit price of a financial instrument using a valuation technique, the Group considers valuation adjustments in determining the fair value (page 236)
- In determining the valuation of financial instruments, the Group makes judgements on the amounts reserved to cater for model and valuation risks, which cover both Level 2 and Level 3 assets, and the significant valuation judgements in respect of Level 3 instruments (page 237)
- Where the measurement of fair value is more judgemental in respect of Level 3 assets, these are valued based on models that use a significant degree of non-market-based unobservable inputs

Valuation techniques

Refer to the fair value hierarchy explanation – Level 1, 2 and 3 (page 237)

- **Financial instruments held at fair value**
  - **Loans and advances:** These include loans in the global syndications business which were not syndicated as of the balance sheet date and other financing transactions within Financial Markets. These loans are generally bilateral in nature and, where available, their valuation is based on market observable credit spreads. If observable credit spreads are not available, proxy spreads based on comparable loans with similar credit grade, sector, and region, are used. Where observable credit spreads and market standard proxy methods are available, these loans are classified as Level 2. Where there are no recent transactions or comparable loans, these loans are classified as Level 3
  - **Debt securities – asset backed securities:** Asset backed securities are priced based on external prices obtained from consensus pricing providers, broker quotes, recent trades, arrangers' quotes, etc. Where an observable price is available for a given security, it is classified as Level 2. In instances where third-party prices are not available or reliable, the security is classified as Level 3. The fair value of Level 3 securities is estimated using market standard cash flow models with input parameter assumptions which include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type, and credit ratings. Therefore, once external pricing has been verified, an assessment is made whether each security is traded with significant liquidity based on its credit rating and sector. If a security is of high credit rating and is traded in a liquid sector, it will be classified as Level 2, otherwise it will be classified as Level 3

13. Financial instruments continued

Valuation techniques continued

- **Other debt securities:** These debt securities include convertible bonds, corporate bonds, credit and structured notes. Where quoted prices are available through pricing vendors, brokers or observable trading activities from liquid markets, these are classified as Level 2 and valued using such quotes. Where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product, these are classified as Level 3. The valuations of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets
- **Equity shares – private equity:** The majority of private equity unlisted investments are valued based on earning multiples – Price-to-Earnings (P/E) or enterprise value to earnings before income tax, depreciation and amortisation (EV/EBITDA) ratios – of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. To ensure comparability between these unquoted investments and the comparable listed companies, appropriate adjustments are also applied (for example, liquidity and size) in the valuation. In circumstances where an investment does not have direct comparables or where the multiples for the comparable companies cannot be sourced from reliable external sources, alternate valuation techniques (for example, discounted cash flow models), which use predominantly unobservable inputs or Level 3 inputs, may be applied. Even though earning multiples for the comparable listed companies can be sourced from third-party sources (for example, Bloomberg), and those inputs can be deemed Level 2 inputs, all unlisted investments (excluding those where observable inputs are available, for example, over-the-counter (OTC) prices) are classified as Level 3 on the basis that the valuation methods involve judgments ranging from determining comparable companies to discount rates where the discounted cash flow method is applied
- **Derivatives:** Derivative products are classified as Level 2 if the valuation of the product is based upon input parameters which are observable from independent and reliable market data sources. Derivative products are classified as Level 3 if there are significant valuation input parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying variable. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. In most cases these unobservable correlation parameters cannot be implied from the market, and methods such as historical analysis and comparison with historical levels or other benchmark data must be employed
- **Debt securities in issue:** These debt securities relate to structured notes issued by the Group. Where independent market data is available through pricing vendors and broker sources these positions are classified as Level 2. Where such liquid external prices are not available, valuation of these debt securities are implied using input parameters such as bond spreads and credit spreads, and are classified as Level 3. These input parameters are determined with reference to the same issuer (if available) or proxies from comparable issuers or assets

→ **Financial instruments held at amortised cost**

The following sets out the Group's basis of establishing fair values of amortised cost financial instruments and their classification between Levels 1, 2 and 3. As certain categories of financial instruments are not actively traded, there is a significant level of management judgement involved in calculating the fair values:

- **Cash and balances at central banks:** The fair value of cash and balances at central banks is their carrying amounts
- **Loans and advances to banks and customers:** For loans and advances to banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity. The Group's loans and advances to the customers' portfolio is well diversified by geography and industry. Approximately a quarter of the portfolio re-prices within one month, and approximately half re-prices within 12 months. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and, credit risk/credit spreads. Expected cash flows are discounted at current market rates to determine fair value. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical
- **Investment securities:** For investment securities that do not have directly observable market values, the Group utilises a number of valuation techniques to determine fair value. Where available, securities are valued using inputs proxies from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or inputs proxies from a different underlying (for example, a similar bond but using spreads for a particular sector and rating). Certain instruments cannot be proxies as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relates to asset backed securities. The fair value for such instruments is usually proxies from internal assessments of the underlying cash flows
- **Deposits and borrowings:** The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity
- **Debt securities in issue, subordinated liabilities and other borrowed funds:** The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market-related yield curve appropriate for the remaining term to maturity
- **Other assets:** Other assets comprise primarily of cash collateral and trades pending settlement. The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are either short term in nature or re-price to current market rates frequently

13. Financial instruments continued

Fair value adjustments

When establishing the exit price of a financial instrument using a valuation technique, the Group considers adjustments to the modelled price which market participants would make when pricing that instrument. The main valuation adjustments (described further below) in determining fair value for financial assets and financial liabilities are as follows:

	2017 $million	2016 $million
Bid-offer valuation adjustment	**82**	106
CVA	**229**	466
DVA	**(66)**	(23)
Model valuation adjustment	**6**	6
FVA	**79**	248
Others (including day one)	**148**	132
Total	**478**	935

- **Bid-offer valuation adjustment:** Where market parameters are marked on a mid-market basis in the revaluation systems, a bid offer valuation adjustment is required to quantify the expected cost of neutralising the business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. The methodology to calculate the bid-offer adjustment for a derivative portfolio involves netting between long and short positions and the grouping of risk by strike and tenor based on the hedging strategy where long positions are marked to bid and short positions marked to offer in the systems
- **Credit valuation adjustment (CVA):** The Group makes CVA adjustment against the fair value of derivative products. CVA is an adjustment to the fair value of the transactions to reflect the possibility that our counterparties may default and we may not receive the full market value of the outstanding transactions. It represents an estimate of the adjustment a market participant would include when deriving a purchase price to acquire our exposures. CVA is calculated for each subsidiary, and within each entity for each counterparty to which the entity has exposure and takes account of any collateral we may hold. The Group calculates the CVA by applying the probability of default (PD) on the potential estimated future positive exposure of the counterparty using market-implied PD. Where market-implied data is not readily available, we use market-based proxies to estimate the PD. Wrong-way risk arises when the underlying value of the derivative prior to any CVA is positively correlated to the probability of default by the counterparty and the Group has implemented a model to capture this impact for certain key wrong way exposures. The Group continues to include 'wrong-way risk' in its Prudential Valuation Adjustments
- **Debit valuation adjustment (DVA):** The Group calculates DVA adjustments on its derivative liabilities to reflect changes in its own credit standing. The Group's DVA adjustments will increase if its credit standing worsens and, conversely, decrease if its credit standing improves. The Group's DVA adjustments will reverse over time as its derivatives mature. For derivative liabilities, a DVA adjustment is determined by applying the Group's probability of default to the Group's negative expected exposure against the counterparty. The Group's probability of default and loss expected in the event of default is derived based on internally assessed credit ratings and market standard recovery levels. The expected exposure is modelled based on simulation methodology and is generated through simulation of underlying risk factors over the life of the deal booked against the particular counterparty. This simulation methodology incorporates the collateral posted by the Group and the effects of master netting agreements. In December 2017, the Group refined its methodology used to calculate DVA to better align with current industry practice. This change in calculation methodology is treated as a change in estimate and resulted in an increase in the DVA balance of $66 million
- **Model valuation adjustment:** Valuation models may have pricing deficiencies or limitations that require a valuation adjustment. These pricing deficiencies or limitations arise due to the choice, implementation and calibration of the pricing model
- **Funding valuation adjustment (FVA):** The Group makes FVA adjustments against derivative products. FVA reflects an estimate of the adjustment to its fair value that a market participant would make to incorporate funding costs that could arise in relation to the exposure. FVA is calculated by determining the net expected exposure at a counterparty level and then applying a funding rate to those exposures that reflect the market cost of funding. The FVA for collateralised derivatives is based on discounting the expected future cash flows at the relevant overnight indexed swap (OIS) rate after taking into consideration the terms of the underlying collateral agreement with the counterparty. The FVA for uncollateralised (including partially collateralised) derivatives incorporates the estimated present value of the market funding cost or benefit associated with funding these transactions
- **Day one profit and loss:** In certain circumstances the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based primarily on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated

In addition, the Group calculates own credit adjustment (OCA) on its issued debt designated at fair value, including structured notes, in order to reflect changes in its own credit standing. The Group's OCA adjustments will increase if its credit standing worsens and, conversely, decrease if its credit standing improves. The Group's OCA adjustments will reverse over time as its liabilities mature. For issued debt and structured notes designated at fair value, an OCA adjustment is determined by discounting the contractual cash flows using a yield curve adjusted for market observed secondary senior debt issuance spreads above average interbank rates. The OCA is $82 million (2016: $331 million).

13. Financial instruments continued

Fair value hierarchy – Financial instruments held at fair value

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the observability of the significant inputs used to determine the fair values. Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Group recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

- **Level 1:** Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities
- **Level 2:** Fair value measurements are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable
- **Level 3:** Fair value measurements are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data

The following tables show the classification of financial instruments held at fair value into the valuation hierarchy:

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	–	2,501	71	2,572
Loans and advances to customers	–	2,792	126	2,918
Reverse repurchase agreements and other similar secured lending	–	912	–	912
Debt securities and other eligible bills	5,860	13,800	51	19,711
Of which:				
Government bonds and treasury bills	4,988	5,531	–	10,519
Issued by corporates other than financial institutions	171	4,017	48	4,236
Issued by financial institutions	701	4,252	3	4,956
Equity shares	725	–	726	1,451
Derivative financial instruments	402	46,589	40	47,031
Of which:				
Foreign exchange	97	35,641	17	35,755
Interest rate	2	10,065	7	10,074
Commodity	303	609	2	914
Credit	–	249	–	249
Equity and stock index	–	25	14	39
Investment securities				
Debt securities and other eligible bills	61,246	47,511	404	109,161
Of which:				
Government bonds and treasury bills	51,257	21,364	318	72,939
Issued by corporates other than financial institutions	5,648	7,590	86	13,324
Issued by financial institutions	4,341	18,557	–	22,898
Equity shares	369	5	520	894
Total financial instruments at 31 December 2017	68,602	114,110	1,938	184,650
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	668	69	737
Customer accounts	–	5,236	–	5,236
Debt securities in issue	–	6,581	442	7,023
Short positions	1,495	2,142	–	3,637
Derivative financial instruments	470	47,606	25	48,101
Of which:				
Foreign exchange	90	36,149	–	36,239
Interest rate	9	9,851	18	9,878
Commodity	371	590	–	961
Credit	–	871	2	873
Equity and stock index	–	145	5	150
Total financial instruments at 31 December 2017	1,965	62,233	536	64,734

There have been no significant changes to valuation or levelling approaches in 2017.

There are no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during the year.

13. Financial instruments continued

Fair value hierarchy – Financial instruments held at fair value continued

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	–	1,563	–	1,563
Loans and advances to customers	–	2,676	179	2,855
Reverse repurchase agreements and other similar secured lending	–	819	–	819
Debt securities and other eligible bills	4,249	9,411	4	13,664
Of which:				
Government bonds and treasury bills	4,044	4,242	–	8,286
Issued by corporates other than financial institutions	77	2,467	3	2,547
Issued by financial institutions	128	2,702	1	2,831
Equity shares	181	–	995	1,176
Derivative financial instruments	513	64,636	360	65,509
Of which:				
Foreign exchange	52	53,706	324	54,082
Interest rate	14	9,858	6	9,878
Commodity	447	879	–	1,326
Credit	–	171	–	171
Equity and stock index	–	22	30	52
Investment securities				
Debt securities and other eligible bills	58,547	45,562	199	104,308
Of which:				
Government bonds and treasury bills	47,002	14,491	173	61,666
Issued by corporates other than financial institutions	6,928	7,741	24	14,693
Issued by financial institutions	4,617	23,330	2	27,949
Equity shares	798	41	549	1,388
Total financial instruments at 31 December 2016	64,288	124,708	2,286	191,282
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	718	–	718
Customer accounts	–	6,447	–	6,447
Debt securities in issue	–	5,140	530	5,670
Short positions	1,845	1,918	–	3,763
Derivative financial instruments	547	64,849	316	65,712
Of which:				
Foreign exchange	52	53,838	233	54,123
Interest rate	25	9,911	25	9,961
Commodity	470	628	–	1,098
Credit	–	442	30	472
Equity and stock index	–	30	28	58
Total financial instruments at 31 December 2016	2,392	79,072	846	82,310

There are no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during 2016.

13. Financial instruments continued

Fair value hierarchy – financial instruments measured at amortised cost

The following table shows the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. These fair values may be different from the actual amount that will be received or paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

		Fair value			
	Carrying value $million	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Assets					
Cash and balances at central banks[1]	**58,864**	**–**	**58,864**	**–**	**58,864**
Loans and advances to banks	**57,494**	**–**	**57,388**	**4**	**57,392**
Loans and advances to customers	**248,707**	**–**	**14,644**	**234,812**	**249,456**
Reverse repurchase agreements and other similar secured lending	**54,275**	**–**	**23,068**	**31,218**	**54,286**
Investment securities	**6,970**	**–**	**6,955**	**36**	**6,991**
Other assets[1]	**29,922**	**–**	**29,922**	**–**	**29,922**
Assets held for sale	**62**	**–**	**62**	**–**	**62**
At 31 December 2017	**456,294**	**–**	**190,903**	**266,070**	**456,973**
Liabilities					
Deposits by banks	**30,945**	**–**	**30,939**	**–**	**30,939**
Customer accounts	**370,509**	**–**	**370,489**	**–**	**370,489**
Repurchase agreements and other similar secured borrowing	**39,783**	**–**	**39,783**	**–**	**39,783**
Debt securities in issue	**46,379**	**15,264**	**30,158**	**–**	**45,422**
Subordinated liabilities and other borrowed funds	**17,176**	**17,456**	**161**	**–**	**17,617**
Other liabilities[1]	**34,982**	**–**	**34,982**	**–**	**34,982**
At 31 December 2017	**539,774**	**32,720**	**506,512**	**–**	**539,232**

		Fair value			
	Carrying value $million	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Assets					
Cash and balances at central banks[1]	70,706	–	70,706	–	70,706
Loans and advances to banks	54,538	–	54,473	–	54,473
Loans and advances to customers	226,693	–	7,401	218,998	226,399
Reverse repurchase agreements and other similar secured lending	44,097	–	18,433	25,664	44,097
Investment securities	3,276	–	3,252	6	3,258
Other assets[1]	33,942	–	33,942	–	33,942
Assets held for sale	1,102	–	–	1,102	1,102
At 31 December 2016	434,354	–	188,207	245,770	433,977
Liabilities					
Deposits by banks	32,872	–	32,740	–	32,740
Customer accounts	338,185	–	338,153	–	338,153
Repurchase agreements and other similar secured borrowing	37,692	–	37,692	–	37,692
Debt securities in issue	46,700	17,132	29,568	–	46,700
Subordinated liabilities and other borrowed funds	19,523	18,655	177	–	18,832
Other liabilities[1]	32,958	–	32,958	–	32,958
Liabilities included in disposal groups held for sale	958	–	958	–	958
At 31 December 2016	508,888	35,787	472,246	–	508,033

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

13. Financial instruments continued

Loans and advances to customers by client segment[1]

	2017					
	Carrying value			Fair value		
	Impaired $million	Not impaired $million	Total $million	Impaired $million	Not impaired $million	Total $million
Corporate & Institutional Banking	**2,465**	**126,224**	**128,689**	**2,491**	**126,695**	**129,186**
Retail Banking	**420**	**102,593**	**103,013**	**422**	**102,828**	**103,250**
Commercial Banking	**596**	**27,296**	**27,892**	**646**	**27,269**	**27,915**
Private Banking	**140**	**13,211**	**13,351**	**140**	**13,202**	**13,342**
Central & other items	**–**	**9,343**	**9,343**	**–**	**9,349**	**9,349**
At 31 December 2017	**3,621**	**278,667**	**282,288**	**3,699**	**279,343**	**283,042**

	2016					
	Carrying value			Fair value		
	Impaired $million	Not impaired $million	Total $million	Impaired $million	Not impaired $million	Total $million
Corporate & Institutional Banking	2,500	116,601	119,101	2,481	116,501	118,982
Retail Banking	458	93,030	93,488	460	92,786	93,246
Commercial Banking	751	23,215	23,966	736	23,306	24,042
Private Banking	289	11,619	11,908	289	11,609	11,898
Central & other items	–	4,256	4,256	–	4,256	4,256
At 31 December 2016	3,998	248,721	252,719	3,966	248,458	252,424

1 Loans and advances includes reverse repurchase agreements and other similar secured lending: carrying value $33,581 million and fair value $33,586 million (2016: $26,026 million and $26,026 million respectively)

Level 3 Summary and significant unobservable inputs

The following table presents the Group's primary Level 3 financial instruments which are held at fair value. The table also presents the valuation techniques used to measure the fair value of those financial instruments, the significant unobservable inputs, the range of values for those inputs and the weighted average of those inputs.

	Value at 31 December 2017					
Instrument	Assets $million	Liabilities $million	Principal valuation technique	Significant unobservable inputs	Range[1]	Weighted average[2]
Loans and advances to banks	71	–	Comparable pricing/yield	Price/yield	2.3%	2.3%
Loans and advances to customers	126	–	Comparable pricing/yield	Price/yield	3.6%	3.6%
			Comparable pricing/yield	Recovery rates	27.8% to 48.3%	43.5%
Debt securities	98	–	Comparable pricing/yield	Price/yield	8%	8%
Asset backed securities	39	–	Discounted cash flows	Price/yield	1.6% to 5%	1.7%
Deposits by banks	–	69	Discounted cash flows	Credit spreads	1%	1%
Debt securities in issue	–	442	Discounted cash flows	Credit spreads	0.4% to 4%	1.7%
Government bonds and treasury bills	318	–	Discounted cash flows	Price/yield	2.4% to 11%	8.1%
Derivative financial instruments of which:						
Foreign exchange	17	–	Option pricing model	Foreign exchange option implied volatility	5.4% to 7.1%	5.9%
			Discounted cash flows	Foreign exchange curves	4.1% to 5.1%	4.6%
Interest rate	7	18	Discounted cash flows	Interest rate curves	1.5% to 16.4%	7.2%
Credit	–	2	Discounted cash flows	Credit spreads	0.8% to 3%	1.3%
Commodities	2	–	Internal pricing model	Commodities correlation	81.4% to 99.4%	92.1%
Equity	14	5	Internal pricing model	Equity correlation	5% to 85%	N/A
				Equity-FX correlation	-85% to 85%	N/A
Equity shares (includes private equity investments)[3]	1,246	–	Comparable pricing/yield	EV/EBITDA multiples	7.6x to 18.6x	10.8x
				P/E multiples	8.6x to 17.7x	16.3x
				P/B multiples	1.2x	1.2x
				P/S multiples	2x	2x
				Liquidity discount	10% to 20%	15.5%
			Discounted cash flows	Discount rates	8.6% to 14%	10.7%
Total	1,938	536				

1 The ranges of values shown in the above table represent the highest and lowest levels used in the valuation of the Group's Level 3 financial instruments as at 31 December 2017. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments

2 Weighted average for non-derivative financial instruments have been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator

3 The Group has an equity investment in the Series B preferred shares of Ripple Labs, Inc., which owns a digital currency (XRP) and is being carried at a fair value based on the shares' initial offering price. The shares will continue to be valued at the initial offering price until such time as a reliable means of valuing the cash flows and underlying assets is possible or additional sales are observable

13. Financial instruments continued

Level 3 summary and significant unobservable inputs continued

The following section describes the significant unobservable inputs identified in the valuation technique table:

- **Commodities correlation:** This refers to the correlation between two commodity underlyings over a specified time
- **Comparable price/yield** is a valuation methodology in which a price of a comparable instrument is used to estimate the fair value where there are no direct observable prices. Yield is the interest rate that is used to discount the future cash-flows in a discounted cash-flow model. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable instrument, then adjusting that yield (or spread) to derive a value for the instrument. The adjustment should account for relevant differences in the financial instruments such as maturity and/or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and the instrument being valued in order to establish the value of the instrument (for example, deriving a fair value for a junior unsecured bond from the price of a senior secured bond). An increase in price, in isolation, would result in a favourable movement in the fair value of the asset. An increase in yield, in isolation, would result in an unfavourable movement in the fair value of the asset
- **Correlation** is the measure of how movement in one variable influences the movement in another variable. An equity correlation is the correlation between two equity instruments while an interest rate correlation refers to the correlation between two swap rates
- **Credit spread** represents the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument
- **Discount rate** refers to the rate of return used to convert expected cash flows into present value
- **EV/EBITDA ratio multiples:** This is the ratio of Enterprise Value (EV) to Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). EV is the aggregate market capitalisation and debt minus the cash and cash equivalents. An increase in EV/EBITDA multiples in isolation, will result in a favourable movement in the fair value of the unlisted firm
- **Interest rate curves** is the term structure of interest rates and measure of future interest rates at a particular point in time
- **Liquidity discounts in the valuation of unlisted investments:** A liquidity discount is primarily applied to the valuation of unlisted firms' investments to reflect the fact that these stocks are not actively traded. An increase in liquidity discount will result in unfavourable movement in the fair value of the unlisted firm
- **Price-Book (P/B) multiple:** This is the ratio of the market value of equity to the book value of equity. An increase in P/B multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Earnings (P/E) multiples:** This is the ratio of the Market Capitalisation to the Net Income after tax. The multiples are determined from multiples of listed comparables, which are observable. An increase in P/E multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Sales (P/S) multiple:** This is the ratio of the market value of equity to sales. An increase in P/S multiple will result in a favourable movement in the fair value of the unlisted firm
- **Recovery rates** are the expectation of the rate of return resulting from the liquidation of a particular loan. As the probability of default increases for a given instrument, the valuation of that instrument will increasingly reflect its expected recovery level assuming default. An increase in the recovery rate, in isolation, would result in a favourable movement in the fair value of the loan
- **Volatility** represents an estimate of how much a particular instrument, parameter or index will change in value over time. Generally, the higher the volatility, the more expensive the option will be

13. Financial instruments continued

Level 3 movement tables – financial assets

The table below analyses movements in level 3 financial assets carried at fair value.

	Held at fair value through profit or loss					Investment securities		
Assets	Loans and advances to banks $million	Loans and advances to customers $million	Debt securities and other eligible bills $million	Equity shares $million	Derivative financial instruments $million	Debt securities and other eligible bills $million	Equity shares $million	Total $million
At 1 January 2017	–	179	4	995	360	199	549	2,286
Total (losses)/gains recognised in income statement	(1)	(11)	(2)	121	(4)	(15)	(9)	79
Net interest income	–	–	–	–	–	(15)	–	(15)
Net trading income	(1)	(11)	(2)	121	(4)	–	(1)	102
Other operating income	–	–	–	–	–	–	9	9
Impairment charge	–	–	–	–	–	–	(17)	(17)
Total gains recognised in other comprehensive income	–	–	–	–	–	7	54	61
Available-for-sale reserve	–	–	–	–	–	–	41	41
Exchange difference	–	–	–	–	–	7	13	20
Purchases	–	–	94	111[3]	6	399	22	632
Sales	–	–	(20)	(254)	(13)	(1)	(91)	(379)
Settlements	–	–	–	–	(250)	(169)	–	(419)
Transfers out[1]	–	(72)	(25)	(247)[3]	(61)	(16)	(5)	(426)
Transfers in[2]	72	30	–	–	2	–	–	104
At 31 December 2017	71	126	51	726	40	404	520	1,938
Total unrealised losses recognised in the income statement, within net interest income, relating to change in fair value of assets held at 31 December 2017	–	–	–	–	–	(15)	–	(15)
Total unrealised (losses)/gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 31 December 2017	(1)	(5)	(2)	65	(7)	–	(1)	49
Total unrealised losses recognised in the income statement, within impairment charges at 31 December 2017	–	–	–	–	–	–	(17)	(17)

1 Transfers out include debt securities, equity shares and derivative financial instruments where the valuation parameters became observable during the year, and were transferred to Level 1 and Level 2. Transfers out further relate to equity shares and debt securities held at fair value through profit or loss which are now presented under held for sale

2 Transfers in during the year primarily relate to loans and advances and derivative financial instruments where the valuation parameters become unobservable during the year

3 When an entity is consolidated through a step up in ownership, the additional equity shares acquired are disclosed in the Purchases line. Subsequently these shares are eliminated on consolidation and disclosed in the Transfer out line. Any underlying Level 3 financial instruments which are recognised as a result of the consolidation are disclosed in the Transfers in line

13. Financial instruments continued

Level 3 movement tables – financial assets continued

Assets	Held at fair value through profit or loss: Loans and advances to banks $million	Held at fair value through profit or loss: Loans and advances to customers $million	Held at fair value through profit or loss: Debt securities and other eligible bills $million	Held at fair value through profit or loss: Equity shares $million	Derivative financial instruments $million	Investment securities: Debt securities and other eligible bills $million	Investment securities: Equity shares $million	Total $million
At 1 January 2016	–	232	256	813	478	339	841	2,959
Total (losses)/gains recognised in income statement	–	(87)	4	(268)	44	(64)	(198)	(569)
Net trading income	–	(87)	4	(268)	44	–	–	(307)
Other operating income	–	–	–	–	–	–	(7)	(7)
Impairment charge	–	–	–	–	–	(64)	(191)	(255)
Total (losses)/gains recognised in other comprehensive income	–	–	–	–	–	(4)	1	(3)
Available-for-sale reserve	–	–	–	–	–	–	5	5
Exchange difference	–	–	–	–	–	(4)	(4)	(8)
Purchases	–	–	73	300	32	104	121	630
Sales	–	(6)	(197)	(60)	(13)	(50)	(36)	(362)
Settlements	–	(67)	(10)	–	(54)	(23)	–	(154)
Transfers out[1]	–	(100)	(122)	–	(127)	(120)	(180)	(649)
Transfers in[2]	–	207	–	210	–	17	–	434
At 31 December 2016	–	179	4	995	360	199	549	2,286
Total unrealised (losses)/gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 31 December 2016	–	(87)	5	(258)	24	–	–	(316)
Total unrealised losses recognised in the income statement, within impairment charges at 31 December 2016	–	–	–	–	–	(64)	(191)	(255)

1 Transfers out during the year primarily relate to loans and advances, debt securities and other eligible bills, derivative financial instruments and equity shares where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2 financial assets

2 Transfers in during the year primarily relate to loans and advances, equity shares and debt securities and other eligible bills where the valuation parameters become unobservable during the year

Level 3 movement tables – financial liabilities

	2017				
	Deposits by banks $million	**Customer accounts $million**	**Debt securities in issue $million**	**Derivative financial instruments $million**	**Total $million**
At 1 January 2017	**–**	**–**	**530**	**316**	**846**
Total gains recognised in income statement – net trading income	**–**	**–**	**(9)**	**(24)**	**(33)**
Issues	**79**	**–**	**274**	**1**	**354**
Settlements	**(10)**	**–**	**(353)**	**(266)**	**(629)**
Transfers out[1]	**–**	**–**	**–**	**(2)**	**(2)**
At 31 December 2017	**69**	**–**	**442**	**25**	**536**
Total unrealised gains recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 31 December 2017	**–**	**–**	**–**	**(17)**	**(17)**

1 Transfers out during the year primarily relate to derivative financial instruments where the valuation parameters became observable during the year and were transferred to Level 2 financial liabilities

13. Financial instruments continued

Level 3 movement tables – financial liabilities continued

	2016				
	Deposits by banks $million	Customer accounts $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million
At 1 January 2016	–	1	495	319	815
Total losses recognised in income statement – net trading income	–	–	1	31	32
Issues	–	–	268	78	346
Settlements	–	–	(237)	(74)	(311)
Transfers out[1]	–	(1)	–	(38)	(39)
Transfers in[2]	–	–	3	–	3
At 31 December 2016	–	–	530	316	846
Total unrealised losses recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 31 December 2016	–	–	5	39	44

1 Transfers out during the year primarily relate to customer accounts and derivative financial instruments where the valuation parameters became observable during the year and were transferred to Level 2 financial liabilities

2 Transfers in during the year primarily relate to debt securities in issue for which parameters became unobservable during the year

Sensitivities in respect of the fair values of Level 3 assets and liabilities

Sensitivity analysis is performed on products with significant unobservable inputs. The Group applies a 10 per cent increase or decrease on the values of these unobservable inputs, to generate a range of reasonably possible alternative valuations. The percentage shift is determined by statistical analyses performed on a set of reference prices based on the composition of our Level 3 assets. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This Level 3 sensitivity analysis assumes a one-way market move and does not consider offsets for hedges.

	Held at fair value through profit or loss			**Available-for-sale**		
	Net exposure $million	**Favourable changes $million**	**Unfavourable changes $million**	**Net exposure $million**	**Favourable changes $million**	**Unfavourable changes $million**
Financial instruments held at fair value						
Debt securities and other eligible bills	**51**	**56**	**46**	**404**	**415**	**393**
Equity shares	**726**	**799**	**653**	**520**	**572**	**468**
Loan and advances	**197**	**201**	**194**	**–**	**–**	**–**
Derivative financial instruments	**15**	**17**	**12**	**–**	**–**	**–**
Deposits by banks	**(69)**	**(68)**	**(70)**	**–**	**–**	**–**
Debt securities in issue	**(442)**	**(434)**	**(450)**	**–**	**–**	**–**
At 31 December 2017	**478**	**571**	**385**	**924**	**987**	**861**

Financial instruments held at fair value						
Debt securities and other eligible bills	4	4	4	199	200	198
Equity shares	995	1,095	896	549	604	494
Loan and advances	179	187	171	–	–	–
Derivative financial instruments	44	158	25	–	–	–
Debt securities in issue	(530)	(521)	(539)	–	–	–
At 31 December 2016	692	923	557	748	804	692

The reasonably possible alternatives could have increased or decreased the fair values of financial instruments held at fair value through profit or loss and those classified as available-for-sale by the amounts disclosed below.

Financial instruments	Fair value changes	**2017 $million**	2016 $million
Held at fair value through profit or loss	Possible increase	**93**	231
	Possible decrease	**(93)**	(135)
Available-for-sale	Possible increase	**63**	56
	Possible decrease	**(63)**	(56)

14. Derivative financial instruments

Accounting policy

Accounting for derivatives: Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

Derivatives are initially recognised and subsequently measured at fair value, with revaluation gains recognised in profit and loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond held, are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives.

Hedge accounting: The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge)

b) Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge)

c) Hedges of the net investment of a foreign operation (net investment hedges)

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group may enter into economic hedges that do not qualify for IAS 39 hedge accounting treatment. Where these economic hedges use derivatives to offset risk, the derivatives are fair valued, with fair value changes recognised through profit or loss.

Fair value hedge: Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity or derecognition.

Cash flow hedge: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge: Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is disposed of.

14. Derivative financial instruments continued

The tables below analyse the notional principal amounts and the positive and negative fair values of derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

	2017			2016		
Derivatives	**Notional principal amounts $million**	**Assets $million**	**Liabilities $million**	Notional principal amounts $million	Assets $million	Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	**1,825,488**	**18,905**	**19,702**	1,896,056	24,872	24,475
Currency swaps and options	**1,211,332**	**16,850**	**16,537**	1,288,908	29,210	29,648
Exchange traded futures and options	**100**	**–**	**–**	225	–	–
	3,036,920	**35,755**	**36,239**	3,185,189	54,082	54,123
Interest rate derivative contracts:						
Swaps	**2,831,025**	**8,603**	**8,414**	2,191,851	8,425	8,409
Forward rate agreements and options	**153,697**	**1,351**	**1,364**	114,988	1,305	1,404
Exchange traded futures and options	**637,883**	**120**	**100**	789,901	148	148
	3,622,605	**10,074**	**9,878**	3,096,740	9,878	9,961
Credit derivative contracts	**34,772**	**249**	**873**	25,101	171	472
Equity and stock index options	**2,520**	**39**	**150**	2,535	52	58
Commodity derivative contracts	**74,133**	**914**	**961**	80,921	1,326	1,098
Total derivatives	**6,770,950**	**47,031**	**48,101**	6,390,486	65,509	65,712

The Group limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business. Details of the amounts available for offset are set out in note 13 (pages 232 to 233).

The Derivatives and Hedging sections of the Risk review and Capital review (page 141) explain the Group's risk management of derivative contracts and application of hedging.

Derivatives held for hedging

Included in the table above are derivatives held for hedging purposes as follows:

	2017			2016		
	Notional principal amounts $million	**Assets $million**	**Liabilities $million**	Notional principal amounts $million	Assets $million	Liabilities $million
Derivatives designated as fair value hedges:						
Interest rate swaps	**45,420**	**456**	**272**	48,565	972	303
Forward foreign exchange contracts	**–**	**–**	**–**	419	12	15
Currency swaps	**19,973**	**174**	**899**	21,495	37	2,377
	65,393	**630**	**1,171**	70,479	1,021	2,695
Derivatives designated as cash flow hedges:						
Interest rate swaps	**13,348**	**43**	**48**	10,236	3	84
Forward foreign exchange contracts	**356**	**2**	**29**	883	–	13
Currency swaps	**2,987**	**23**	**107**	1,258	1	3
	16,691	**68**	**184**	12,377	4	100
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	**3,470**	**–**	**188**	1,313	51	–
Total derivatives held for hedging	**85,554**	**698**	**1,543**	84,169	1,076	2,795

14. Derivative financial instruments continued

Fair value hedges

The Group uses interest rate swaps to exchange fixed rates for floating rates on funding to match floating rates received on assets, or exchange fixed rates on assets to match floating rates paid on funding.

For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit or loss. All qualifying hedges were effective. Included in net losses and net gains below is an adjustment in respect of hedge ineffectiveness.

	2017 $million	2016 $million
Net losses on hedging instruments	**(154)**	(77)
Net gains on hedged items[1]	**81**	57

1 Includes amortisation of fair value adjustments in respect of hedges no longer qualifying for hedge accounting

Cash flow hedges

The Group uses interest rate swaps to manage the variability in future cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts and currency swaps to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies.

Gains and losses arising on the effective portion of the hedges are deferred in equity until the variability on the cash flow affects profit or loss, at which time the gains or losses are transferred to profit or loss.

	2017 $million	2016 $million
Losses reclassified from reserves to income statement	**(11)**	(57)
Losses recognised in operating costs	**(4)**	(67)
Gains/(losses) recognised in other comprehensive income	**35**	10

The Group has hedged the following cash flows which are expected to impact the income statement in the following years:

	2017						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	**122**	**40**	**30**	**22**	**8**	**–**	**222**
Forecast payable cash flows	**(97)**	**(83)**	**(51)**	**(49)**	**(48)**	**(134)**	**(462)**
	25	**(43)**	**(21)**	**(27)**	**(40)**	**(134)**	**(240)**

	2016						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	68	48	50	35	23	8	232
Forecast payable cash flows	(20)	(9)	(28)	(1)	–	–	(58)
	48	39	22	34	23	8	174

Net investment hedges

The Group uses a combination of foreign exchange contracts and non-derivative financial assets to manage the variability in future exchange rates on its net investments in foreign currencies. Gains and losses arising on the effective portion of the hedges are deferred in equity until the net investment is disposed of.

	2017 $million	2016 $million
(Losses)/gains recognised in other comprehensive income	**(288)**	30

15. Investment securities

Accounting policy

Investment securities are debt securities, other eligible bills and equity shares intended to be held on a continuing basis. The securities are predominantly classified as available for sale. Refer to note 13 Financial instruments for the accounting policy.

Change in comparatives

Treasury bills are now included within other debt securities, prior year comparatives have been updated to reflect this change.

	2017				
	Debt securities and other eligible bills				
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares[1] $million	Total $million
Issued by public bodies:					
Government securities	4,340	72,843	–		
Other public sector securities	–	2,720	274		
	4,340	75,563	274		
Issued by banks:					
Certificates of deposit	–	4,236	–		
Other debt securities	–	18,734	63		
	–	22,970	63		
Issued by corporate entities and other issuers:					
Other debt securities	–	10,628	2,293		
Total debt securities and other eligible bills	4,340	109,161	2,630		
Of which:					
Listed on a recognised UK exchange	–	6,849	23[2]	4	6,876
Listed elsewhere	4,271	49,276	549[2]	383	54,479
Unlisted	69	53,036	2,058	507	55,670
	4,340	109,161	2,630	894	117,025
Market value of listed securities	4,271	56,125	572	387	61,355

	2016				
	Debt securities and other eligible bills				
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares[1] $million	Total $million
Issued by public bodies:					
Government securities	163	65,416	10		
Other public sector securities	–	1,705	222		
	163	67,121	232		
Issued by banks:					
Certificates of deposit	–	5,764	–		
Other debt securities	–	21,748	79		
	–	27,512	79		
Issued by corporate entities and other issuers:					
Other debt securities	7	9,675	2,795		
Total debt securities and other eligible bills	170	104,308	3,106		
Of which:					
Listed on a recognised UK exchange	–	9,475	108[2]	3	9,586
Listed elsewhere	7	48,350	596[2]	741	49,694
Unlisted	163	46,483	2,402	644	49,692
	170	104,308	3,106	1,388	108,972
Market value of listed securities	7	57,825	704	744	59,280

1 Equity shares largely comprise investments in corporates

2 These debt securities listed or registered on a recognised UK exchange or elsewhere are thinly traded or the markets for these securities are illiquid

15. Investment securities continued

The change in the carrying amount of investment securities comprised:

	2017			2016		
	Debt securities and other eligible bills $million	**Equity shares $million**	**Total $million**	Debt securities and other eligible bills $million	Equity shares $million	Total $million
At 1 January	**107,584**	**1,388**	**108,972**	113,047	1,720	114,767
Exchange translation differences	**3,463**	**17**	**3,480**	(2,261)	(30)	(2,291)
Additions	**265,126**	**60**	**265,186**	207,081	193	207,274
Maturities and disposals	**(260,271)**	**(814)**	**(261,085)**	(210,540)	(284)	(210,824)
Transfers to assets held for sale	**(60)**	**–**	**(60)**	–	–	–
Impairment, net of recoveries on disposal	**(20)**	**(16)**	**(36)**	(151)	(246)	(397)
Changes in fair value (including the effect of fair value hedging)	**17**	**259**	**276**	143	35	178
Amortisation of discounts and premiums	**292**	**–**	**292**	265	–	265
At 31 December	**116,131**	**894**	**117,025**	107,584	1,388	108,972

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

	2017 $million	2016 $million
Debt securities:		
Unamortised premiums	**765**	462
Unamortised discounts	**104**	139
Income from listed equity shares	**36**	38
Income from unlisted equity shares	**10**	14

The following table sets out the movement in the allowance of impairment provisions for investment securities classified as loans and receivables:

	2017 $million	2016 $million
At 1 January	**144**	57
Exchange translation differences	**(3)**	(3)
Amounts written off	**(47)**	(7)
Impairment charge	**20**	97
At 31 December	**114**	144

16. Loans and advances to banks and customers

Accounting policy

Refer to note 13 Financial instruments for the relevant accounting policy.

	2017 $million	2016 $million
Loans and advances to banks	**78,193**	72,773
Individual impairment provision	**(4)**	(163)
Portfolio impairment provision	**(1)**	(1)
	78,188	72,609
Loans and advances to customers	**287,990**	259,073
Individual impairment provision	**(5,237)**	(5,667)
Portfolio impairment provision	**(465)**	(687)
	282,288[1]	252,719
Total loans and advances to banks and customers	**360,476**	325,328

1 Loans and advances to customers (net of provision) totalling $2 million (2016: $1,101 million) have been classified and disclosed as held for sale in note 21

The Group has outstanding residential mortgage loans to Korea residents of $18.5 billion (2016: $15.3 billion) and Hong Kong residents of $28.3 billion (2016: $28.7 billion).

Analysis of loans and advances to customers by geographic region and client segments and related impairment provisions as set out within the Risk review and Capital review (pages 125 to 143).

17. Reverse repurchase and repurchase agreements including other similar secured lending and borrowing

Accounting policy

The Group purchases securities (a reverse repurchase agreement – 'reverse repo') typically with financial institutions subject to a commitment to resell or return the securities at a predetermined price. These securities are not included in the balance sheet as the Group does not acquire the risks and rewards of ownership, however are recorded off balance sheet as collateral received. Consideration paid (or cash collateral provided) is accounted for as a loan asset at amortised cost, unless it is designated at fair value through profit or loss.

The Group also sells securities (a repurchase agreement – 'repo') subject to a commitment to repurchase or redeem the securities at a predetermined price. The securities are retained on the balance sheet as the Group retains substantially all the risks and rewards of ownership and these securities are disclosed as pledged collateral. Consideration received (or cash collateral received) is accounted for as a financial liability at amortised cost, unless it is designated at fair value through profit or loss.

Repo and reverse repo transactions typically entitle the Group and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos, either by way of a Global Master Repurchase Agreement (GMRA), or through a securities sale and Total Return Swap (TRS) continue to be recognised on the balance sheet as the Group retains substantially the associated risks and rewards of the securities (the TRS is not recognised). The counterparty liability is included in deposits by banks or customer accounts, as appropriate. Assets sold under repurchase agreements are considered encumbered as the group cannot pledge these to obtain funding.

Reverse repurchase agreements and other similar secured lending[1]

	2017 $million	2016 $million
Banks	**21,259**	18,569
Customers	**33,928**	26,347
	55,187	44,916
Of which:		
Fair value through profit or loss	**912**	819
Banks	**565**	497
Customers	**347**	322
Held at amortised cost	**54,275**	44,097
Banks	**20,694**	18,071
Customers	**33,581**	26,026

1 Includes other similar secured lending

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	2017 $million	2016 $million
Securities and collateral received (at fair value)	**75,088**	55,394
Securities and collateral which can be repledged or sold (at fair value)	**72,982**	54,473
Amounts repledged/transferred to others for financing activities, to satisfy liabilities under sale and repurchase agreements (at fair value)	**34,018**	33,053

Repurchase agreements and other similar secured borrowing held at amortised cost

	2017 $million	2016 $million
Banks	**3,804**	4,022
Customers	**35,979**	33,670
	39,783	37,692

The tables below set out the financial assets provided as collateral for repurchase and other secured borrowing transactions:

	2017			
Collateral pledged against repurchase agreements	**Fair value through profit or loss $million**	**Available for sale $million**	**Loans and receivables $million**	**Total $million**
On balance sheet				
Debt securities and other eligible bills	**2,178**	**3,618**	**–**	**5,796**
Off balance sheet				
Repledged collateral received	**–**	**–**	**34,018**	**34,018**
At 31 December 2017	**2,178**	**3,618**	**34,018**	**39,814**

17. Reverse repurchase and repurchase agreements including other similar secured lending and borrowing continued

Repurchase agreements and other similar secured borrowing continued

	2016			
Collateral pledged against repurchase agreements	Fair value through profit or loss $million	Available for sale $million	Loans and receivables $million	Total $million
On balance sheet				
Debt securities and other eligible bills	1,094	3,686	–	4,780
Off balance sheet				
Repledged collateral received	–	–	33,053	33,053
At 31 December 2016	1,094	3,686	33,053	37,833

18. Goodwill and intangible assets

Accounting policy

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill included in intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units (CGUs) and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement. Goodwill is allocated to CGUs for the purpose of impairment testing. CGUs represent the lowest level within the Group which generate separate cash inflows and at which the goodwill is monitored for internal management purposes. These are equal to or smaller than the Group's reportable segments (as set out in note 2) as the Group views its reportable segments on a global basis. The major CGUs to which goodwill has been allocated are set out in the CGU table (page 253).

Significant accounting estimates and judgements

The carrying amount of goodwill is based on the extent of judgements including the basis of assumptions and forecasts used for determining cash flows for CGUs, headroom availability, and sensitivities of the forecasts to reasonably possible changes in assumptions. The Group undertakes an annual assessment to evaluate whether the carrying value of goodwill on balance sheet is impaired. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgement and subject to potential change over time.

Acquired intangibles

At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and which arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (4 to 16 years). At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Direct costs of the development of separately identifiable internally generated software are capitalised where it is probable that future economic benefits attributable to the asset will flow from its use (internally generated software). These costs include salaries and wages, materials, service providers and contractors, and directly attributable overheads. Costs incurred in the ongoing maintenance of software are expensed immediately when incurred. Internally generated software is amortised over a three-year time period.

18. Goodwill and intangible assets continued

	2017				2016			
	Goodwill $million	**Acquired intangibles $million**	**Computer software $million**	**Total $million**	Goodwill $million	Acquired intangibles $million	Computer software $million	Total $million
Cost								
At 1 January	**3,456**	**505**	**1,881**	**5,842**	3,616	494	1,551	5,661
Exchange translation differences	**85**	**38**	**152**	**275**	6	(1)	(55)	(50)
Additions	**31**	**44**	**704**	**779**	–	24	567	591
Disposals	**–**	**–**	**(2)**	**(2)**	–	–	(1)	(1)
Impairment	**(320)**	**–**	**–**	**(320)**	(166)	–	–	(166)
Amounts written off	**–**	**(9)**	**(206)**	**(215)**	–	(12)	(181)	(193)
At 31 December	**3,252**	**578**	**2,529**	**6,359**	3,456	505	1,881	5,842
Provision for amortisation								
At 1 January	**–**	**431**	**692**	**1,123**	–	430	589	1,019
Exchange translation differences	**–**	**35**	**42**	**77**	–	(1)	(15)	(16)
Amortisation	**–**	**11**	**320**	**331**	–	14	272	286
Impairment charge	**–**	**2**	**21**	**23**	–	–	14	14
Disposals	**–**	**–**	**(2)**	**(2)**	–	–	(1)	(1)
Amounts written off	**–**	**(9)**	**(197)**	**(206)**	–	(12)	(167)	(179)
At 31 December	**–**	**470**	**876**	**1,346**	–	431	692	1,123
Net book value	**3,252**	**108**	**1,653**	**5,013**	3,456	74	1,189	4,719

At 31 December 2017, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $2,801 million (2016: $2,481 million), of which $320 million was recognised in 2017 (2016: $166 million).

Goodwill

CGU structure

In 2017, the Group realigned its CGUs in line with its management structure and goodwill has been reallocated accordingly. When considering the generation of independent cash inflows and appropriate level of management, Corporate Finance, Private Banking and Transaction Banking are managed on a global basis, while Retail Banking and Commercial Banking activities are managed on a country basis. Comparatives have been amended to reflect the new structure of the CGUs.

Testing of goodwill for impairment

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. Indicators of impairment include changes in the economic performance and outlook of the region including geopolitical changes, changes in market value of regional investments, large credit defaults and strategic decisions to exit certain regions. The recoverable amounts for all the CGUs were measured based on value-in-use (ViU). The calculation of ViU for each CGU is calculated using five-year cash flow projections and an estimated terminal value based on a perpetuity value after year five. The cash flow projections are based on forecasts approved by management up to 2022. The perpetuity terminal value amount is calculated using year five cash flows using long-term GDP growth rates. All cash flows are discounted using pre-tax discount rates which reflect market rates appropriate to the CGU.

At 31 December 2017, all CGUs had recoverable amounts that exceed the carrying amounts, with the exception of the Taiwan CGU, where, primarily as a result of a one per cent increase in the discount rate, the carrying amount exceeded the recoverable value and therefore an impairment charge of $320 million has been recognised. The goodwill allocated to each CGU and key assumptions used in determining the recoverable amounts are set out below and are solely estimates for the purposes of assessing impairment of acquired goodwill.

18. Goodwill and intangible assets continued

Goodwill continued

Cash Generating Unit	2017 Goodwill $million	2017 Pre-tax discount rate per cent	2017 Long-term forecast GDP growth rates per cent	2016[1] Goodwill $million	2016[1] Pre-tax discount rate per cent	2016[1] Long-term forecast GDP growth rates per cent
Regional CGUs						
Greater China & North Asia	**913**			1,165		
Hong Kong	**357**	**14.9**	**3.0**	357	12.1	2.8
Taiwan	**556**	**13.9**	**2.1**	808	12.8	2.2
Africa & Middle East	**569**			583		
Pakistan	**242**	**21.3**	**5.8**	256	23.8	5.3
UAE	**204**	**10.8**	**3.2**	204	10.9	3.2
Others (5)[2]	**123**	**11.5-19.6**	**2.0-6.1**	123	11.7-20.5	1.9-5.9
ASEAN & South Asia	**790**			728		
India	**289**	**18.9**	**7.9**	270	17.0	7.8
Singapore	**343**	**11.8**	**2.6**	327	10.1	2.6
Others (6)[3]	**158**	**15.2-19.0**	**4.0-7.0**	131	15.0-20.1	3.9-8.2
Global CGUs	**980**			980		
Global Private Banking	**84**	**10.2**	**3.7**	84	13.5	2.9
Global Corporate Finance	**219**	**10.3**	**3.7**	219	13.4	2.9
Global Transaction Banking	**677**	**10.3**	**3.7**	677	13.4	2.9
	3,252			3,456		

1 CGUs reported in 2016 have been re-presented to align with the Group's management structure

2 Bahrain, Ghana, Jordan, Oman and Qatar

3 Bangladesh, Brunei, Indonesia, Nepal, Sri Lanka and Vietnam

The Group has performed sensitivity analysis on the key assumptions for each CGU's recoverable amount. The key CGUs at risk of future impairment as a result of potentially adverse movements are:

	2017 Decrease in cash flow by 10% $million	2017 Increase in discount rate by 1% $million	2017 Decrease in GDP growth rate by 1% $million
Taiwan	**138**	**135**	**92**
India	**77**	**162**	**96**

The headroom of $150 million relating to the India CGU would be eliminated if there was either a 6.5 per cent decrease in cash flows, a 0.5 per cent increase in the discount rate or a 0.6 per cent decrease in GDP.

Acquired intangibles

These primarily comprise those items recognised as part of the acquisitions of Union Bank (now amalgamated into Standard Chartered Bank (Pakistan) Limited), Hsinchu (now amalgamated into Standard Chartered Bank (Taiwan) Limited), Pembroke, American Express Bank and ABSA's custody business in Africa. Maintenance intangible assets represent the value in the difference between the contractual right under acquired leases to receive aircraft in a specified maintenance condition at the end of the lease and the actual physical condition of the aircraft at the date of acquisition.

The acquired intangibles are amortised over periods from four years to a maximum of 16 years. The constituents are as follows:

	2017 $million	2016 $million
Acquired intangibles comprise:		
Aircraft maintenance	**24**	24
Brand names	**31**	–
Core deposits	**2**	3
Customer relationships	**32**	39
Licences	**19**	8
Net book value	**108**	74

19. Property, plant and equipment

Accounting policy

All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

At each balance sheet date the assets' residual values and useful lives are reviewed, and adjusted if appropriate, including assessing for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down to the recoverable amount. Gains and losses on disposals are included in the income statement.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and buildings comprise mainly branches and offices. Freehold land is not depreciated although it is subject to impairment testing.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings — up to 50 years
- Leasehold improvements life of lease — up to 50 years
- Equipment and motor vehicles — three to 15 years
- Aircraft — up to 18 years
- Ships — up to 15 years

Where the Group is a lessee under finance leases, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in Other liabilities. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

	2017				2016			
	Premises $million	**Equipment $million**	**Operating lease assets $million**	**Total $million**	Premises $million	Equipment $million	Operating lease assets $million	Total $million
Cost or valuation								
At 1 January	**2,117**	**699**	**6,982**	**9,798**	2,156	735	6,527	9,418
Exchange translation differences	**119**	**31**	**2**	**152**	(62)	(28)	–	(90)
Additions	**61**	**104**	**1,603**	**1,768**	79	116	1,016	1,211
Disposals and fully depreciated assets written off	**(75)**	**(66)**	**(1,587)**	**(1,728)**	(38)	(123)	(561)	(722)
Transfers to assets held for sale	**(6)**	**(1)**	**–**	**(7)**	(18)	(1)	–	(19)
As at 31 December	**2,216**	**767**	**7,000**	**9,983**	2,117	699	6,982	9,798
Depreciation								
Accumulated at 1 January	**713**	**474**	**1,359**	**2,546**	668	528	1,013	2,209
Exchange translation differences	**27**	**21**	**1**	**49**	(19)	(17)	–	(36)
Charge for the year	**85**	**85**	**328**	**498**	98	84	271	453
Impairment (release)/charge	**(8)**	**–**	**145**	**137**	–	–	131	131
Attributable to assets sold, transferred or written off	**(58)**	**(65)**	**(327)**	**(450)**	(28)	(120)	(56)	(204)
Transfers to assets held for sale	**(6)**	**(2)**	**–**	**(8)**	(6)	(1)	–	(7)
Accumulated at 31 December	**753**	**513**	**1,506**	**2,772**	713	474	1,359	2,546
Net book amount at 31 December	**1,463**	**254**	**5,494**	**7,211**	1,404	225	5,623	7,252

During the year, an impairment charge of $145 million (2016: $131 million) was recognised in respect of aircraft and ships held as operating lease assets, as the ViU or current market value (CMV) of the assets was lower than the net book value.

19. Property, plant and equipment continued

Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft and ships which are included within property, plant and equipment. At 31 December 2017, these assets had a net book value of $5,494 million (2016: $5,623 million).

	2017 Minimum lease receivables under operating leases falling due: $million	2016 Minimum lease receivables under operating leases falling due: $million
Within one year	**564**	611
Later than one year and not later than five years	**1,881**	2,186
After five years	**1,228**	1,182
	3,673	3,979

20. Operating lease commitments

Accounting policy

The leases entered into by the Group are primarily operating leases. An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor. The Group leases various premises under non-cancellable lease arrangements. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

If an operating lease contains a reinstatement clause, a provision will be raised for the best estimate of the expenses to be incurred at the end of the lease to reinstate the property to its original condition. This cost is amortised over the life of the lease.

	2017		2016	
	Premises $million	**Equipment $million**	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	**255**	**2**	258	1
Later than one year and not later than five years	**603**	**3**	623	1
After five years	**189**	**–**	245	–
	1,047	**5**	1,126	2

During the year $340 million (2016: $400 million) was recognised as an expense in the income statement in respect of operating leases. The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2017 is $9 million (2016: $96 million).

21. Other assets

Accounting policy

Financial instruments can be reclassified as held for sale if they are non-current assets or if they are part of a disposal group; however, the measurement provisions for the financial instruments remain governed by the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*. Refer to note 13 Financial instruments for the relevant accounting policy.

Commodities represent physical holdings where the Group has title and exposure to the market risk associated with the holding. Commodities are fair valued with the fair value derived from observable spot or short-term futures prices from relevant exchanges.

	2017 $million	2016 $million
Financial assets held at amortised cost (note 13):		
Hong Kong SAR Government certificates of indebtedness (note 23)[1]	**5,417**	5,444
Cash collateral	**9,513**	14,230
Acceptances and endorsements	**5,096**	4,479
Unsettled trades and other financial assets	**9,896**	9,789
	29,922	33,942
Non-financial assets:		
Commodities[2]	**3,263**	2,719
Other assets	**305**	279
	33,490	36,940

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

2 Commodities are carried at fair value and classified as Level 2

Assets held for sale

Non-current assets (such as property) and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when:

a) their carrying amounts will be recovered principally through sale

b) they are available-for-sale in their present condition

c) their sale is highly probable

Immediately before the initial classification as held for sale, the carrying amounts of the assets (or assets and liabilities in the disposal group) are measured in accordance with the applicable accounting policies related to the asset or liability before reclassification as held for sale.

The assets below have been presented as held for sale following the approval of Group management and the transactions are expected to complete in 2018.

Assets held for sale	2017 $million	2016 $million
Non-current assets		
Loans and advances to customers	**2**	–
Financial assets held at fair value through profit or loss	**466**	–
Debt securities held at amortised cost	**60**	–
Interests in associates	**–**	131
Others	**17**	12
	545	143
Disposal group		
Cash and balances at central banks	**–**	1
Loans and advances to customers	**–**	1,101
Prepayments and accrued income	**–**	9
	545	1,254

Assets held for sale include disposal groups and non-current assets as follows:

- Principal Finance assets of $280 million, classified in Financial assets held at fair value through profit or loss ($216 million), Debt securities ($60 million) and Others ($4 million), expected to be completed in 2018
- Asia Commercial Bank assets of $250 million classified as Financial assets held at fair value through profit or loss (sale completed in 2018, classified as an interest in associate in 2016, and reclassified after loss of significant influence in 2017)
- The disposal group disclosed in 2016 consisted of the Retail Banking Business of Standard Chartered Bank (Thai) Public Company Limited, the sale of which was completed in 2017

The assets reported above are in Level 3 except for Debt securities held at amortised cost and loans and advances to customers which are classified as Level 2.

22. Debt securities in issue

Accounting policy

Refer to note 13 Financial instruments for the relevant accounting policy.

	2017			2016		
	Certificates of deposit of $100,000 or more $million	**Other debt securities in issue $million**	**Total $million**	Certificates of deposit of $100,000 or more $million	Other debt securities in issue $million	Total $million
Debt securities in issue	**20,460**	**25,919**	**46,379**	15,020	31,680	46,700
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 13)	**117**	**6,906**	**7,023**	35	5,635	5,670
Total debt securities in issue	**20,577**	**32,825**	**53,402**	15,055	37,315	52,370

In 2017, the Company issued a total of $1.5 billion senior notes for general business purposes of the Group as shown below:

Securities	**$million**
€750 million callable fixed rate senior notes due 2023	**901**
€500 million callable fixed rate senior notes due 2027	**600**

23. Other liabilities

Accounting policy

Refer to note 13 Financial instruments for the relevant accounting policy.

	2017 $million	2016 $million
Financial liabilities held at amortised cost (note 13)		
Notes in circulation[1]	**5,417**	5,444
Acceptances and endorsements	**5,096**	4,479
Cash collateral	**9,825**	9,624
Unsettled trades and other financial liabilities	**14,644**	13,411
	34,982	32,958
Non-financial liabilities		
Cash-settled share-based payments	**39**	26
Other liabilities	**236**	162
	35,257	33,146

1 Hong Kong currency notes in circulation of $5,417 million (2016: $5,444 million) that are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 21)

Liabilities included in disposal group held for sale[1]	**2017 $million**	2016 $million
Customer accounts	**–**	958
Other liabilities	**–**	1
Accruals and deferred income	**–**	6
	–	965

1 Liabilities included in disposal group held for sale are classified within Level 2 of the fair value hierarchy. The disposal group disclosed in 2016 consisted of the Retail Banking Business of Standard Chartered Bank (Thai) Public Company Limited, the sale of which was completed in 2017

24. Provisions for liabilities and charges

Accounting policy

The Group recognises a provision for a present legal or constructive obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably. Where a liability arises based on participation in a market at a specified date, the obligation is recognised in the financial statements on that date and is not accrued over the period.

Significant accounting estimates and judgements

The recognition and measurement of provisions for liabilities and charges requires significant judgement and the use of estimates about uncertain future conditions or events. Determining the best estimate of the probability of outflow of economic resources, cost of settling a provision and timing of settlement, requires significant judgement by management. These areas are inherently uncertain such as legal decisions, outcome of regulator reviews and anticipated cost of redress.

	2017			2016		
	Provision for credit commitments $million	**Other provisions $million**	**Total $million**	Provision for credit commitments $million	Other provisions $million	Total $million
At 1 January	**109**	**104**	**213**	100	115	215
Exchange translation differences	**(2)**	**1**	**(1)**	(2)	(2)	(4)
(Release)/charge against profit	**(23)**	**83**	**60**	45	37	82
Provisions utilised	**(1)**	**(88)**	**(89)**	(34)	(46)	(80)
At 31 December	**83**	**100**	**183**	109	104	213

Provision for credit commitment comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations.

Other provisions consists mainly of provisions for regulatory settlements and legal claims, the nature of which are described in note 26.

25. Contingent liabilities and commitments

Accounting policy

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

Where the Group undertakes to make a payment on behalf of its customers for guarantees issued such as for performance bonds or as irrevocable letters of credit as part of the Group's Transaction Banking business for which an obligation to make a payment has not arisen at the reporting date those are included in these financial statements as contingent liabilities.

Other contingent liabilities primarily include revocable letters of credit and bonds issued on behalf of customers to customs officials, for bids or offers and as shipping guarantees.

Commitments are where the Group has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees whether cancellable or not or letters of credit and the Group has not made payments at the balance sheet date, those instruments are included in these financial statement as commitments.

Capital commitments are contractual commitments the Group has entered into to purchase non-financial assets.

25. Contingent liabilities and commitments continued

The table below shows the contract or underlying principal amounts and risk-weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

	2017 $million	2016 $million
Contingent liabilities		
Guarantees and irrevocable letters of credit	**37,311**	32,286[1]
Other contingent liabilities	**6,210**	6,016[1]
	43,521	38,302[1]
Commitments		
Documentary credits and short-term trade-related transactions	**3,880**	4,120
Forward asset purchases and forward deposits placed	**–**	6
Undrawn formal standby facilities, credit lines and other commitments to lend		
One year and over	**43,730**	38,108
Less than one year	**20,160**	17,547
Unconditionally cancellable	**113,584**	118,330
	181,354	178,111
Capital commitments		
Contracted capital expenditure approved by the directors but not provided for in these accounts	**468**	1,736

1 Total contingent liabilities of the Group have been restated from $37.4 billion to $38.3 billion (increase of $0.9 billion). Guarantees and irrevocable letters of credit have been restated from $33.6 billion to $32.3 billion (reduction of $1.3 billion), and other contingent liabilities have been restated from $3.8 billion to $6.0 billion (offsetting increase of $2.2 billion)

The Group's share of contingent liabilities and commitments relating to joint ventures is $0.2 billion (31 December 2016: $0.2 billion).

The Group has committed to purchase 10 aircraft for delivery in 2018. The total purchase commitment for these orders is $458 million. Pre-delivery payments of $88.5 million have been made to date in respect of these aircraft.

As set out in note 26, the Group has contingent liabilities in respect of certain legal and regulatory matters for which it is not practicable to estimate the financial impact as there are many factors that may affect the range of possible outcomes.

26. Legal and regulatory matters

Accounting policy

Where appropriate, the Group recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. The uncertainties inherent in legal and regulatory matters affect the amount and timing of any potential outflows with respect to which provisions have been established.

Claims and other proceedings

The Group receives legal claims against it in a number of jurisdictions and is a party to regulatory proceedings arising in the normal course of business.

Apart from the matters described below, the Group currently considers none of these claims or proceedings to be material.

2012 Settlements with certain US authorities

In 2012, the Group reached settlements with certain US authorities regarding US sanctions compliance in the period 2001 to 2007, involving a Consent Order by the New York Department of Financial Services (NYDFS), a Cease and Desist Order by the Board of Governors of the Federal Reserve System (Fed), Deferred Prosecution Agreements (DPAs) with each of the Department of Justice (DOJ) and the New York County District Attorney's Office (DANY) and a Settlement Agreement with the Office of Foreign Assets Control (together, the 'Settlements' and together the foregoing authorities, the 'US authorities'). In addition to the civil penalties totalling $667 million, the terms of these Settlements include a number of conditions and ongoing obligations with regard to improving sanctions, Anti-Money Laundering (AML) and Bank Secrecy Act (BSA) controls such as remediation programmes, reporting requirements, compliance reviews and programmes, banking transparency requirements, training measures, audit programmes, disclosure obligations and, in connection with the NYDFS Consent Order, the appointment of an independent monitor (Monitor). These obligations are managed under a programme of work referred to as the US Supervisory Remediation Program (SRP). The SRP comprises work streams designed to ensure compliance with the remediation requirements contained in all of the Settlements and the Group is engaged with all relevant authorities to implement these programmes and meet the Group's obligations under the Settlements.

On 9 December 2014, the Group announced that the DOJ, DANY and the Group had agreed to a three-year extension of the DPAs until 10 December 2017, resulting in the subsequent retention of the Monitor to evaluate and make recommendations regarding the Group's sanctions compliance programme. On 9 November 2017, the Group announced the further extension of the DPAs until 28 July 2018.

The November 2017 DPA extension agreement noted that the Group had taken a number of steps and made significant progress to comply with the requirements of the DPA and enhance its sanctions compliance programme, but that the programme had not at the time reached the standard required by the DPA. The Group is committed to ongoing cooperation with the authorities and to continuing to implement a comprehensive programme of improvements to its financial crime controls.

26. Legal and regulatory matters continued

Claims and other proceedings continued

2014 Settlement with NYDFS

On 19 August 2014, the Group announced that it had reached a final settlement with the NYDFS regarding deficiencies in the AML transaction surveillance system in its New York branch (the 'Branch'). The system, which is separate from the sanctions screening process, is one part of the Group's overall financial crime controls and is designed to alert the Branch to unusual transaction patterns that require further investigation on a post-transaction basis.

The settlement provisions are summarised as follows:

(i) A civil monetary penalty of $300 million

(ii) Enhancements to the transaction surveillance system at the Branch

(iii) A two-year extension to the term of the Monitor (which, on 21 April 2017, was further extended to operate until 31 December 2018)

(iv) A set of temporary remediation measures, which will remain in place until the transaction surveillance system's detection scenarios are operating to a standard approved by the Monitor. These temporary remediation measures include a restriction on opening, without prior approval of the NYDFS, a US dollar demand deposit account for any client that does not already have such an account with the Branch, a restriction on US dollar-clearing services for certain clients in Hong Kong and enhanced monitoring of certain high-risk clients in the UAE.

The remit of the SRP covers the management of these obligations.

Other ongoing investigations and reviews

The Group continues to cooperate with an investigation by the US authorities relating to historical violations of US sanctions laws and regulations. In contrast to the 2012 settlements, which focused on the period before the Group's 2007 decision to stop doing new business with known Iranian parties, the ongoing investigation is focused on examining the extent to which conduct and control failures permitted clients with Iranian interests to conduct transactions through Standard Chartered Bank after 2007 and the extent to which any such failures were shared with relevant US authorities in 2012.

The Group is engaged in ongoing discussions with the relevant US authorities regarding the resolution of this investigation, and such resolution may involve a range of civil and criminal penalties for sanctions compliance violations including substantial monetary penalties combined with other compliance measures such as remediation requirements and/or business restrictions.

Standard Chartered Bank is also engaged in ongoing discussions with the Financial Conduct Authority (FCA) regarding an investigation concerning its financial crime controls. The investigation is looking at the effectiveness and governance of those controls within the correspondent banking business carried out by Standard Chartered Bank's London branch, particularly in relation to the business carried on with respondent banks from outside the European Economic Area and the effectiveness and governance of those controls in one of Standard Chartered Bank's overseas branches and the oversight exercised at Group level over those controls. Any resolution of the investigation could involve a substantial monetary penalty and other civil measures available to the FCA.

As part of their remit to oversee market conduct, regulators and other agencies in certain markets are conducting investigations or requesting reviews into a number of areas of regulatory compliance and market conduct, including sales and trading, involving a range of financial products, and submissions made to set various market interest rates and other financial benchmarks, such as foreign exchange. At relevant times, certain of the Group's branches and/or subsidiaries were (and are) participants in some of those markets, in some cases submitting data to bodies that set such rates and other financial benchmarks and responding to inquiries and investigations by relevant authorities, and the Group is facing regulatory investigations and proceedings in various jurisdictions related to foreign exchange trading. There may be penalties or other financial consequences to the Group as a result. The Group is contributing to industry proposals to strengthen financial benchmarks processes in certain markets and continues to review its practices and processes in the light of the investigations, reviews and the industry proposals.

It is not practicable to estimate the financial impact of these matters as there are many factors that may affect the range of possible outcomes; however, the resulting financial impact could be substantial.

The Securities and Futures Commission (SFC) in Hong Kong has been investigating Standard Chartered Securities (Hong Kong) Limited's (SCSHK) role as a joint sponsor of an initial public offering of China Forestry Holdings Limited, which was listed on the Hong Kong Stock Exchange in 2009. The SFC is pursuing disciplinary action against SCSHK, and there may be financial consequences for SCSHK in connection with this action.

27. Subordinated liabilities and other borrowed funds

Accounting policy

Subordinated liabilities and other borrowed funds are classified as financial instruments. Refer to note 13 Financial instruments for the accounting policy.

All subordinated liabilities are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements.

	2017 $million	2016 $million
Subordinated loan capital – issued by subsidiary undertakings		
£700 million 7.75 per cent subordinated notes 2018	**956**	898
£675 million 5.375 per cent undated step up subordinated notes (callable 2020)	**327**	307
£200 million 7.75 per cent subordinated notes (callable 2022)	**221**	215
$750 million 5.875 per cent subordinated notes 2020	**768**	785
$700 million 8.0 per cent subordinated notes 2031	**426**	432
BWP 127.26 million 8.2 per cent subordinated notes 2022 (callable)	**13**	12
BWP 70 million floating rate subordinated notes 2021 (callable)	**7**	7
BWP 50 million floating rate notes 2022 (callable)	**5**	5
JPY 10 billion 3.35 per cent subordinated notes 2023 (callable 2018)	**89**	88
KRW 90 billion 6.05 per cent subordinated debt 2018	**85**	79
SGD 450 million 5.25 per cent subordinated notes 2023 (callable 2018)	**339**	318
€700 million 5.875 per cent subordinated notes 2017	**–**	766
€400 million 5.875 per cent subordinated notes 2017	**–**	431
$1 billion 6.4 per cent notes subordinated notes 2017	**–**	512
PKR 2.5 billion floating rate notes 2022 (callable)	**–**	24
	3,236	4,879
Subordinated loan capital – issued by the Company		
Primary capital floating rate notes:		
$400 million	**16**	16
$300 million (Series 2)	**69**	69
$400 million (Series 3)	**50**	50
$200 million (Series 4)	**26**	26
£150 million	**16**	15
£900 million 5.125 per cent subordinated debt 2034	**1,498**	1,307
$2 billion 5.7 per cent subordinated debt 2044	**2,395**	2,372
$2 billion 3.95 per cent subordinated debt 2023	**1,959**	1,971
$1 billion 5.7 per cent subordinated notes 2022	**1,004**	996
$1 billion 5.2 per cent subordinated debt 2024	**1,014**	1,027
$750 million 5.3 per cent subordinated debt 2043	**787**	788
$1.25 billion 4.3 per cent subordinated debt 2027	**1,144**	1,220
€1.25 billion 4 per cent subordinated debt 2025 (callable 2020)	**1,565**	1,387
€750 million 3.625 per cent subordinated notes 2022	**958**	852
€500 million 3.125 per cent subordinated debt 2024	**613**	543
SGD 700 million 4.4 per cent subordinated notes 2026 (callable 2021)	**531**	473
Other subordinated borrowings – issued by company[1]	**295**	283
$1.25 billion 4 per cent subordinated notes 2022 (callable)	**–**	1,249
	13,940	14,644
Total for Group	**17,176**	19,523

1 Other borrowings comprise irredeemable sterling preference shares (note 28). In the balance sheet of the Company the amount recognised is $58 million (2016: $221 million), with the difference being the effect of hedge accounting achieved on a Group basis

27. Subordinated liabilities and other borrowed funds continued

	2017				
	USD $million	GBP $million	EUR $million	Others $million	Total $million
Fixed rate subordinated debt	**9,497**	**3,297**	**3,136**	**1,057**	**16,987**
Floating rate subordinated debt	**161**	**16**	**–**	**12**	**189**
Total	**9,658**	**3,313**	**3,136**	**1,069**	**17,176**

	2016				
	USD[1] $million	GBP $million	EUR $million	Others $million	Total $million
Fixed rate subordinated debt	11,352	3,010	3,979	970	19,311
Floating rate subordinated debt	161	15	–	36	212
Total	11,513	3,025	3,979	1,006	19,523

1 2016 numbers have been restated moving $1.2 billion from floating rate to fixed rate subordinated debt

Redemptions during the year

On 12 July 2017, Standard Chartered PLC exercised its right to redeem its $1.25 billion 4.0 per cent callable subordinated notes in full on the first call date.

On 26 September 2017, Standard Chartered Bank redeemed:

- The remaining $512 million of its $1 billion 6.4 per cent subordinated notes on the date of maturity
- €700 million 5.875 per cent subordinated notes in full on its maturity
- €400 million 5.875 per cent subordinated notes in full on its maturity

On 28 December 2017, Standard Chartered Bank Pakistan exercised its right to redeem PKR 2.5 billion floating rate notes 2022 in full on the first call date.

Issuances during the year

There were no new issuances during the year ended 31 December 2017.

28. Share capital, other equity instruments and reserves

Accounting policy

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue available number of own equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Securities which carry a discretionary coupon and have no fixed maturity or redemption date are classified as other equity instruments. Interest payments on these securities are recognised, net of tax, as distributions from equity in the period in which they are paid.

Where the Company or other members of the consolidated Group purchase the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity of the Group and/or of the Company as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity of the Group and/or the Company.

Group and Company	Number of ordinary shares millions	Ordinary share capital[1] $million	Share premium[2] $million	Total share capital & share premium $million	Other equity instruments $million
At 1 January 2016	3,278	1,639	5,449	7,088	1,987
Shares issued	6	3	–	3	–
Additional Tier 1 equity issuance	–	–	–	–	1,982
At 31 December 2016	**3,284**	**1,642**	**5,449**	**7,091**	**3,969**
Shares issued	**12**	**6**	**–**	**6**	**–**
Additional Tier 1 equity issuance	**–**	**–**	**–**	**–**	**992**
At 31 December 2017	**3,296**	**1,648**	**5,449**	**7,097**	**4,961**

1 Issued and fully paid ordinary shares of 50 cents each

2 Includes $1,494 million of share premium relating to preference capital

Ordinary share capital

In accordance with the Companies Act 2006 the Company does not have authorised share capital. The nominal value of each ordinary share is 50 cents.

During the year 12,272,991 shares were issued under employee share plans at prices between nil and 557.76 pence.

28. Share capital, other equity instruments and reserves continued

Preference share capital

At 31 December 2016 and 2017, the company has 15,000 $5 non-cumulative redeemable preference shares in issue, with a premium of $99,995 making a paid up amount per preference share of $100,000. The preference shares are redeemable at the option of the company and are classified in equity.

The available profits of the company are distributed to the holders of the issued preference shares in priority to payments made to holders of the ordinary shares and in priority to, or pari passu with, any payments to the holders of any other class of shares in issue. On a winding up, the assets of the Company are applied to the holders of the preference shares in priority to any payment to the ordinary shareholders and in priority to, or pari passu with, the holders of any other shares in issue, for an amount equal to any dividends accrued and/or payable and the nominal value of the shares together with any premium as determined by the board. The redeemable preference shares are redeemable at the paid up amount (which includes premium) at the option of the Company in accordance with the terms of the shares. The holders of the preference shares are not entitled to attend or vote at any general meeting except where any relevant dividend due is not paid in full or where a resolution is proposed varying the rights of the preference shares.

Other equity instruments

On 2 April 2015 Standard Chartered PLC issued $2,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as Additional Tier 1 (AT1) securities, raising $1,987 million after issue costs. On 18 August 2016, Standard Chartered PLC issued a further $2,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising $1,982 million after issue costs. On 18 January 2017, Standard Chartered PLC issued a further $1,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising $992 million after issue costs. All the issuances were made for general business purposes and to increase the regulatory capital base of the Group.

The principal terms of the AT1 securities are described below:

- The securities are perpetual and redeemable, at the option of Standard Chartered PLC in whole but not in part, on the first interest reset date and each date falling five years after the first reset date
- The securities are also redeemable for certain regulatory or tax reasons on any date at 100 per cent of their principal amount together with any accrued but unpaid interest upto (but excluding) the date fixed for redemption. Any redemption is subject to Standard Chartered PLC giving notice to the relevant regulator and the regulator granting permission to redeem
- The interest rate in respect of the securities issued on 2 April 2015 for the period from (and including) the issue date to (but excluding) 2 April 2020 is a fixed rate of 6.50 per cent per annum. The first reset date for the interest rate is 2 April 2020 and each date falling five, or an integral multiple of five years after the first reset date
- The interest rate in respect of the securities issued on 18 August 2016 for the period from (and including) the issue date to (but excluding) 2 April 2022 is a fixed rate of 7.50 per cent per annum. The first reset date for the interest rate is 2 April 2022 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest rate in respect of the securities issued on 18 January 2017 for the period from (and including) the issue date to (but excluding) 2 April 2023 is a fixed rate of 7.75 per cent per annum. The first reset date for the interest rate is 2 April 2023 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest on each of the securities will be payable semi-annually in arrears on 2 April and 2 October in each year, accounted for as a dividend
- Interest on the securities is due and payable only at the sole and absolute discretion of Standard Chartered PLC, subject to certain additional restrictions set out in the terms and conditions. Accordingly, Standard Chartered PLC may at any time elect to cancel any interest payment (or part thereof) which would otherwise be payable on any interest payment date
- The securities convert into ordinary shares of Standard Chartered PLC, at a pre-determined price, should the fully loaded Common Equity Tier 1 ratio of the Group fall below 7.0 per cent. Approximately 572 million ordinary shares would be required to satisfy the conversion of all the securities mentioned above

The securities rank behind the claims against Standard Chartered PLC of: (a) unsubordinated creditors; (b) which are expressed to be subordinated to the claims of unsubordinated creditors of Standard Chartered PLC but not further or otherwise; or (c) which are, or are expressed to be, junior to the claims of other creditors of Standard Chartered PLC, whether subordinated or unsubordinated, other than claims which rank, or are expressed to rank, pari passu with, or junior to, the claims of holders of the AT1 securities in a winding-up occurring prior to the conversion trigger.

Reserves

The constituents of the reserves are summarised as follows:

- The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001. The capital redemption reserve represents the nominal value of preference shares redeemed
- Merger reserve represents the premium arising on shares issued using a cash box financing structure, which required the Company to create a merger reserve under section 612 of the Companies Act 2006. Shares were issued using this structure in 2005 and 2006 to assist in the funding of certain acquisitions, in 2008, 2010 and 2015 for the shares issued by way of a rights issue, and for the shares issued in 2009 in the placing. The funding raised by the 2008 and 2010 rights issues and 2009 share issue was fully retained within the Company
- Own credit adjustment reserve represents the cumulative gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit. Following the Group's decision to early apply this IFRS 9 requirement the cumulative OCA component of financial liabilities designated at fair value through profit or loss has been transferred from opening retained earnings to the OCA reserve. Gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit in the year have been taken through other comprehensive income into this reserve. On derecognition of applicable instruments, the balance of any OCA will not be recycled to the income statement, but will be transferred within equity to retained earnings

28. Share capital, other equity instruments and reserves continued

Reserves continued

- Available-for-sale reserve represents the unrealised fair value gains and losses in respect of financial assets classified as available-for-sale, net of taxation. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying asset is sold, matures or becomes impaired
- Cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria for these types of hedges. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur
- Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve and are reclassified to the income statement when the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations
- Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions and own shares held (treasury shares)

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise

As at 31 December 2017, the distributable reserves of Standard Chartered PLC (the Company) were $15.1 billion (2016: $15.2 billion). These comprised retained earnings and $12.5 billion of the merger reserve account. Distribution of reserves is subject to maintaining minimum capital requirements.

Own shares

Computershare Trustees (Jersey) Limited is the trustee of the 2004 Employee Benefit Trust (2004 Trust) and Ocorian Trustees (Jersey) Limited (formerly known as Bedell Trustees Limited) is the trustee of the 1995 Employees' Share Ownership Plan Trust (1995 Trust). The 2004 Trust is used in conjunction with the Group's employee share schemes and the 1995 Trust is used for the delivery of other employee share-based payments (such as upfront shares and fixed pay allowances). Group companies fund these trusts from time to time to enable the trustees to acquire shares to satisfy these arrangements.

Except as disclosed, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the company listed on The Stock Exchange of Hong Kong Limited during the period. Details of the shares purchased and held by the trusts are set out below.

	1995 Trust		2004 Trust		Total	
Number of shares	**2017**	2016	**2017**	2016	**2017**	2016
Shares purchased during the year	**–**	6,160,185	**–**	–	**–**	6,160,185
Market price of shares purchased ($million)	**–**	51	**–**	–	**–**	51
Shares held at the end of the year	**3,769,011**	6,104,154	**18,004**	78,313	**3,787,015**	6,182,467
Maximum number of shares held during the year					**6,182,467**	6,183,210

29. Non-controlling interests

Accounting policy

Non-controlling interests are measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

	$million
At 1 January 2016	321
Loss in equity attributable to non-controlling interests	(11)
Other profits attributable to non-controlling interests	56
Comprehensive income for the year	45
Distributions	(37)
Other decreases[1]	(8)
At 31 December 2016	**321**
Income in equity attributable to non-controlling interests	**1**
Other profits attributable to non-controlling interests	**49**
Comprehensive income for the year	**50**
Distributions	**(51)**
Other increases[2]	**21**
At 31 December 2017	**341**

1 Mainly due to completion of sale of businesses with non-controlling interest in Pakistan and issuance of shares to non-controlling interest in Angola

2 Mainly due to additional shares issued including the premium by Nepal $12 million and $9 million with respect to an acquisition during 2017

30. Retirement benefit obligations

Accounting policy

The Group operates pension and other post-retirement benefit plans around the world, which can be categorised into defined contribution plans and defined benefit plans.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a statutory or contractual basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid. For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets.

For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds of the same currency and term as the benefit payments.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The Group determines the net interest expense on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payments. Net interest expense, the cost of the accrual of new benefits, benefit enhancements (or reductions) and administration expenses met directly from plan assets are recognised in the income statement.

Significant accounting estimates and judgements

There are many factors that affect the measurement of retirement benefit obligations of the UK Fund and overseas plans. This measurement requires the use of assumptions, such as inflation, salary increases, pension increases and discount rates which are inherently uncertain; the sensitivity of the liabilities to changes in these assumptions is shown in the note below.

Retirement benefit obligations comprise:

	2017 $million	2016 $million
Defined benefit plans obligation	**443**	495
Defined contribution plans obligation	**12**	30
Net obligation	**455**	525

Retirement benefit charge comprises:

	2017 $million	2016 $million
Defined benefit plans	**98**	85
Defined contribution plans	**259**	231
Charge against profit (note 7)	**357**	316

The Group operates over 50 defined benefit plans across its geographies, many of which are closed to new entrants who now join defined contribution arrangements. The aim of all these plans is to give employees the opportunity to save appropriately for retirement in a way that is consistent with local regulations, taxation requirements and market conditions. The defined benefit plans expose the Group to currency risk, interest rate risk, investment risk and actuarial risks such as longevity risk.

The material holdings of government and corporate bonds shown in the asset table below partially hedge movements in the liabilities resulting from interest rate changes. Setting aside movements from other drivers such as currency fluctuation, the falls in discount rates in most geographies over 2017 have led to higher liabilities. These have been somewhat offset by rises in the value of bonds held, higher stock markets generally and changes to demographic assumptions reflecting an assumed lower future pace of mortality improvements in the UK. These movements are shown as actuarial losses versus gains respectively in the tables below. Higher contributions into a number of plans have also helped the net deficit reduce over the year.

The disclosures required under IAS 19 have been calculated by independent qualified actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2017.

UK Fund

The Standard Chartered Pension Fund (the 'UK Fund') is the Group's largest pension plan, representing 60 per cent of total pension liabilities, and provides pensions based on 1/60th of final salary per year of service, normally payable from age 60. The UK Fund is set up under a trust that is legally separate from the Bank (its formal sponsor) and, as required by UK legislation, at least one-third of the trustee directors are nominated by members; the remainder are appointed by the Bank. The trustee directors have a fiduciary duty to members and are responsible for governing the UK Fund in accordance with its Trust Deed and Rules.

The financial position of the UK Fund is regularly assessed by an independent qualified actuary. The funding valuation as at 31 December 2017 is currently underway with results expected to be finalised over the course of 2018, as permitted by UK pension regulations. The most recent completed funding valuation was performed as at 31 December 2014 by A Zegleman, Fellow of the Institute and Faculty of Actuaries, of Willis Towers Watson, using the projected unit method and assumptions different from those below. To repair the $97 million (£72 million) past service deficit identified as at 31 December 2014, four annual cash payments of $17.0 million (£12.6 million) were agreed, starting in January 2016. The agreement allows that if the funding position improves more quickly than expected, the three payments from January 2017 could be reduced or eliminated. The actuarial assessment that applied to the January 2017 and 2018 payments did not allow for a reduction in either case, so the full £12.6 million payments were paid into the Fund on 16 January 2017 and 11 January 2018. In addition, an escrow account of $149 million (£110 million) exists to provide security for future contributions. Following the 31 December 2014 valuation, regular contributions to the UK Fund were set at 32 per cent of pensionable salary for all members.

30. Retirement benefit obligations continued

UK Fund continued

With effect from 1 July 1998, the UK Fund was closed to new entrants and new employees are offered membership of a defined contribution plan. Over 90 per cent of the Fund's liabilities now relate to pensioners or ex-employees who have left the Group but have not yet retired. The discretionary pension increase awarded April 2017 was half what was assumed in the accounting liabilities, and this is reflected in the gain in the pension cost table below. As at 31 December 2017, the weighted-average duration of the UK Fund was 15 years (2016: 16 years).

The Group is not required to recognise any additional liability under IFRIC 14 or the 2015 exposure draft of proposed amendments to it, as the Bank has control of any pension surplus under the Trust Deed and Rules.

Overseas plans

The principal overseas defined benefit arrangements operated by the Group are in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the United States of America (US).

Key assumptions

The principal financial assumptions used at 31 December 2017 were:

	Funded plans			
	UK Fund[1]		Overseas Plans[2]	
	2017 %	2016 %	**2017 %**	2016 %
Price inflation	**2.1**	2.1	**1.0–5.0**	1.0–5.0
Salary increases	**2.1**	2.1	**2.1–7.0**	2.1–6.5
Pension increases	**2.1**	2.1	**1.6–3.2**	1.5–3.2
Discount rate	**2.5**	2.7	**1.0–7.2**	1.3–6.9

1 The assumptions for life expectancy for the UK Fund are that a male member currently aged 60 will live for 28 years (2016: 28 years) and a female member for 29 years (2016: 29 years) and a male member currently aged 40 will live for 30 years (2016: 30 years) and a female member for 30 years (2016: 31 years) after their 60th birthdays

2 The range of assumptions shown is for the main funded defined benefit overseas plans in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the US. These comprise over 85 per cent of the total liabilities of funded overseas plans

These assumptions are likely to change in the future and this will affect the value placed on the liabilities. For example, changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

- If the discount rate increased by 25 basis points the liability would reduce by approximately $65 million for the UK Fund and $30 million for the other plans
- If the rate of inflation and pension increases increased by 25 basis points the liability would increase by approximately $45 million for the UK Fund and $20 million for the other plans
- If the rate salaries increase compared with inflation increased by 25 basis points the liability would increase by $2 million for the UK Fund and approximately $15 million for the other plans
- If longevity expectations increased by one year the liability would increase by approximately $55 million for the UK Fund and $15 million for the other plans

Although this analysis does not take account of the full distribution of cash flows expected under the UK Fund, it does provide an approximation of the sensitivity to the main assumptions. While changes in other assumptions would also have an impact, the effect would not be as significant.

	Unfunded plans			
	US post-retirement medical[1]		Other[2]	
	2017 %	2016 %	**2017 %**	2016 %
Price inflation	**2.5**	2.5	**1.9–5.0**	2.0–5.0
Salary increases	**N/A**	4	**2.1–7.0**	2.1–6.5
Pension increases	**N/A**	N/A	**0.0–2.1**	0.0–2.1
Discount rate	**3.8**	4.4	**2.3–7.2**	2.7–8.4
Post-retirement medical rate	**8% in 2017 reducing by 1% per annum to 5% in 2020**	9% in 2016 reducing by 1% per annum to 5% in 2020	**N/A**	N/A

1 The US post-retirement medical plan is closed to new entrants and eligibility for benefits tightened. This is reflected in the pension cost table below

2 The range of assumptions shown is for the main unfunded plans in India, Korea, Thailand, UAE and the UK. They comprise around 85 per cent of the total liabilities of unfunded plans

30. Retirement benefit obligations continued

Key assumptions continued

Fund values:

The fair value of assets and present value of liabilities of the plans attributable to defined benefit members were:

	2017				2016			
	Funded plans		Unfunded plans		Funded plans		Unfunded plans	
At 31 December	UK Fund $million	Overseas plans $million	Post-retirement medical $million	Other $million	UK Fund $million	Overseas plans $million	Post-retirement medical $million	Other $million
Equities	**180**	**354**	**N/A**	**N/A**	191	291	N/A	N/A
Government bonds	**752**	**191**	**N/A**	**N/A**	642	153	N/A	N/A
Corporate bonds	**140**	**87**	**N/A**	**N/A**	169	81	N/A	N/A
Absolute Return Fund	**177**	**–**	**N/A**	**N/A**	148	–	N/A	N/A
Hedge funds[1]	**190**	**2**	**N/A**	**N/A**	187	–	N/A	N/A
Insurance linked funds[1]	**38**	**–**	**N/A**	**N/A**	29	–	N/A	N/A
Opportunistic credit[1]	**60**	**–**	**N/A**	**N/A**	61	–	N/A	N/A
Property	**64**	**13**	**N/A**	**N/A**	70	4	N/A	N/A
Derivatives	**5**	**4**	**N/A**	**N/A**	(16)	–	N/A	N/A
Cash and equivalents	**91**	**195**	**N/A**	**N/A**	52	160	N/A	N/A
Others[1]	**10**	**39**	**N/A**	**N/A**	8	30	N/A	N/A
Total fair value of assets[2]	**1,707**	**885**	**N/A**	**N/A**	1,541	719	N/A	N/A
Present value of liabilities	**(1,827)**	**(996)**	**(18)**	**(194)**	(1,657)	(878)	(22)	(198)
Net pension (liability)/asset	**(120)**	**(111)**	**(18)**	**(194)**	(116)	(159)	(22)	(198)

1 Unquoted assets

2 Self investment is monitored closely and is less than $2 million of Standard Chartered equities and bonds for 2017 (2016: $2 million). Self investment is only allowed where it is not practical to exclude it – for example through investment in index-tracking funds where the Group is a constituent of the relevant index

The pension cost for defined benefit plans was:

	Funded plans		Unfunded plans		
2017	UK Fund $million	Overseas plans $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	**4**	**53**	**–**	**16**	**73**
Past service cost and curtailments[1]	**(6)**	**7**	**(4)**	**–**	**(3)**
Settlement cost[2]	**–**	**(1)**	**–**	**8**	**7**
Interest income on pension plan assets	**(43)**	**(23)**	**–**	**–**	**(66)**
Interest on pension plan liabilities	**46**	**28**	**1**	**12**	**87**
Total charge/(credit) to profit before deduction of tax	**1**	**64**	**(3)**	**36**	**98**
Return on plan assets excluding interest income[3]	**(30)**	**(83)**	**–**	**–**	**(113)**
Losses/(gains) on liabilities	**41**	**51**	**–**	**(11)**	**81**
Total losses/(gains) recognised directly in statement of comprehensive income before tax	**11**	**(32)**	**–**	**(11)**	**(32)**
Deferred taxation	**28**	**7**	**–**	**–**	**35**
Total losses/(gains) after tax	**39**	**(25)**	**–**	**(11)**	**3**

1 The gain in the UK Fund is due to the lower 2017 discretionary pension increased awarded. Costs arising in funded overseas schemes arise primarily in India from the expected statutory increase in the gratuity payment ceiling, an early retirement severance plan and a discretionary increase to minimum pensions. The gain in the post-retirement medical plan arises due to the reduction in eligibility criteria in the US plan

2 The costs arise primarily from the settlement of benefits in Thailand

3 The actual return on the UK fund assets was $73 million and on overseas plan assets was $106 million

30. Retirement benefit obligations continued

Key assumptions continued

The pension cost for defined benefit plans was:

	Funded plans		Unfunded plans		
2016	UK Fund $million	Overseas plans $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	5	52	1	17	75
Past service cost and curtailments	–	(7)	–	3	(4)
Gain on settlements[1]	–	(1)	–	–	(1)
Interest income on pension plan assets	(56)	(22)	–	–	(78)
Interest on pension plan liabilities	57	27	1	8	93
Total charge to profit before deduction of tax	6	49	2	28	85
Return on plan assets excluding interest income[2]	(139)	(18)	–	–	(157)
Losses/(gains) on liabilities	239	12	(4)	15	262
Total losses/(gains) recognised directly in statement of comprehensive income before tax	100	(6)	(4)	15	105
Deferred taxation	–	(2)	–	–	(2)
Total losses/(gains) after tax	100	(8)	(4)	15	103

1 These movements reflect a reduction in workforce in a number of geographies as result of the restructuring actions of the Group

2 The actual return on the UK Fund assets was $195 million and on overseas plan assets was $40 million

Movement in the defined benefit pension plans and post-retirement medical deficit during the year comprises:

	Funded plans		Unfunded plans		
	UK Fund $million	Overseas plans $million	Post-retirement medical $million	Other $million	Total $million
Deficit at 1 January 2017	**(116)**	**(159)**	**(22)**	**(198)**	**(495)**
Contributions	**19**	**92**	**1**	**31**	**143**
Current service cost	**(4)**	**(53)**	**–**	**(16)**	**(73)**
Past service cost and curtailments	**6**	**(7)**	**4**	**–**	**3**
Settlement costs and transfers impact	**–**	**1**	**–**	**(8)**	**(7)**
Net interest on the net defined benefit asset/liability	**(3)**	**(5)**	**(1)**	**(12)**	**(21)**
Actuarial (losses)/gains	**(11)**	**32**	**–**	**11**	**32**
Adjustment for Indonesia scheme[1]	**–**	**(4)**	**–**	**4**	**–**
Exchange rate adjustment	**(11)**	**(8)**	**–**	**(6)**	**(25)**
Deficit at 31 December 2017[2]	**(120)**	**(111)**	**(18)**	**(194)**	**(443)**

1 During 2017 the Indonesian plan (with liabilities of $8 million) was partially funded with a Company contribution of $4 million. The scheme has moved from the unfunded to funded category in the tables

2 The deficit total of $443 million is made up of plans in deficit of $483 million (2016: $513 million) net of plans in surplus with assets totalling $40 million (2016: $18 million)

30. Retirement benefit obligations continued

Key assumptions continued

	Funded plans		Unfunded plans		
	UK Fund $million	Overseas plans $million	Post-retirement medical $million	Other $million	Total $million
Deficit at 1 January 2016	(36)	(175)	(24)	(187)	(422)
Contributions	20	60	–	18	98
Current service cost	(5)	(52)	(1)	(17)	(75)
Past service cost and curtailments	–	7	–	(3)	4
Settlement costs and transfers impact	–	1	–	–	1
Net interest on the net defined benefit asset/liability	(1)	(5)	(1)	(8)	(15)
Actuarial (losses)/gains	(100)	6	4	(15)	(105)
Exchange rate adjustment	6	(1)	–	14	19
Deficit at 31 December 2016	(116)	(159)	(22)	(198)	(495)

The Group's expected contribution to its defined benefit pension plans in 2018 is $91 million.

	2017			2016		
	Assets $million	**Obligations $million**	**Total $million**	Assets $million	Obligations $million	Total $million
At 1 January	**2,260**	**(2,755)**	**(495)**	2,409	(2,831)	(422)
Contributions[1]	**144**	**(1)**	**143**	99	(1)	98
Current service cost[2]	**–**	**(73)**	**(73)**	–	(75)	(75)
Past service cost and curtailments	**–**	**3**	**3**	–	4	4
Settlement costs	**(14)**	**7**	**(7)**	(13)	14	1
Interest cost on pension plan liabilities	**–**	**(87)**	**(87)**	–	(93)	(93)
Interest income on pension plan assets	**66**	**–**	**66**	78	–	78
Benefits paid out[2]	**(152)**	**152**	**–**	(175)	175	–
Actuarial (losses)/gains[3]	**113**	**(81)**	**32**	157	(262)	(105)
Exchange rate adjustment	**175**	**(200)**	**(25)**	(295)	314	19
At 31 December	**2,592**	**(3,035)**	**(443)**	2,260	(2,755)	(495)

1 Includes employee contributions of $1 million (2016: $1 million)

2 Includes administrative expenses paid out of plan assets of $1 million (2016: $1 million)

3 Actuarial loss on obligation comprises $81 million loss (2016: $284 million loss) from financial assumption changes, $30 million gain (2016: $8 million gain) from demographic assumption changes and $30 million loss (2016: $14 million gain) from experience

31. Share-based payments

Accounting policy

The Group operates equity-settled and cash-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For deferred share awards granted as part of an annual performance award, the expense is recognised over the period from the start of the performance period to the vesting date. For example, the expense for awards granted in 2017 in respect of 2016 performance, which vest in 2018-2020, is recognised as an expense over the period from 1 January 2016 to the vesting dates in 2018-2020. For all other awards, the expense is recognised over the period from the date of grant to the vesting date.

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options at the date of grant, which excludes the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the income statement at the time of cancellation. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards are revalued at each balance sheet date and a liability recognised on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in the income statement until the awards are exercised. Where forfeitures occur prior to vesting that are attributable to factors other than a failure to satisfy market-based performance conditions, the cumulative charge incurred up to the date of forfeiture is credited to the income statement. The Company records the value of the equity-settled awards as a deemed investment in subsidiaries. Any revaluation related to cash-settled awards is recorded as an amount due from subsidiary undertakings.

The Group operates a number of share-based arrangements for its executive directors and employees. Details of the share-based payment charge are set out below.

	2017[1]			2016[1]		
	Cash $million	**Equity $million**	**Total $million**	Cash $million	Equity $million	Total $million
Deferred share awards	**14**	**71**	**85**	8	26	34
Other share awards	**9**	**58**	**67**	5	61	66
Total share-based payments	**23**	**129**	**152**	13	87	100

1 No forfeiture assumed

2011 Standard Chartered Share Plan (the '2011 Plan')

The 2011 Plan was approved by shareholders in May 2011 and is the Group's main share plan. Since approval, it has been used to deliver various types of share awards:

- Long Term Incentive Plan (LTIP) awards: granted with vesting subject to performance measures. Performance measures attached to awards granted previously include: total shareholder return (TSR); return on equity (RoE) with a common equity tier 1 (CET1) underpin; strategic measures; earnings per share (EPS) growth; and return on risk-weighted assets (RoRWA). Each measure is assessed independently over a three-year period. Awards granted from 2016 have an individual conduct gateway that results in the award lapsing if not met
- Deferred awards are used to deliver the deferred portion of variable remuneration, in line with both market practice and regulatory requirements. These awards vest in instalments on anniversaries of the award date specified at the time of grant. Deferred awards are not subject to any plan limit. This enables the Group to meet regulatory requirements relating to deferral levels, and is in line with market practice
- Restricted share awards, made outside of the annual performance process as replacement buy-out awards to new joiners who forfeit awards on leaving their previous employers, vest in instalments on the anniversaries of the award date specified at the time of grant. This enables the Group to meet regulatory requirements relating to buy-outs, and is in line with market practice. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance measures
- Underpin shares are subject to a combination of two performance measures: EPS growth and RoRWA. The weighting between the two elements is split equally, one-half of the award depending on each measure, assessed independently. These awards vest after three or five years. Underpin shares formed part of the variable remuneration awarded to executive directors and senior management in respect of 2014 performance

Under the 2011 Plan, no grant price is payable to receive an award. The remaining life of the 2011 Plan during which new awards can be made is four years.

31. Share-based payments continued

Valuation – LTIP awards

The vesting of awards granted in both 2016 and 2017 is subject to the satisfaction of RoE (subject to a capital underpin) and relative TSR performance measures and achievement of a strategic scorecard. The fair value of the TSR component is calculated using the probability of meeting the measures over a three-year performance period, using a Monte Carlo simulation model. The number of shares expected to vest is evaluated at each reporting date, based on the expected performance against the RoE and strategic measures in the scorecard, to determine the accounting charge.

Dividend equivalents accrue on these awards during the vesting period, so no discount is applied.

	2017	2016		
Grant date	**13 March**	15 June	4 May	11 March
Share price at grant date (£)	**7.43**	5.05	5.08	4.68
Vesting period (years)	**3-7**	3	3, 3-7	3
Expected dividend yield (%)	**N/A**	N/A	N/A	N/A
Fair value (RoE) (£)	**2.48, 2.48**	1.68	1.69, 1.69	1.56
Fair value (TSR) (£)	**1.81, 1.38**	1.24	1.25, 1.12	1.15
Fair value (Strategic) (£)	**2.48, 2.48**	1.68	1.69, 1.69	1.56

Valuation – deferred shares and restricted shares

The fair value for all employees is based on 100 per cent of the face value of the shares at the date of grant as the share price will reflect expectations of all future dividends.

Deferred shares and underpin shares accrue dividend equivalent payments during the vesting period. The expected dividend yield assumption is based on a historical average over a period commensurate with this 'average' period until vesting, or over one year if the average period until vesting is less than one year.

Details of deferred, underpin and LTIP awards for executive directors can be found in the Directors' remuneration report.

Deferred share awards

	2017			2016				
Grant date	**3 October**	**15 June**	**13 March**	30 November	4 October	15 June	4 May	11 March
Share price at grant date (£)	**7.56**	**7.69**	**7.43**	6.41	6.50	5.05	5.08	4.68
Vesting period	**Fair value (£)**	**Fair value (£)**	**Fair value (£)**	Fair value (£)	Fair value (£)	Fair value (£)	Fair value (£)	Fair value (£)
1-3 years	**7.56**	**7.69**	**7.43**	6.41	6.50	5.05	5.08	4.68
1-5 years	**–**	**–**	**7.43**	–	–	–	–	–
3-7 years	**–**	**–**	**7.43**	–	–	–	–	–

31. Share based payments continued

Other restricted share awards

Grant date	2017							
	29 November		3 October		15 June		13 March	
Share price at grant date (£)	7.43		7.56		7.69		7.43	
Vesting Period	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
6 months	–	–	–	–	–	–	–	7.43
1 year	–	7.43	–	7.56	–	7.69	–	7.43
2 year	–	7.43	–	7.56	0.5	7.61	0.5	7.35
2-3 years	–	–	–	–	–	–	1.9	7.08
3 year	1.6	7.08	1.6	7.21	2.1	7.23	2.1	6.99
4 year	2.2	6.80	2.2	6.92	2.5	6.96	2.5	6.72
5 year	2.4	6.58	2.4	6.70	–	–	–	–
6 year	2.6	6.36	2.6	6.47	–	–	–	–

Grant date	2016							
	30 November		4 October		15 June		4 May		11 March	
Share price at grant date (£)	6.41		6.50		5.05		5.08		4.68	
Vesting Period	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
1 year	–	6.41	–	6.50	–	–	–	–	–	–
2 year	2.4	6.11	2.4	6.20	–	–	–	–	–	–
2-3 years	2.5	6.03	2.5	6.11	3.6	4.62	3.6	4.65	3.5	4.30
3 year	3.0	5.87	3.0	5.95	–	–	3.4	4.60	–	–
2-4 years	–	–	–	–	–	–	3.8	4.65	–	–
1-4 years	–	–	–	–	–	–	–	–	3.5	4.30
4 year	–	–	3.1	5.76	–	–	3.4	4.44	–	–

2001 Performance Share Plan (2001 PSP) – now closed to new grants:
The Group's previous plan for delivering performance shares was the 2001 PSP and there remain outstanding vested awards. Under the 2001 PSP half the award was dependent upon TSR performance and the balance was subject to a target of defined EPS growth. Both measures used the same three-year period and were assessed independently.

2006 Restricted Share Scheme (2006 RSS)/2007 Supplementary Restricted Share Scheme (2007 SRSS):
The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS, both now replaced by the 2011 Plan. There remain outstanding vested awards under these plans. Awards were generally in the form of nil cost options and did not have any performance measures. Generally deferred restricted share awards vested equally over three years and for non-deferred awards half-vested two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

All Employee Sharesave Plans (comprised of the 2004 International Sharesave Plan, the 2004 UK Sharesave Plan and the 2013 Sharesave Plan):
Under the All Employee Sharesave Plans, employees may open a savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation (this is known as the 'option exercise price'). There are no performance measures attached to options granted under the All Employee Sharesave Plans and no grant price is payable to receive an option. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent cash-based plan to its employees. The 2004 International Sharesave and the 2004 UK Sharesave plans are now closed and no further awards will be granted under these plans.

The 2013 Sharesave Plan was approved by Shareholders in May 2013 and all future Sharesave invitations are made under this plan. The remaining life of the 2013 Sharesave Plan is five years.

Valuation – Sharesave:
Options under the Sharesave plans are valued using a binomial option-pricing model. The same fair value is applied to all employees including executive directors. The fair value per option granted and the assumptions used in the calculation are as follows:

31. Share-based payments continued

All Employee Sharesave Plan (Sharesave)

Grant date	2017 3 October	2016 4 October
Share price at grant date (£)	**7.71**	6.50
Exercise price (£)	**6.20**	5.30
Vesting period (years)	**3**	3
Expected volatility (%)	**34.9**	34.2
Expected option life (years)	**3.33**	3.33
Risk-free rate (%)	**0.47**	0.13
Expected dividend yield (%)	**1.87**	3.04
Fair value (£)	**2.32**	1.71

The expected volatility is based on historical volatility over the last three years, or three years prior to grant. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The expected dividend yield is based on historical dividend for three years prior to grant.

Reconciliation of option movements for the year to 31 December 2017

	2011 Plan[1]						
	Performance shares	Deferred/ restricted shares	PSP[1]	RSS[1]	SRSS[1]	Sharesave	Weighted average exercise price (£)
Outstanding as at 1 January	**28,740,614**	**24,208,988**	**76,977**	**701,603**	**80,299**	**13,291,261**	**6.72**
Granted[2,3]	**2,347,184**	**12,066,323**	**–**	**–**	**–**	**3,097,250**	**6.20**
Lapsed	**(5,550,569)**	**(1,233,517)**	**(14,821)**	**(118,531)**	**(18,741)**	**(3,529,783)**	**8.67**
Exercised	**(59,861)**	**(11,730,573)**	**(44,934)**	**(397,129)**	**(60,309)**	**(40,494)**	**5.55**
Outstanding as at 31 December	**25,477,368**	**23,311,221**	**17,222**	**185,943**	**1,249**	**12,818,234**	**6.06**
Exercisable as at 31 December	**65,429**	**4,526,848**	**17,222**	**185,943**	**1,249**	**1,364,426**	**9.38**
Range of exercise prices (£)[2]	**–**	**–**	**–**	**–**	**–**	**5.30-9.38**	**–**
Intrinsic value of vested but not exercised options ($ million)	**0.1**	**3.6**	**0.0**	**0.2**	**0.0**	**0.0**	**–**
Weighted average contractual remaining life (years)	**8.29**	**8.09**	**1.13**	**0.19**	**0.19**	**2.05**	**–**
Weighted average share price for options exercised during the period (£)	**7.44**	**7.43**	**7.73**	**7.43**	**7.35**	**7.62**	**–**

1 Employees do not contribute towards the cost of these awards

2 For Sharesave granted in 2017 the exercise price is £6.20 per share, which was the average of the closing prices over the five days to the invitation date of 4 September. The closing share price on 1 September 2017 was £7.7390

3 Performance shares comprise 2,347,184 (LTIP) granted on 13 March 2017. Deferred/restricted shares comprise 10,055,740 (RSA/DRSA) granted on 13 March 2017, 366,830 (RSA/DRSA) granted on 15 June 2017, 871,760 (RSA) granted on 03 October 2017 and 771,993 (RSA) granted on 29 November 2017

Reconciliation of option movements for the year to 31 December 2016

	2011 Plan[1]						
	Performance shares	Deferred/ restricted shares	PSP[1]	RSS[1]	SRSS[1]	Sharesave	Weighted average exercise price (£)
Outstanding as at 1 January	9,658,733	23,108,554	103,768	1,150,866	140,110	15,341,808	7.87
Granted[2]	25,319,833[3]	8,457,559[4]	–	–	–	3,801,733	5.30
Lapsed	(6,074,460)	(1,585,856)	(14,007)	(121,803)	(348)	(5,851,915)	8.83
Exercised	(163,492)	(5,771,269)	(12,784)	(327,460)	(59,463)	(365)	5.67
Outstanding as at 31 December	28,740,614	24,208,988	76,977	701,603	80,299	13,291,261	6.72
Exercisable as at 31 December	145,928	5,745,431	76,977	701,603	80,299	1,484,146	10.98
Range of exercise prices (£)[2]	–	–	–	–	–	5.30-11.21	–
Intrinsic value of vested but not exercised options ($ million)	0.1	3.6	0.1	0.4	0.1	0.0	–
Weighted average contractual remaining life (years)	8.88	8.15	2.02	0.90	0.45	2.31	–
Weighted average share price for options exercised during the period (£)	4.89	5.21	6.23	5.49	6.02	5.85	–

1 Employees do not contribute towards the cost of these awards

2 For Sharesave granted in 2016 the exercise price is £5.30 per share, which was the average of the closing prices over the five days to the invitation date of 5 September. The closing share price on 2 September 2016 was £6.614

3 23,437,968 granted on 11 March 2016, 922 (notional dividend) granted on 19 March 2016, 1,810,435 granted on 4 May 2016, 70,508 granted on 15 June 2016

4 7,134,374 granted on 11 March 2016, 34,643 (notional dividend) granted on 11 March 2016, 52,514 (notional dividend) granted on 13 March 2016, 94,242 (notional dividend) granted on 19 March 2016, 600,413 granted on 4 May 2016, 21,991 granted on 15 June 2016, 187 (notional dividend) granted on 17 June 2016, 35 (notional dividend) granted on 18 June 2016, 14 (notional dividend) granted on 19 June 2016, 434,555 granted on 4 October 2016, and 84,591 granted on 30 November 2016

32. Investments in subsidiary undertakings, joint ventures and associates

Accounting policy

Subsidiaries

Subsidiaries are all entities, including structured entities, which the Group controls. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The assessment of power is based on the Group's practical ability to direct the relevant activities of the entity unilaterally for the Group's own benefit and is subject to reassessment if and when one or more of the elements of control change. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are deconsolidated from the date that control ceases, and where any interest in the subsidiary remains, this is remeasured to its fair value and the change in carrying amount is recognised in the income statement.

Associates and joint arrangements

Joint arrangements are where two or more parties either have rights to the assets, and obligations of the joint arrangement (joint operations), or have rights to the net assets of the joint arrangement (joint venture). The Group evaluates the contractual terms of joint arrangements to determine whether a joint arrangement is a joint operation or a joint venture. As at 31 December 2017, the Group did not have any contractual interest in joint operations.

An associate is an entity over which the Group has significant influence.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition (net of any accumulated impairment loss).

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. At each balance sheet date the Group assesses whether there is any objective evidence of impairment in the investment in associates and joint ventures. Such evidence includes a significant or prolonged decline in the fair value of the Group's investment in an associate or joint venture below its cost, among other factors.

Significant accounting estimates and judgements

The Group applies judgement in determining if it has control, joint control or significant influence over subsidiaries, joint ventures and associates respectively. These judgements are based upon identifying the relevant activities of counterparties, being those activities that significantly affect the entities' returns, and further making a decision on whether the Group has control over those entities, joint control, or has significant influence (being the power to participate in the financial and operating policy decisions but not control them.).

These judgements are at times determined by equity holdings, and the voting rights associated with those holdings. However, further considerations, including but not limited to board seats, advisory committee members and specialist knowledge of some decision-makers are also taken into account.

Impairment testing of investments in associates and joint arrangements is based on judgements, including the basis of assumptions and forecasts used for estimating the expected cash flows from the investments and in the calculations of the present values of those cash flows. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgement.

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill (see note 18 for details on goodwill recognised by the Group). If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the income statement.

Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, adjustments arising from their subsequent finalisation are not reflected in the income statement if; (i) they arise within 12 months of the acquisition date (or relate to acquisitions completed before 1 January 2014); and (ii) the adjustments arise from better information about conditions existing at the acquisition date (measurement period adjustments). Such adjustments are applied as at the date of acquisition and, if applicable, prior year amounts are restated. All changes that are not measurement period adjustments are reported in income other than changes in contingent consideration not classified as financial instruments, which are accounted for in accordance with the appropriate accounting policy, and changes in contingent consideration classified as equity, which is not remeasured.

Changes in ownership interest in a subsidiary, which do not result in a loss of control, are treated as transactions between equity holders and are reported in equity. Where a business combination is achieved in stages, the previously held equity interest is remeasured at the acquisition date fair value with the resulting gain or loss recognised in the income statement.

In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received prior to 1 January 2009, if any. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group accounts.

32. Investments in subsidiary undertakings, joint ventures and associates continued

Investments in subsidiary undertakings	2017 $million	2016 $million
As at 1 January	**33,853**	28,381
Additions	**1,000**	5,500
Disposal	**–**	(28)
As at 31 December	**34,853**	33,853

At 31 December 2017, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital %
Standard Chartered Bank, England and Wales	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100
Standard Chartered Bank (China) Limited, China	China	100
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	100
Standard Chartered Bank Korea Limited, Korea	Korea	100
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100
Standard Chartered Private Equity Limited, Hong Kong	Hong Kong	100
Standard Chartered Bank Nigeria Limited, Nigeria	Nigeria	100
Standard Chartered Bank (Singapore) Limited, Singapore	Singapore	100
Standard Chartered Bank (Taiwan) Limited, Taiwan	Taiwan	100
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	98.99
Standard Chartered Bank (Thai) Public Company Limited, Thailand	Thailand	99.87
Standard Chartered Bank Kenya Limited, Kenya	Kenya	74.30

A complete list of subsidiary undertaking is included in note 40.

The Group does not have any material non-controlling interests in any of its subsidiaries except the 25.7 per cent non-controlling interests amounting to $105 million (2016: $103 million) in Standard Chartered Bank Kenya Limited. This contributes 3.4 per cent of the Group's Operating Profit and 0.4 per cent of the Group's assets.

While the Group's subsidiaries are subject to local statutory capital and liquidity requirements in relation to foreign exchange remittance, these restrictions arise in the normal course of business and do not significantly restrict the Group's ability to access or use assets and settle liabilities of the Group.

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory framework within which the banking subsidiaries operate. These frameworks require banking operations to keep certain levels of regulatory capital, liquid assets, exposure limits and comply with other required ratios. These restrictions are summarised below:

Regulatory and liquidity requirements

The Group's subsidiaries are required to maintain minimum capital, leverage ratios, liquidity and exposure ratios, which therefore restrict the ability of these subsidiaries to distribute cash or other assets to the parent company.

The subsidiaries are also required to maintain balances with central banks and other regulatory authorities in the countries in which they operate. At 31 December 2017, the total cash and balances with central bank was $59 billion (2016: $71 billion), of which $10 billion (2016: $9 billion) is restricted.

Statutory requirements

The Group's subsidiaries are subject to statutory requirements not to make distributions of capital and unrealised profits to the parent company, generally to maintain solvency. These requirements restrict the ability of subsidiaries to remit dividends to the Group. Certain subsidiaries are also subject to local exchange control regulations which provide for restrictions on exporting capital from the country other than through normal dividends.

32. Investments in subsidiary undertakings, joint ventures and associates continued

Contractual requirements

The encumbered assets in the balance sheet of the Group's subsidiaries are not available for transfer around the Group. Encumbered assets are disclosed in Risk review and Capital review (page 153 to 154).

Share of profit/(loss) from investment in associates and joint ventures comprises:

	2017 $million	2016 $million
Profit/(loss) from investment in joint ventures	**29**	(215)
Profit from investment in associates	**239**	178
Total	**268**	(37)

Interests in joint ventures

	PT Bank Permata Tbk & others	
	2017 $million	2016 $million
As at 1 January	**713**	679
Exchange translation difference	**(1)**	13
Additions	**44**	238
Share of profit/(loss)	**29**	(215)
Share of available-for-sale and other reserves	**(2)**	(2)
As at 31 December	**783**	713

The Group's principal joint venture is PT Bank Permata Tbk (Permata). The Group has a 44.56 per cent (2016: 44.56 per cent) equity investment in Permata. The Group has determined that it has joint control of Permata through its shareholding, which is held alongside a third party that holds the same percentage. The Group has made the judgement that through these equity holdings, and in making decisions pertaining to Permata that both parties require each other's unanimous consent when making decisions over the relevant activities of Permata. Permata is based in Indonesia and provides financial services to the consumer and commercial banking clients. The Group's share of profit/(loss) of Permata amounts to $29 million (2016: $(215) million) and the Group's share of net assets was $775 million (2016: $705 million). On 16 February 2017, Permata announced plans for an IDR3 trillion (approximately $225 million) rights issue to drive growth. The Group invested an additional $44 million during 2017 as part of the rights issue. Permata is listed on the Indonesia Stock Exchange with a share price of IDR 625 as at 31 December 2017 resulting in a share capitalisation value of the Group's investment of $576 million.

The following table sets out the summarised financial statements of PT Bank Permata Tbk prior to the Group's share of joint ventures being applied:

	2017 $million	2016 $million
Current assets	**5,626**	6,484
Non-current assets	**5,193**	5,697
Current liabilities	**(8,415)**	(9,896)
Non-current liabilities	**(924)**	(963)
Net assets	**1,480**	1,322
Operating income	**641**	608
Of which:		
Interest income	**837**	1,083
Interest expense	**(447)**	(641)
Expenses	**(334)**	(329)
Impairment	**(224)**	(923)
Operating profit/(loss)	**83**	(644)
Taxation	**(18)**	161
Profit/(loss) after tax	**65**	(483)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**1,207**	1,964
Other comprehensive loss for the year	**(5)**	(4)
Total comprehensive income/(loss) for the year	**60**	(487)

32. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in joint ventures continued

In December 2016, Permata established a portfolio of non-performing loans that were beyond its risk appetite which were to be liquidated. This resulted in an incremental impairment of $140 million, representing the difference between the carrying amount of the liquidation portfolio on a 'hold to collect' basis and the amount expected to be realised upon liquidation. This is consistent with the Group's restructuring actions. Accordingly, in 2016 the Group has recorded its $62 million share of this incremental impairment as restructuring and this was normalised from the underlying results of the Group. In 2017, a gain of $59 million has been recognised in restructuring as a result of recoveries on these non-performing loans.

Current assets primarily represent cash and short-term receivable balances. Non-current assets are primarily loans to customers. Current liabilities are primarily customer deposits based on contractual maturities, while non-current liabilities are longer-term payables such as subordinated debt.

Reconciliation of the net assets above to the carrying amount of the investments in PT Bank Permata Tbk recognised in the consolidated financial statements:

	2017 $million	2016 $million
Net assets of PT Bank Permata Tbk	**1,480**	1,322
Proportion of the Group's ownership interest in joint ventures	**659**	589
Notional goodwill	**116**	116
Carrying amount of the Group's interest in PT Bank Permata Tbk	**775**	705

The Group's interest in Permata was tested for impairment. The recoverable amount of the interest is measured based on its ViU, which is calculated using five-year cash flow projections and an estimated terminal value based on a perpetuity value after year five. The cash flow projections are based on forecasts approved by Permata's management up to 2020. The perpetuity terminal value amount is calculated using year five cash flows using long-term GDP growth rates. All cash flows are discounted using pre-tax discount rates which reflect market rates appropriate to the interest. At 31 December 2017, the recoverable amount of the interest in Permata exceeded its carrying amount, and no impairment provision was required.

Interests in associates

	China Bohai Bank		**Other**		**Total**	
	2017 $million	2016 $million	**2017 $million**	2016 $million	**2017 $million**	2016 $million
As at 1 January	**1,182**	1,099	**34**	159	**1,216**	1,258
Exchange translation differences	**96**	(75)	**–**	(1)	**96**	(76)
Share of profits	**229**	167	**10**	11	**239**	178
Disposals	**–**	–	**37**	–	**37**	–
Dividends received	**–**	–	**(2)**	(3)	**(2)**	(3)
Share of AFS and Other reserves	**(18)**	(9)	**(39)**	–	**(57)**	(9)
Others	**–**	–	**(5)**	(132)	**(5)**	(132)
As at 31 December	**1,489**	1,182	**35**	34	**1,524**	1,216

A complete list of the Group's interest in associates is included in note 40. The Group's principal associate is:

Associate	**Nature of activities**	**Main areas of operation**	**Group interest in ordinary share capital %**
China Bohai Bank	Banking operations	China	19.99

The Group's investment in China Bohai Bank is less than 20 per cent but it is considered to be an associate because of the significant influence the Group is able to exercise over the management and financial and operating policies. The Group applies the equity method of accounting for investments in associates. The reported financials up to November 2017 of this associate are within three months of the Group's reporting date.

32. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in associates continued

The following table sets out the summarised financial statements of China Bohai Bank prior to the Group's share of the associates being applied:

	China Bohai Bank	
	30 Nov 2017 $million	30 Nov 2016 $million
Current assets	**52,056**	39,799
Non-current assets	**104,479**	86,568
Current liabilities	**(82,293)**	(71,453)
Non-current liabilities	**(66,794)**	(49,001)
Net assets	**7,448**	5,913
Operating income	**3,854**	3,221
Of which:		
Interest income	**6,014**	5,763
Interest expense	**(3,452)**	(3,432)
Expenses	**(1,388)**	(1,208)
Impairment	**(1,056)**	(994)
Operating profit	**1,410**	1,019
Taxation	**(263)**	(182)
Profit after tax	**1,147**	837
The above amounts of assets and liabilities include the following:		
Other comprehensive loss for the year	**(91)**	(43)
Total comprehensive income for the year	**1,056**	794

Non-current assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

During the year, there were no indicators of impairment for the Group's investment in China Bohai Bank.

33. Structured entities

Accounting policy

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Contractual arrangements determine the rights and therefore relevant activities of the structured entity. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their activities. Structured entities are consolidated when the substance of the relationship between the Group and the structured entity indicates the Group has power over the contractual relevant activities of the structured entity, is exposed to variable returns, and can use that power to affect the variable return exposure.

In determining whether to consolidate a structured entity to which assets have been transferred, the Group takes into account its ability to direct the relevant activities of the structured entity. These relevant activities are generally evidenced through a unilateral right to liquidate the structured entity, investment in a substantial proportion of the securities issued by the structured entity or where the Group holds specific subordinate securities that embody certain controlling rights. The Group may further consider relevant activities embedded within contractual arrangements such as call options which give the practical ability to direct entity, special relationships between the structured entity and investors, and if a single investor has a large exposure to variable returns of the structured entity.

Significant accounting judgement

Significant judgement is required in determining control over structured entities. The purpose and design of the entity is considered, along with a determination of what the relevant activities are of the entity and who directs these. Further judgements are made around which investor is exposed to, and absorbs the variable returns of the structured entity. The Group will have to weigh up all of these facts to consider whether the Group, or another involved party, is acting as a principal in its own right or as an agent on behalf of others. Judgement is further required in the ongoing assessment of control over structured entities, specifically if market conditions have an effect on the variable return exposure of different investors.

The Group has involvement with both consolidated and unconsolidated structured entities, which may be established by the Group as a sponsor or by a third party.

Interests in consolidated structured entities: A structured entity is consolidated into the Group's financial statements where the Group controls the structured entity, as per the determination in the accounting policy above.

33. Structured entities continued

The following table presents the Group's interests in consolidated structured entities:

	2017 $million	2016 $million
Aircraft and ship leasing	**5,494**	5,623
Structured and Principal finance	**2,534**	2,809
Total	**8,028**	8,432[1]

1 The Group's disclosure of its interests in consolidated structured entities as at 31 December 2016 has increased by $1.3 billion (previously disclosed as $7.2 billion) following a review of the population. These interests have historically been included within the Group's results but not separately disclosed as relating to structured entities

Interests in unconsolidated structured entities: Unconsolidated structured entities are all structured entities that are not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities. An interest in a structured entity is contractual or non-contractual involvement which creates variability of the returns of the Group arising from the performance of the structured entity.

The table below presents the carrying amount of the assets and liabilities recognised in the financial statements relating to variable interests held in unconsolidated structured entities, the maximum exposure to loss relating to those interests and the total assets of the structured entities. Maximum exposure to loss is primarily limited to the carrying amount of the Group's on-balance sheet exposure to the structured entity. For derivatives, the maximum exposure to loss represents the on-balance sheet valuation and not the notional amount. For commitments and guarantees, the maximum exposure to loss is the notional amount of potential future losses.

	2017				2016			
	Principal finance funds $million	**Structured finance $million**	**Asset-backed securities $million**	**Total $million**	Principal finance funds $million	Structured finance $million	Asset-backed securities $million	Total $million
Group's interest – assets								
Financial assets held at fair value through profit or loss	**389**	**–**	**983**	**1,372**	515	–	526	1,041
Loans and advances to customers	**–**	**1,527**	**–**	**1,527**	–	1,202	–	1,202
Investment securities (available-for-sale)	**56**	**–**	**4,105**	**4,161**	54	–	4,906	4,960
Investment securities (loans and receivables)	**439**	**–**	**1,437**	**1,876**	624	–	1,489	2,113
Other assets	**19**	**–**	**–**	**19**	12	–	–	12
Total assets	**903**	**1,527**	**6,525**	**8,955**	1,205	1,202	6,921	9,328
Off balance sheet	**262**	**501**	**86**	**849**	422	327	107	856
Group's maximum exposure to loss	**1,165**	**2,028**	**6,611**	**9,804**	1,627	1,529	7,028	10,184[1]
Total assets of structured entities	**5,052**	**3,747**	**295,574**	**304,373**	4,967	5,185	316,177	326,329

1 The Group's disclosed interests in unconsolidated structured entities as at 31 December 2016 has increased by $2.1 billion (previously disclosed as $8.1 billion). These interests have historically been included within the Group's results, but not separately disclosed as relating to structured entities

The main types of activities for which the Group utilises unconsolidated structured entities cover synthetic credit default swaps for managed investment funds (including specialised Principal finance funds), portfolio management purposes, structured finance and asset backed securities. These are detailed as follows:

- **Principal finance fund:** The Group's exposure to Principal finance funds represents committed or invested capital in unleveraged investment funds, primarily investing in pan-Asian infrastructure, real estate and private equity
- **Structured finance:** Structured finance comprises interests in transactions that the Group or, more usually, a customer has structured, using one or more structured entities, which provide beneficial arrangements for customers. The Group's exposure primarily represents the provision of funding to these structures as a financial intermediary, for which it receives a lender's return. The transactions largely relate to the provision of aircraft leasing and ship finance

33. Structured entities continued

→ **Asset backed securities (ABS):** The Group also has investments in asset backed securities issued by third-party structured entities as set out in Risk Review and Capital review (page 145). For the purpose of market marking and at the discretion of ABS trading desk, the Group may hold an immaterial amount of debt securities ($1 million at year end) from structured entities originated by credit portfolio management. This is disclosed in the ABS column above

- Portfolio management (Group-sponsored entities): For the purposes of portfolio management, the Group purchased credit protection via synthetic credit default swaps from note-issuing structured entities. The referenced assets remain on the Group's balance sheet as they are not assigned to these structured entities. The Group continues to own or hold all of the risks and returns relating to these assets. The credit protection obtained from the regulatory-compliant securitisation only serves to protect the Group against losses upon the occurrence of eligible credit events and the underlying assets are not de-recognised from the Group balance sheet. The Group does not hold any equity interests in the structured entities, but may hold an insignificant amount of the issued notes for market marking purposes. This is disclosed in the ABS section above. The proceeds of the notes' issuance are typically held as cash collateral in issuer's account operated by a trustee or invested in AAA-rated government-backed securities to collateralise the structured entities swap obligations to the Group, and to repay the principal to investors at maturity. The structured entities reimburse the Group on actual losses incurred, through the use of the cash collateral or realisation of the collateral security. Correspondingly, the structured entities write down the notes issued by an equal amount of the losses incurred, in reverse order of seniority. All funding is committed for the life of these vehicles and the Group has no indirect exposure in respect of the vehicles' liquidity position. The Group has reputational risk in respect of certain portfolio management vehicles and investment funds either because the Group is the arranger and lead manager or because the structured entities have Standard Chartered branding

During the year, the Group transferred assets of $24 million to a Group-sponsored structured entity.

34. Cash flow statement

Adjustment for non-cash items and other adjustments included within income statement

	Group		Company	
	2017 $million	2016 $million	**2017 $million**	2016 $million
Amortisation of discounts and premiums of investment securities	**(292)**	(265)	**–**	–
Interest expense on subordinated liabilities	**748**	835	**563**	604
Interest expense on senior debt securities in issue	**465**	367	**381**	238
Other non-cash items	**541**	9	**63**	65
Pension costs for defined benefit schemes	**98**	85	**–**	–
Share-based payment costs	**152**	100	**–**	–
Impairment losses on loans and advances and other credit risk provisions	**1,362**	2,791	**–**	–
Dividend income from subsidiaries	**–**	–	**(392)**	(204)
Other impairment	**499**	612	**–**	–
Loss on business classified as held for sale	**–**	44	**–**	–
Net gain on derecognition of investment in associate	**(64)**	–	**–**	–
(Profit)/loss from associates and joint ventures	**(268)**	37	**–**	–
Total	**3,241**	4,615	**615**	703

Change in operating assets

	Group		Company	
	2017 $million	2016 $million	**2017 $million**	2016 $million
Decrease/(increase) in derivative financial instruments	**19,246**	(2,692)	**459**	110
(Increase)/decrease in debt securities, treasury bills and equity shares held at fair value through profit or loss	**(5,373)**	718	**–**	–
Increase in loans and advances to banks and customers	**(26,085)**	(3,626)	**–**	–
Net increase in pre-payments and accrued income	**(19)**	(98)	**–**	–
Net increase in other assets	**(1,394)**	(2,588)	**–**	–
Total	**(13,625)**	(8,286)	**459**	110

34. Cash flow statement continued

Change in operating liabilities

	Group		Company	
	2017 $million	2016 $million	**2017 $million**	2016 $million
(Decrease)/increase in derivative financial instruments	**(18,405)**	4,110	**(1,049)**	103
Net increase/(decrease) in deposits from banks, customer accounts, debt securities in issue, Hong Kong notes in circulation and short positions	**23,877**	9,219	**1,599**	(240)
Increase/(decrease) in accruals and deferred income	**68**	(139)	**(7)**	18
Net increase/(decrease) in other liabilities	**279**	(110)	**32**	(500)
Total	**5,819**	13,080	**575**	(619)

Disclosures

	Group		Company	
	2017 $million	2016 $million	**2017 $million**	2016 $million
Subordinated debt (including accrued interest):				
Opening balance	**19,913**	22,295	**14,821**	13,951
Proceeds from the issue	**–**	1,250	**–**	1,250
Interest paid	**(743)**	(920)	**(353)**	(604)
Repayment	**(2,984)**	(2,666)	**(1,249)**	(105)
Foreign exchange movements	**701**	(861)	**536**	(350)
Fair value changes	**11**	(42)	**93**	56
Other	**652**	857	**261**	623
Closing balance	**17,550**	19,913	**14,109**	14,821
Senior debt (including accrued interest):				
Opening balance	**19,800**	21,445	**17,265**	17,432
Proceeds from the issue	**2,292**	5,453	**1,501**	4,385
Interest paid	**(896)**	(454)	**(825)**	(365)
Repayment	**(4,162)**	(6,470)	**(3,237)**	(3,941)
Foreign exchange movements	**882**	(614)	**659**	(543)
Fair value changes	**26**	(14)	**21**	(61)
Other	**1,796**	454	**923**	358
Closing balance	**19,738**	19,800	**16,307**	17,265

35. Cash and cash equivalents

Accounting policy

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, on demand and overnight balances with central banks (unless restricted) and balances with less than three months' maturity from the date of acquisition, including treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

The following balances with less than three months' maturity from the date of acquisition have been identified by the Group as being cash and cash equivalents.

	Group		Company	
	2017 $million	2016 $million	**2017 $million**	2016 $million
Cash and balances at central banks	**58,864**	70,706	**–**	–
Less: restricted balances	**(9,761)**	(8,648)	**–**	–
Treasury bills and other eligible bills	**9,384**	9,163	**–**	–
Loans and advances to banks	**25,729**	23,109	**–**	–
Trading securities	**3,015**	2,647	**–**	–
Amounts owed by and due to subsidiary undertakings	**–**	–	**15,714**	15,230
Total	**87,231**	96,977	**15,714**	15,230

Restricted balances comprise minimum balances required to be held at central banks.

36. Related party transactions

Directors and officers

Details of directors' remuneration and interests in shares are disclosed in the Directors' remuneration report.

IAS 24 Related party disclosures requires the following additional information for key management compensation. Key management comprises non-executive directors, executive directors of Standard Chartered PLC, the court directors of Standard Chartered Bank and the persons discharging managerial responsibilities (PDMR) of Standard Chartered PLC.

	2017 $million	2016 $million
Salaries, allowances and benefits in kind	**35**	37
Share-based payments	**29**	34
Bonuses paid or receivable	**11**	5
	75	76

Transactions with directors and others

At 31 December 2017, the total amounts to be disclosed under the Companies Act 2006 (the Act) and the Listing Rules of the Hong Kong Stock Exchange Limited (HK Listing Rules) about loans to directors were as follows:

	2017		2016	
	Number	$million	Number	$million
Directors	**1**	**–**	2	–

The loan transaction provided to the directors of Standard Chartered PLC was a connected transaction under Chapter 14A of the HK Listing Rules. It was fully exempt as financial assistance under Rule 14A.87(1), as it was provided in our ordinary and usual course of business and on normal commercial terms.

As at 31 December 2017, Standard Chartered Bank had created a charge over $75 million (2016: $68 million) of cash assets in favour of the independent trustee of its employer-financed retirement benefit scheme.

Other than as disclosed in the Annual Report and Accounts, there were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the HK Listing Rules.

Company

The Company has received $848 million (2016: $751 million) of interest income from Standard Chartered Bank. The Company issues debt externally and lends proceeds to Group companies. At 31 December 2017, it had amounts due from Standard Chartered Bank of $12,580 million (2016: $11,625 million), derivative financial assets of $70 million (2016: $529 million) and of $492 million derivative financial liabilities (2016: $1,541 million) with Standard Chartered Bank, amounts due from Standard Chartered Holdings Limited of $80 million (2016: $80 million). At 31 December 2017, it had amounts due from Standard Chartered I H Limited of $298 million (2016: $1,054 million).

The Company has an agreement with Standard Chartered Bank that, in the event of Standard Chartered Bank defaulting on its debt coupon interest payments, where the terms of such debt requires it, the Company shall issue shares as settlement for non-payment of the coupon interest.

Associate and joint ventures

	2017			2016		
	China Bohai Bank $million	Clifford Capital $million	PT Bank Permata $million	China Bohai Bank $million	Clifford Capital $million	PT Bank Permata $million
Assets						
Loans and advances	**–**	**50**	**95**	–	40	90
Debt securities	**–**	**27**	**–**	–	27	–
Derivative assets	**1**	**–**	**–**	–	–	–
Total assets	**1**	**77**	**95**	–	67	90
Liabilities						
Deposits	**219**	**–**	**29**	7	–	29
Debt securities issued	**15**	**–**	**–**	14	–	–
Total liabilities	**234**	**–**	**29**	21	–	29
Loan commitments and other guarantees	**–**	**–**	**–**	–	10	–
Total net income	**5**	**–**	**6**	2	–	–

37. Post balance sheet events

A final dividend for 2017 of 11 cents per ordinary share was declared by the directors after 31 December 2017.

38. Auditor's remuneration

Auditor's remuneration is included within other general administration expenses. The amounts paid by the Group to their principal auditor, KPMG LLP and its associates (together KPMG), are set out below. All services are approved by the Group Audit Committee and are subject to controls to ensure the external auditor's independence is unaffected by the provision of other services.

	2017 $million	2016 $million
Audit fees for the Group statutory audit:		
Fees relating to the current year	**9.4**	5.6
Fees payable to KPMG for other services provided to the Group:		
Audit of Standard Chartered PLC subsidiaries, pursuant to legislation		
Fees relating to the current year	**7.7**	8.5
Total audit and audit-related fees	**17.1**	14.1
Audit-related	**5.4**	5.4
Other services pursuant to legislation	**0.2**	0.2
Tax services	**0.4**	0.4
Services relating to corporate finance transactions	**0.4**	0.7
All other services	**0.4**	0.6
Total fees payable	**23.9**	21.4

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG LLP for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered PLC. They exclude amounts payable for the audit of Standard Chartered PLC's subsidiaries and amounts payable to KPMG LLP's associates. These amounts have been included in fees payable to KPMG for other services provided to the Group
- Audit-related fees consist of fees such as those for services required by law or regulation to be provided by the auditor, reviews of interim financial information, reporting on regulatory returns, reporting to a regulator on client assets and extended work performed over financial information and controls
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings
- Tax services include services which are not prohibited by the European Directive on Statutory Audits of Annual and Consolidated Accounts and the Regulation on Statutory Audits of Public Interest Entities
- Services related to corporate finance transactions include fees payable to KPMG for issuing comfort letters
- All other services include other assurance and advisory services such as ad hoc accounting advice and extended work over controls

Expenses incurred during the provision of services and which have been reimbursed by the Group are included within auditor's remuneration.

39. Standard Chartered PLC (Company)

Classification and measurement of financial instruments

	2017			2016		
Financial assets	**Derivatives held for hedging $million**	**Amortised cost $million**	**Total $million**	Derivatives held for hedging $million	Amortised cost $million	Total $million
Derivatives	**70**	**–**	**70**	529	–	529
Debt securities	**–**	**12,159**	**12,159**	–	15,009	15,009
Amounts owed by subsidiary undertakings	**–**	**15,714**	**15,714**	–	15,230	15,230
Total	**70**	**27,873**	**27,943**	529	30,239	30,768

Derivatives held for hedging are held at fair value and are classified as Level 2 while the counterparty is Standard Chartered Bank.

Debt securities comprise corporate securities issued by Standard Chartered Bank and have a fair value equal to carrying value of $12,159 million (2016: $15,009 million).

In 2017 and 2016, amounts owed by subsidiary undertakings have a fair value equal to carrying value.

	2017			2016		
Financial liabilities	**Derivatives held for hedging $million**	**Amortised cost $million**	**Total $million**	Derivatives held for hedging $million	Amortised cost $million	Total $million
Derivatives	**492**	**–**	**492**	1,541	–	1,541
Debt securities in issue	**–**	**16,169**	**16,169**	–	17,132	17,132
Subordinated liabilities and other borrowed funds	**–**	**13,882**	**13,882**	–	14,582	14,582
Total	**492**	**30,051**	**30,543**	1,541	31,714	33,255

Derivatives held for hedging are held at fair value and are classified as Level 2 while the counterparty is Standard Chartered Bank.

The fair value of debt securities in issue is $16,169 million (2016: $17,132 million) and they have fair value equal to carrying value.

The fair value of subordinated liabilities and other borrowed funds is $14,314 million (2016: $13,970 million).

Derivative financial instruments

	2017			2016		
Derivatives	**Notional principal amounts $million**	**Assets $million**	**Liabilities $million**	Notional principal amounts $million	Assets $million	Liabilities $million
Foreign exchange derivative contracts:						
Currency swaps	**8,038**	**59**	**300**	7,998	–	1,333
Interest rate derivative contracts:						
Swaps	**11,980**	**11**	**192**	17,918	529	208
Total	**20,018**	**70**	**492**	25,916	529	1,541

Credit risk

Maximum exposure to credit risk

	2017 $million	2016 $million
Derivative financial instruments	**70**	529
Debt securities	**12,159**	15,009
Amounts owed by subsidiary undertakings	**15,714**	15,230
Total	**27,943**	30,768

In 2017 and 2016, amounts owed by subsidiary undertakings were neither past due nor impaired; the Company had no individually impaired loans.

In 2017 and 2016, the Company had no impaired debt securities. The debt securities held by the Group are issued by Standard Chartered Bank, a wholly owned subsidiary undertaking with credit ratings of A+/A/A1.

39. Standard Chartered PLC (Company) continued

Liquidity risk

The following table analyses the residual contractual maturity of the assets and liabilities of the Company on a discounted basis:

	2017								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Derivative financial instruments	–	–	–	–	–	2	5	63	70
Investment securities	–	–	–	–	–	–	3,658	8,501	12,159
Amount owed by subsidiary undertakings	271	23	1,577	–	1,613	3,901	5,275	3,054	15,714
Investments in subsidiary undertakings	–	–	–	–	–	–	–	34,853	34,853
Other assets	–	–	–	–	–	–	–	3	3
Total assets	271	23	1,577	–	1,613	3,903	8,938	46,474	62,799
Liabilities									
Derivative financial instruments	–	–	2	–	–	19	283	188	492
Senior debt	–	–	1,326	–	1,499	3,826	4,671	4,847	16,169
Other liabilities	194	72	76	–	24	–	36	3	405
Subordinated liabilities and other borrowed funds	–	–	–	–	–	–	3,094	10,788	13,882
Total liabilities	194	72	1,404	–	1,523	3,845	8,084	15,826	30,948
Net liquidity gap	77	(49)	173	–	90	58	854	30,648	31,851

	2016								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Derivative financial instruments	–	–	–	16	–	1	17	495	529
Investment securities	–	–	–	1,250	1,600	–	1,698	10,461	15,009
Amount owed by subsidiary undertakings	249	98	992	1,500	20	2,873	8,725	773	15,230
Investments in subsidiary undertakings	–	–	–	–	–	–	–	33,853	33,853
Total assets	249	98	992	2,766	1,620	2,874	10,440	45,582	64,621
Liabilities									
Derivative financial instruments	–	–	–	–	240	1	323	977	1,541
Senior debt	–	–	842	1,500	795	2,899	7,858	3,238	17,132
Other liabilities	207	73	72	–	20	–	37	4	413
Subordinated liabilities and other borrowed funds	–	–	–	1,250	–	–	2,250	11,082	14,582
Total liabilities	207	73	914	2,750	1,055	2,900	10,468	15,301	33,668
Net liquidity gap	42	25	78	16	565	(26)	(28)	30,281	30,953

39. Standard Chartered PLC (Company) continued

Financial liabilities on an undiscounted basis

	2017								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Derivative financial instruments	–	–	2	–	–	18	284	188	492
Debt securities in issue	6	10	51	66	1,592	4,151	5,192	5,854	16,922
Subordinated liabilities and other borrowed funds	12	30	33	210	106	617	4,774	15,982	21,764
Other liabilities	192	72	76	–	24	–	36	–	400
Total liabilities	210	112	162	276	1,722	4,786	10,286	22,024	39,578

	2016								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Derivative financial instruments	–	–	–	–	185	2	773	581	1,541
Debt securities in issue	9	14	912	1,546	1,022	2,930	8,479	4,596	19,508
Subordinated liabilities and other borrowed funds	25	28	19	207	24	575	1,726	21,136	23,740
Other liabilities	207	73	72	–	20	–	37	–	409
Total liabilities	241	115	1,003	1,753	1,251	3,507	11,015	26,313	45,198

40. Related undertakings of the Group

As at 31 December 2017 the Group's interests in related undertakings is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of the Group. Note 32 details undertakings that have a significant contribution to the Group's net profit or net assets.

Subsidiary undertakings

Name and registered address	Country of Incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom			
BWA Dependents Limited	United Kingdom	£1.00 Ordinary shares	100
FinVentures UK Limited	United Kingdom	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
SC (Secretaries) Limited	United Kingdom	£1.00 Ordinary shares	100
SC Leaseco Limited	United Kingdom	$1.00 Ordinary shares	100
SC Overseas Investments Limited	United Kingdom	AUD1.00 Ordinary shares	100
		$1.00 Ordinary shares	100
SC Transport Leasing 1 LTD	United Kingdom	£1.00 Ordinary shares	100
SC Transport Leasing 2 Limited	United Kingdom	£1.00 Ordinary shares	100
SCMB Overseas Limited	United Kingdom	£0.10 Ordinary shares	100
St. Helens Nominees Limited[1]	United Kingdom	£1.00 Ordinary shares	100
Stanchart Nominees Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered (GCT) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Africa Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered APR Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Bank	United Kingdom	$0.01 Non-Cumulative Irredeemable Preference shares	100
		$5.00 Non-Cumulative Redeemable Preference shares	100
		$1.00 Ordinary shares	100
Standard Chartered Debt Trading Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Health Trustee (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Holdings Limited[1]	United Kingdom	$2.00 Ordinary shares	100

40. Related undertakings of the Group continued

Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
Standard Chartered I H Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Leasing (UK) 2 Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Leasing (UK) 3 Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Leasing (UK) Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Masterbrand Licensing Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered NEA Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Nominees Limited[1]	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Nominees (Private Clients UK) Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Overseas Holdings Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Securities (Africa) Holdings Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Trustees (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered UK Holdings Limited	United Kingdom	£10.00 Ordinary shares	100
The SC Transport Leasing Partnership 1[2]	United Kingdom	Limited Partnership interest	100
The SC Transport Leasing Partnership 2[2]	United Kingdom	Limited Partnership interest	100
The SC Transport Leasing Partnership 3[2]	United Kingdom	Limited Partnership interest	100
The SC Transport Leasing Partnership 4[2]	United Kingdom	Limited Partnership interest	100
The BW Leasing Partnership 1 LP[2]	United Kingdom	Limited Partnership interest	99.9
The BW Leasing Partnership 2 LP[2]	United Kingdom	Limited Partnership interest	99.9
The BW Leasing Partnership 3 LP[2]	United Kingdom	Limited Partnership interest	99.9
The BW Leasing Partnership 4 LP[2]	United Kingdom	Limited Partnership interest	99.9
The BW Leasing Partnership 5 LP[2]	United Kingdom	Limited Partnership interest	99.9
The following company has the address of Rua Gamal Abdel Nasser, Edificio Tres Torres, Eixo Viario, Distrito Urbano da Ingombota, Municipio de Luanda, Provincia de Luanda, Angola			
Standard Chartered Bank Angola S.A.	Angola	AOK6,475.62 Ordinary shares	60
The following company has the address of Level 5, 345 George St, Sydney NSW 2000, Australia			
Standard Chartered Grindlays Pty Limited	Australia	AUD Ordinary shares	100
The following companies have the address of 5th Floor Standard House Bldg, The Mall, Queens Road, PO Box 496, Gaborone, Botswana			
Standard Chartered Bank Botswana Insurance Agency (Proprietary) Limited	Botswana	BWP1.00 Ordinary shares	100
Standard Chartered Bank Botswana Investment Services (Pty) Limited	Botswana	BWP1.00 Ordinary shares	100
Standard Chartered Bank Botswana Limited	Botswana	BWP1.00 Ordinary shares	75.8
Standard Chartered Botswana Education Trust[3]	Botswana	Interest in trust	100
Standard Chartered Botswana Nominees (Proprietary) Limited	Botswana	BWP Ordinary shares	100
The following companies have the address of Avenida Brigadeiro Faria Lima, 3600 – 7th floor, Sao Paulo, Sao Paulo, 04538-132, Brazil			
Standard Chartered Bank (Brasil) S.A. – Banco de Investimento	Brazil	BRL Ordinary shares	100
Standard Chartered Participacoes E Assessoria Economica Ltda	Brazil	BRL0.51 Common shares	100
The following company has the address of 51-55 Jalan Sultan, Complex Jalan sultan, Bandar Seri Begawan, BS8811, Brunei Darussalam			
Standard Chartered Finance (Brunei) Bhd	Brunei Darussalam	BND1.00 Ordinary shares	100
The following company has the address of G01-02, Wisma Haji Mohd Taha Building, Jalan Gadong, BE4119, Brunei Darussalam			
Standard Chartered Securities (B) Sdn Bhd	Brunei Darussalam	BND1.00 Ordinary shares	100
The following company has the address of 1155, Boulevard de la Liberté, Douala, B.P. 1784, Cameroon			
Standard Chartered Bank Cameroon S.A	Cameroon	XAF10,000.00 shares	100

40. Related undertakings of the Group continued

Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of 20 Adelaide Street, Suite 1105 , Toronto ON M5C 2T6 Canada			
Standard Chartered (Canada) Limited	Canada	CAD1.00 Ordinary shares	100
The following company has the address of Maples Finance Limited, PO Box 1093 GT, Queensgate House, Georgetown, Grand Cayman, Cayman Islands			
SCB Investment Holding Company Limited	Cayman Islands	$1,000.00 A Ordinary shares	100
The following company has the address of Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands			
Ocean Horizon Holdings South Ltd	Cayman Islands	$1.00 Ordinary shares	100
The following companies have the address of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road George Town, Grand Cayman KY1-9008, Cayman Islands			
Sirat Holdings Limited	Cayman Islands	$0.01 Ordinary shares	91
		$0.01 Preference shares	66.7
Standard Chartered Corporate Private Equity (Cayman) Limited	Cayman Islands	$1.00 Ordinary shares	100
Standard Chartered International Partners	Cayman Islands	$1.00 Ordinary shares	100
Standard Chartered Principal Finance (Cayman) Limited	Cayman Islands	$1.00 Ordinary shares	100
Standard Chartered Private Equity (Cayman) Limited	Cayman Islands	$1.00 Ordinary shares	100
The following company has the address of Mourant Ozannes Corporate Services (Cayman) Limited, Harbour Centre, 42 North Church Street, PO Box 1348, Grand Cayman KY1-1108, Cayman Islands			
Sunflower Cayman SPC[2]	Cayman Islands	$1.00 Management shares	100
The following companies have the address of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands			
Cerulean Investments LP	Cayman Islands	Limited Partnership interest	100
Standard Chartered Saadiq Mudarib Company Limited	Cayman Islands	$1.00 Ordinary shares	100
The following companies have the address of Unit 2 – 101, Building 3, Haifeng Logistics Park, No. 600 Luoyang Road, Tianjin, Dongjiang Free Trade Port Zone, China			
Pembroke Aircraft Leasing (Tianjin) Limited	China	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing Tianjin 1 Limited	China	CNY1.00 Ordinary shares	100
Pembroke Aircraft Leasing Tianjin 2 Limited	China	CNY1.00 Ordinary shares	100
The following company has the address of Standard Chartered Tower, 201 Century Avenue, Pudong, Shanghai, 200120, China			
Standard Chartered Bank (China) Limited	China	CNY Ordinary shares	100
The following company has the address of Unit 5, 12th Floor, Standard Chartered Tower, World Finance, No 1 East Third Ring Middle Road, Chaoyang District, Beijing, 100020, China			
Standard Chartered Corporate Advisory Co. Ltd	China	$1.00 Ordinary shares	100
The following company has the address of No. 188 Yeshen Rd, 11F, A-1161 RM, Pudong New District, Shanghai, 31201308, China			
Standard Chartered Trading (Shanghai) Limited	China	$15,000,000.00 Ordinary shares	100
The following company has the address of No. 35, Xinhuanbei Road, TEDA, Tianjin, 300457, China			
Standard Chartered Global Business Services Co. Limited	China	$ Ordinary shares	100
The following company has the address of Standard Chartered Bank Cote d'Ivoire, 23 Boulevard de la République, Abidjan 17, 17 B.P. 1141, Cote d'Ivoire			
Standard Chartered Bank Cote d' Ivoire SA	Cote d'Ivoire	XOF100,000.00 Ordinary shares	100
The following company has the address of Standard Chartered Bank France, 32 Rue de Monceau,75008, Paris, France			
Pembroke Lease France SAS	France	€1.00 Ordinary shares	100

40. Related undertakings of the Group continued

Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of 8 Ecowas Avenue, PMB 259 Banjul, The Gambia			
Standard Chartered Bank Gambia Limited	Gambia	GMD1.00 Ordinary shares	74.9
The following company has the address of Standard Chartered Bank Germany Branch, Franklinstraße 46-48, 60486, Frankfurt am Main, Germany			
Standard Chartered AG	Germany	€ Ordinary shares	100
The following companies have the address of Standard Chartered Bank Building, 6 John Evans Atta Mills High Street,P.O. Box 768, Accra,Ghana			
Standard Chartered Bank Ghana Limited	Ghana	GHS Ordinary shares	69.4
		GHS0.52 Preference shares	87.0
Standard Chartered Ghana Nominees Limited	Ghana	GHS Ordinary shares	100
The following companies have the address of Bordeaux Court Les Echelons, South Esplanade, St.Peter Port, Guernsey			
Birdsong Limited	Guernsey	£1.00 Ordinary shares	100
Nominees One Limited	Guernsey	£1.00 Ordinary shares	100
Nominees Two Limited	Guernsey	£1.00 Ordinary shares	100
Songbird Limited	Guernsey	£1.00 Ordinary shares	100
Standard Chartered Secretaries (Guernsey) Limited	Guernsey	£1.00 Ordinary shares	100
Standard Chartered Trust (Guernsey) Limited	Guernsey	£1.00 Ordinary shares	100
The following companies have the address of 1401 Hutchison House, 10 Harcourt Road, Hong Kong			
Double Wings Limited	Hong Kong	HKD1.00 Ordinary shares	100
Kozagi Limited	Hong Kong	HKD10.00 Ordinary shares	100
Majestic Legend Limited	Hong Kong	HKD1.00 Ordinary shares	100
Ori Private Limited	Hong Kong	$1.00 Ordinary shares	100
		$1.00 A Ordinary shares	90.8
Rivendell Private Limited	Hong Kong	$1.00 A Ordinary shares	84.8
Standard Chartered PF Real Estate (Hong Kong) Limited	Hong Kong	HKD10.00 Ordinary shares	100
The following company has the address of 15th Floor, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Hong Kong			
Horsford Nominees Limited	Hong Kong	HKD Ordinary shares	100
The following companies have the address of 25/F, Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong			
Marina Acacia Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Amaryllis Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Amethyst Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Ametrine Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Angelite Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Apollo Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Beryl Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Carnelian Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Emerald Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Flax Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Gloxinia Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Hazel Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Honor Shipping Limited	Hong Kong	HKD Ordinary shares	100
		$ Ordinary shares	100
Marina Ilex Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Iridot Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Kunzite Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Leasing Limited	Hong Kong	$ Ordinary shares	100

40. Related undertakings of the Group continued

Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
Marina Mimosa Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Moonstone Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Peridot Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Sapphire Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Splendor Shipping Limited	Hong Kong	HKD Ordinary shares	100
		$ Ordinary shares	100
Marina Tourmaline Shipping Limited	Hong Kong	$ Ordinary shares	100
Standard Chartered Leasing Group Limited	Hong Kong	$ Ordinary shares	100
Standard Chartered Trade Support (HK) Limited	Hong Kong	HKD Ordinary shares	100
The following company has the address of 13/F, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong			
S C Learning Limited	Hong Kong	HKD Ordinary shares	100
The following company has the address of 21/F, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong			
Standard Chartered Asia Limited	Hong Kong	HKD Deferred shares	100
		HKD Ordinary shares	100
The following companies have the address of 32nd Floor, 4-4A Des Voeux Road, Central, Hong Kong			
Standard Chartered Sherwood (HK) Limited	Hong Kong	HKD Ordinary shares	100
Standard Chartered Bank (Hong Kong) Limited	Hong Kong	HKD A Ordinary shares	100
		HKD B Ordinary shares	100
		$ Preference shares	100
The following company has the address of L5 The Forum, Exchange Square, 8 Connaught Place, Central, Hong Kong			
Standard Chartered Global Trading Investments Limited	Hong Kong	HKD Ordinary shares	100
The following companies have the address of 20/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong			
Standard Chartered Private Equity Limited	Hong Kong	HKD1.00 Ordinary shares	100
Standard Chartered Private Equity Managers (Hong Kong) Limited	Hong Kong	HKD Ordinary shares	100
The following company has the address of 15/F, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong			
Standard Chartered Securities (Hong Kong) Limited	Hong Kong	HKD Ordinary shares	100
The following company has the address of 17/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong			
Standard Chartered Trust (Hong Kong) Limited	Hong Kong	HKD10.00 Ordinary shares	100
The following company has the address of Room 1305, 13/F, Shun Tak Center West Tower, 200 Connaught Road, Hong Kong			
Union Town Limited	Hong Kong	HKD1.00 Ordinary shares	100
The following company has the address of 1st Floor, Europe Building, No.1, Haddows Road, Nungambakkam, Chennai, 600 006, India			
Standard Chartered Global Business Services Private Limited	India	INR10.00 Equity shares	100
The following company has the address of 1st Floor, Crescenzo, Plot no. C-38 & 39, G-Block, Bandra (East), Mumbai, Maharashtra, 400 051, India			
St Helen's Nominees India Private Limited	India	INR10.00 Equity shares	100
The following company has the address of 90 M.G.Road, II Floor, FORT, Mumbai, MAHARASHTRA, 400 001, India			
Standard Chartered Finance Private Limited	India	INR10.00 Ordinary shares	98.7
The following company has the address of 6th Floor, Crescenzo, Plot No 38-39, G-Block, Bandra Kurla Complex, Bandra East, Mumbai, Maharashtra, 400051, India			
Standard Chartered Investments and Loans (India) Limited	India	INR10.00 Ordinary shares	100

40. Related undertakings of the Group continued

Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of Floor no.7, Crescenzo Building, C-38-39, G"-Block, Bandra Kurla Complex, Bandra East, Mumbai, Maharashtra, 400051, India			
Standard Chartered Private Equity Advisory (India) Private Limited	India	INR1,000.00 Ordinary shares	100
The following company has the address of 2nd Floor, 23-25 M.G. Road, Fort, Mumbai, 400 001, India			
Standard Chartered Securities (India) Limited	India	INR10.00 Ordinary shares	100
The following company has the address of 6th Floor, Crescenzo, Plot No.C-38-39, G-Block, Bandra Kurla Complex, Bandra (East), , Mumbai, Maharashtra, 400051, India			
Standard Chartered (India) Modeling and Analytics Centre Private Limited	India	INR10.00 Ordinary shares	100
The following company has the address of Menara Standard Chartered, 3rd Floor, Jl. Prof. Dr. Satrio no. 164, Setiabudi, Jarkarta, Selatan, Indonesia			
PT Standard Chartered Sekuritas Indonesia	Indonesia	IDR100,000,000.00 Ordinary shares	99
The following company has the address of Menara Standard Chartered, 7th floor, Jl. Prof. Dr. Satrio no. 164, Jakarta, 12930, Indonesia			
PT. Price Solutions Indonesia	Indonesia	$100.00 Ordinary shares	100
The following companies have the address of 33-41 Lower Mount Street, Dublin 2, Ireland			
Inishbrophy Leasing Limited	Ireland	€1.00 Ordinary shares	100
Inishcannon Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishcorky Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishcrean Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishdawson Leasing Limited	Ireland	€1.00 Ordinary shares	100
Inisherkin Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishgort Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishlynch Leasing Limited	Ireland	€1.00 Ordinary shares	100
Inishoo Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishquirk Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishtubrid Leasing Limited	Ireland	$1.00 Ordinary shares	100
Nightjar Limited	Ireland	$1.00 Ordinary shares	100
Pembroke 7006 Leasing Limited	Ireland	€1.25 Ordinary shares	100
Pembroke Aircraft Leasing 1 Limited	Ireland	€1.00 Ordinary shares	100
Pembroke Aircraft Leasing 2 Limited	Ireland	€1.00 Ordinary shares	100
Pembroke Aircraft Leasing 3 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 4 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 5 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 6 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 7 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 8 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 9 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 10 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 11 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 12 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing Holdings Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Alpha Limited	Ireland	€1.00 Ordinary shares	100
Pembroke Capital Limited	Ireland	€1.25 Ordinary shares	100
		$1.00 Ordinary shares	100
Pembroke Capital Shannon Limited	Ireland	€1.25 Ordinary shares	100
Skua Limited	Ireland	$1.00 Ordinary shares	100
The following company has the address of First Names House, Victoria Road, Douglas, IM2 4DF, Isle of Man			
Pembroke Group Limited	Isle of Man	$0.01 Ordinary shares	100

40. Related undertakings of the Group continued

Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE, Isle of Man			
Standard Chartered Assurance Limited	Isle of Man	$1.00 Ordinary shares	100
		$1.00 Redeemable Preference shares	100
Standard Chartered Insurance Limited	Isle of Man	$1.00 Ordinary shares	100
The following company has the address of 21/F, Sanno Park Tower, 2-11-1 Nagatacho, Chiyoda-ku, Tokyo, 100-6155, Japan			
Standard Chartered Securities (Japan) Limited	Japan	JPY50,000 Ordinary shares	100
The following company has the address of Lime Grove House, Green Street, St Helier, JE1 2ST, Jersey			
Ocean Horizon Holdings East Limited	Jersey	$1.00 Ordinary shares	100
The following company has the address of 4/F St Pauls Gate, 22-24 New Street, St Helier,Channel Islands, JE1 4TR, Jersey			
Ocean Horizon Holdings West Limited	Jersey	$1.00 Ordinary shares	100
The following company has the address of 15 Castle Street, St Helier, JE4 8PT, Jersey			
SCB Nominees (CI) Limited	Jersey	$1.00 Ordinary shares	100
The following company has the address of 13 Castle Street, St Helier, JE4 5UT, Jersey			
Standard Chartered Funding (Jersey) Limited[1]	Jersey	£1.00 Ordinary shares	100
The following companies have the address of Standard Chartered Chiromo, Number 48, Westlands Road, P. O. Box 30003 – 00100, Nairobi, Kenya			
Standard Chartered Investment Services Limited	Kenya	KES1.00 Ordinary shares	100
Standard Chartered Bank Kenya Limited	Kenya	KES5.00 Ordinary shares	74.3
		KES5.00 Preference shares	100
Standard Chartered Securities (Kenya) Limited	Kenya	KES10.00 Ordinary shares	100
Standard Chartered Financial Services Limited	Kenya	KES20.00 Ordinary shares	100
Standard Chartered Insurance Agency Limited	Kenya	KES100.00 Ordinary shares	100
Standard Chartered Kenya Nominees Limited	Kenya	KES20.00 Ordinary shares	100
The following company has the address of M6-2701, West 27Fl, Suha-dong, 26, Eulji-ro 5-gil, Jung-gu, Seoul, Korea, Republic of			
Resolution Alliance Korea Ltd	Korea, Republic of	KRW5,000.00 Ordinary shares	100
The following company has the address of 47 Jongno, Jongno-gu, Seoul, 110-702, Korea, Republic of			
Standard Chartered Bank Korea Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	100
The following companies have the address of 17th Floor, 100, Gongpyeong-dong, Jongno-gu, Seoul, Korea, Republic of			
Standard Chartered Private Equity Korea II	Korea, Republic of	KRW1,000,000.00 Ordinary shares	100
Standard Chartered Private Equity Managers Korea Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	100
The following company has the address of 2F, 47 Jongno, Jongno-gu, Seoul, 110-702, Korea, Republic of			
Standard Chartered Securities Korea Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	100
The following company has the address of Atrium Building, Maarad Street, 3rd Floor, P.O.Box: 11-4081 Riad El Solh, Beirut, Beirut Central District, Lebanon			
Standard Chartered Metropolitan Holdings SAL	Lebanon	$10.00 Ordinary A shares	100
The following companies have the address of Level 16, Menara Standard Chartered, 30, Jalan Sultan Ismail, 50250, Kuala Lumpur, Malaysia			
Amphissa Corporation Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Cartaban (Malaya) Nominees Sdn Berhad	Malaysia	RM10.00 Ordinary shares	100
Cartaban Nominees (Asing) Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Cartaban Nominees (Tempatan) Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Golden Maestro Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Popular Ambience Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Price Solutions Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100

40. Related undertakings of the Group continued

Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
SCBMB Trustee Berhad	Malaysia	RM10.00 Ordinary shares	100
Standard Chartered Bank Malaysia Berhad	Malaysia	RM0.10 Irredeemable Cumulative Preference shares	100
		RM1.00 Ordinary shares	100
Standard Chartered Saadiq Berhad	Malaysia	RM1.00 Ordinary shares	100
The following companies have the address of Brumby Centre, Lot 42, Jalan Muhibbah, 87000, Labuan F.T., Malaysia			
Marina Morganite Shipping Limited	Malaysia	$ Ordinary shares	100
Marina Moss Shipping Limited	Malaysia	$1.00 Ordinary shares	100
Marina Tanzanite Shipping Limited	Malaysia	$ Ordinary shares	100
Pembroke Leasing (Labuan) 2 Berhad	Malaysia	$1.00 Ordinary shares	100
Pembroke Leasing (Labuan) 3 Berhad	Malaysia	$1.00 Ordinary shares	100
Pembroke Leasing (Labuan) Pte Limited	Malaysia	$1.00 Ordinary shares	100
The following company has the address of 12th Floor, Menara KH, Jalan Sultan Ismail, 50250 Kuala Lumpur, Wilayah Persekutuan, Malaysia			
Resolution Alliance Sdn Bhd[2]	Malaysia	RM1.00 Ordinary shares	91
The following company has the address of Level 7, Wisma Standard Chartered, Jalan Teknologi 8, Taman Teknologi Malaysia, 57000, Bukit Jalil, Kuala Lumpur, Wilayah Persekutuan, Malaysia			
Standard Chartered Global Business Services Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
The following companies have the address of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands			
Marina Alysse Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Amandier Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Ambroisee Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Angelica Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Aquamarine Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Aventurine Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Buxus Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Celsie Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Citrine Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Dahlia Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Dittany Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Dorado Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Lilac Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Lolite Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Obsidian Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Pissenlet Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Poseidon Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Protea Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Quartz Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Remora Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Turquoise Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Zeus Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Zircon Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
The following company has the address of 6th Floor, Standard Chartered Tower, 19, Bank Street, Cybercity, Ebene, 72201, Mauritius			
Standard Chartered Bank (Mauritius) Limited	Mauritius	$10.00 Ordinary shares	100

40. Related undertakings of the Group continued

Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of c/o Abax Corporate Services Ltd, 6th Floor, Tower A, 1 CYBERCITY, Ebene, Mauritius			
Standard Chartered Financial Holdings	Mauritius	$1.00 Ordinary shares	100
Standard Chartered Private Equity (Mauritius) II Limited	Mauritius	$1.00 Ordinary shares	100
Standard Chartered Private Equity (Mauritius) Limited	Mauritius	$1.00 Ordinary shares	100
		$ Redeemable Preference shares	100
Standard Chartered Private Equity (Mauritius) III Limited	Mauritius	$1.00 Ordinary shares	100
The following company has the address of 5th Floor, Ebene Esplanade, 24 Bank Street, Cybercity, Ebene, Mauritius			
Subcontinental Equities Limited	Mauritius	$1.00 Ordinary shares	100
The following company has the address of Standard Chartered Bank Nepal Limited, Madan Bhandari Marg, Ward No.34, Kathmandu Metropolitan City, Kathmandu District, Bagmati Zone, Kathmandu, Nepal			
Standard Chartered Bank Nepal Limited	Nepal	NPR100.00 Ordinary shares	70.2
The following companies have the address of Hoogoorddreef 15, 1101 BA, Amsterdam, Netherlands			
Pembroke B717 Holdings B.V.	Netherlands	€1.00 Ordinary shares	100
Pembroke Holland B.V.	Netherlands	€450.00 Ordinary shares	100
The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom			
Smart Application Investment B.V.	Netherlands	€45.00 Ordinary shares	100
Standard Chartered Holdings (Africa) B.V.	Netherlands	€4.50 Ordinary shares	100
Standard Chartered Holdings (Asia Pacific) B.V.	Netherlands	€4.50 Ordinary shares	100
Standard Chartered Holdings (International) B.V.	Netherlands	€4.50 Ordinary A shares	100
		€4.50 Ordinary B shares	100
		€4.50 Ordinary C shares	100
		€4.50 Ordinary D shares	100
		€4.50 Ordinary E shares	100
		€4.50 Ordinary F shares	100
		€4.50 Ordinary G shares	100
Standard Chartered MB Holdings B.V.	Netherlands	€4.50 Ordinary shares	100
The following companies have the address of 142 Ahmadu Bello Way, Victoria Island, Lagos, Nigeria			
Cherroots Nigeria Limited	Nigeria	NGN1.00 Ordinary shares	100
Standard Chartered Bank Nigeria Limited	Nigeria	NGN1.00 Irredeemable Non Cumulative Preference shares	100
		NGN1.00 Ordinary shares	100
		NGN1.00 Redeemable Preference shares	100
Standard Chartered Capital & Advisory Nigeria Limited	Nigeria	NGN1.00 Ordinary shares	100
Standard Chartered Nominees (Nigeria) Limited	Nigeria	NGN1.00 Ordinary shares	100
The following company has the address of 3rd Floor Main SCB Building, I.I Chundrigar Road, Karachi, Sindh, 74000, Pakistan			
Price Solution Pakistan (Private) Limited[1]	Pakistan	PKR10.00 Ordinary shares	100
The following company has the address of P.O. Box No. 5556I.I. Chundrigar Road, Karachi, 74000, Pakistan			
Standard Chartered Bank (Pakistan) Limited	Pakistan	PKR10.00 Ordinary shares	99
The following company has the address of Offshore Chambers, PO Box 217, Apia, Western Samoa			
Standard Chartered Nominees (Western Samoa) Limited	Samoa	$1.00 Ordinary shares	100

40. Related undertakings of the Group continued

Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of Al Faisaliah Office Tower Floor No 7 (T07D), King Fahad Highway, Olaya District, Riyadh P.O box 295522, Riyadh, 11351, Saudi Arabia			
Standard Chartered Capital (Saudi Arabia)	Saudi Arabia	SAR10.00 Ordinary shares	100
The following company has the address of 9 & 11, Lightfoot Boston Street, Freetown, Sierra Leone			
Standard Chartered Bank Sierra Leone Limited	Sierra Leone	SLL1.00 Ordinary shares	80.7
The following company has the address of 8 Marina Boulevard, #23-01 Marina Bay Financial Centre, 018981, Singapore			
Greenman Pte. Ltd.	Singapore	SGD1.00 Class A Preferred shares	100
		SGD1.00 Class B Preferred shares	100
		SGD1.00 Ordinary shares	100
The following companies have the address of 8 Marina Boulevard, Level 26, Marina Bay Financial Centre, Tower 1, 018981, Singapore			
Marina Aquata Shipping Pte. Ltd.	Singapore	$ Ordinary shares	100
Marina Aruana Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
		$ Ordinary shares	100
Marina Aster Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Cobia Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
		$ Ordinary shares	100
Marina Daffodil Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Fatmarini Shipping Pte. Ltd.	Singapore	$ Ordinary shares	100
Marina Frabandari Shipping Pte. Ltd.	Singapore	$ Ordinary shares	100
Marina Freesia Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Gerbera Shipping Pte. Ltd.	Singapore	$ Ordinary shares	100
Marina Mars Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Mercury Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Opah Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
		$ Ordinary shares	100
Marina Partawati Shipping Pte. Ltd.	Singapore	$ Ordinary shares	100
Marina Poise Shipping Pte. Ltd.	Singapore	$ Ordinary shares	100
The following companies have the address of 231A Pandan Loop, 128419, Singapore			
Phoon Huat Pte. Ltd.	Singapore	SGD1.00 Ordinary shares	70
Redman Pte. Ltd.	Singapore	SGD1.00 Ordinary shares	70
The following company has the address of 7 Changi Business Park Crescent, #03-00 Standard Chartered @ Changi, 486028, Singapore			
Raffles Nominees (Pte.) Limited	Singapore	SGD Ordinary shares	100
The following company has the address of 8 Marina Boulevard, Marina Bay Financial Centre Tower 1, Level 23, 018981, Singapore			
SCM Real Estate (Singapore) Private Limited	Singapore	SGD1.00 Ordinary shares	100
The following companies have the address of 8 Marina Boulevard, #27-01 Marina Bay Financial Centre Tower 1, 018981, Singapore			
SCTS Capital Pte. Ltd	Singapore	SGD Ordinary shares	100
SCTS Management Pte. Ltd.	Singapore	SGD Ordinary shares	100
Standard Chartered (2000) Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Bank (Singapore) Limited	Singapore	SGD Ordinary shares	100
		SGD Preference shares	100
Standard Chartered Trust (Singapore) Limited	Singapore	SGD Ordinary shares	100
Standard Chartered Holdings (Singapore) Private Limited	Singapore	SGD Ordinary shares	100

40. Related undertakings of the Group continued

Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of Abogado Pte Ltd, No. 8 Marina Boulevard, #05-02 MBFC Tower 1, 018981, Singapore			
Standard Chartered IL&FS Management (Singapore) Pte. Limited	Singapore	$1.00 Ordinary shares	50
The following company has the address of 9 Battery Road, #15-01 Straits Trading Building, 049910, Singapore			
Standard Chartered Nominees (Singapore) Pte Ltd	Singapore	SGD1.00 Ordinary shares	100
The following company has the address of Marina Bay Financial Centre (Tower 1), 8 Marina Boulevard, #05-02, 018981, Singapore			
Standard Chartered PF Managers Pte. Limited	Singapore	$1.00 Ordinary shares	100
The following companies have the address of Marina Bay Financial Centre (Tower 1), 8 Marina Boulevard, Level 23, 018981, Singapore			
Standard Chartered Private Equity (Singapore) Pte. Ltd	Singapore	$ Ordinary shares	100
		$ Redeemable Preference shares	100
Standard Chartered Private Equity Managers (Singapore) Pte. Ltd	Singapore	$ Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) I Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) II Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) III Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) IV Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) V Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) VI Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) VII Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) VIII Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment Holdings (Singapore) Private Limited	Singapore	SGD1.00 Ordinary shares	100
The following companies have the address of 5th Floor, 4 Sandown Valley Crescent, Sandton, Gauteng, 2196, South Africa			
CMB Nominees Proprietary Limited	South Africa	ZAR1.00 Ordinary shares	100
Standard Chartered Nominees South Africa Proprietary Limited (RF)	South Africa	ZAR Ordinary shares	100
The following company has the address of 1, 2, 4, 7, 9, 10F, No. 168/170 &, 8F, 12F, no.168, Tun Hwa N. Rd., Songshan Dist., Taipei, 105, Taiwan			
Standard Chartered Bank (Taiwan) Limited	Taiwan	TWD10.00 Ordinary shares	100
The following companies have the address of 1st Floor, International House, Shaaban Robert Street / Garden Avenue, PO Box 9011, Dar Es Salaam, Tanzania, United Republic of			
Standard Chartered Bank Tanzania Limited	Tanzania, United Republic of	TZS1,000.00 Ordinary shares	100
		TZS1,000.00 Preference shares	100
Standard Chartered Tanzania Nominees Limited	Tanzania, United Republic of	TZS1,000.00 Ordinary shares	100
The following company has the address of 90 North Sathorn Road, Silom, Bangrak Bangkok , 10500, Thailand			
Standard Chartered Bank (Thai) Public Company Limited	Thailand	THB10.00 Ordinary shares	99.9
The following company has the address of Buyukdere Cad. Yapi Kredi Plaza C Blok, Kat 15, Levent, Istanbul, 34330, Turkey			
Standard Chartered Yatirim Bankasi Turk Anonim Sirketi	Turkey	TRL0.10 Ordinary shares	100
The following company has the address of Standard Chartered Bank, Bldg5 Speke Road, PO Box 7111, Kampala, Uganda			
Standard Chartered Bank Uganda Limited	Uganda	UGS1,000.00 Ordinary shares	100

40. Related undertakings of the Group continued

Subsidiary undertakings continued

Name and registered address	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of 625 2nd Street, #102, San Francisco CA 94107, United States			
SC Studios, LLC	United States	Membership Interest	100
The following company has the address of Standard Chartered Bank, 37F, 1095 Avenue of the Americas, New York, 10036, United States			
Standard Chartered Bank International (Americas) Limited	United States	$1.00 Ordinary shares	100
The following companies have the address of Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, United States			
Standard Chartered Holdings Inc.	United States	$100.00 Common shares	100
StanChart Securities International LLC	United States	Membership Interest	100
Standard Chartered Capital Management (Jersey), LLC	United States	Membership Interest	100
Standard Chartered Securities (North America) LLC	United States	Membership Interest	100
Standard Chartered International (USA) LLC	United States	Membership Interest	100
The following company has the address of 50 Fremont Street, San Francisco CA 94105, United States			
Standard Chartered Overseas Investment, Inc.	United States	$10.00 Ordinary shares	100
The following company has the address of 1013 Centre Road, Wilmington, Delaware, USA			
Standard Chartered Trade Services Corporation	United States	$0.01 Common shares	100
The following company has the address of Room 1810-1815, Level 18, Building 72, Keangnam Hanoi Landmark Tower, Pham Hung Road, Cau Giay New Urban Area, Me Tri Ward, Nam Tu Liem District, Hanoi10000, Vietnam			
Standard Chartered Bank (Vietnam) Limited	Vietnam	VND Charter Capital shares	100
The following companies have the address of P.O.Box 438, Palm Grove House, Road Town, Tortola, Virgin Islands, British			
California Rose Limited	Virgin Islands, British	$1.00 Ordinary shares	90.5
Earnest Range Limited	Virgin Islands, British	$1.00 Ordinary shares	90.5
The following companies have the address of Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, Virgin Islands, British			
Sky Favour Investments Limited	Virgin Islands, British	$1.00 Ordinary shares	100
Sky Harmony Holdings Limited	Virgin Islands, British	$1.00 Ordinary shares	100
The following companies have the address of Standard Chartered House, Cairo Road, Lusaka, PO BOX 32238, Zambia			
Standard Chartered Bank Zambia Plc	Zambia	ZMW0.25 Ordinary shares	90
Standard Chartered Zambia Securities Services Nominees Limited	Zambia	ZMK1.00 Ordinary shares	100
The following companies have the address of Africa Unitry Square Building, 68 Nelson Mandela Avenue, Harare, Zimbabwe			
Standard Chartered Asset Management Limited	Zimbabwe	$0.001 Ordinary shares	100
Standard Chartered Bank Zimbabwe Limited	Zimbabwe	$1.00 Ordinary shares	100
Standard Chartered Nominees Zimbabwe (Private) Limited	Zimbabwe	$2.00 Ordinary shares	100

1 Directly held by parent company of the Group

2 The Group has determined that these undertakings are excluded from being consolidated into the Group's accounts, and do not meet the definition of a Subsidiary under IFRS. See notes 32 and 33 for the consolidation policy and disclosure of the undertaking

3 No share capital by virtue of being a trust

40. Related undertakings of the Group continued

Associates

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of Bohai Bank Building, No.218 Hai He Dong Lu, Hedong District, Tianjin, China, 300012, China			
China Bohai Bank Co. Ltd	China	CNY Ordinary shares	19.9
The following company has the address of C/o CIM Corporate Services Ltd, Les Cascades, Edith Cavell Street, Port Louis, Mauritius			
FAI Limited	Mauritius	$1.00 Ordinary shares	25
The following company has the address of Victoria House, State House Avenue, Victoria, MAHE, Seychelles			
Seychelles International Mercantile Banking Corporation Limited	Seychelles	SCR1,000.00 Ordinary shares	22
The following company has the address of Marina Bay Financial Centre, 17-03, MBFC Tower 3, 12 Marina Boulevard, 018981, Singapore			
Clifford Capital Pte. Ltd	Singapore	$1.00 Ordinary shares	9.9

Joint ventures

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of WTC II Building, Jalan Jenderal Sudirman Kav29-31, Jakarta, 12920' Indonesia			
PT Bank Permata Tbk	Indonesia	IDR125.00 B shares	44.6
The following companies have the address of 33-41 Lower Mount Street, Dublin 2, Ireland			
Canas Leasing Limited	Ireland	$1 Ordinary shares	50
Elviria Leasing Limited	Ireland	$1 Ordinary shares	33.3
The following company has the address of 100/36 Sathorn Nakorn Tower, Fl 21 North Sathorn Road, Silom Sub-District, Bangrak District, Bangkok, 10500, Thailand			
Resolution Alliance Limited	Thailand	THB10.00 Ordinary shares	49

Significant investment holdings and other related undertakings

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of 65A Basinghall Street, London, EC2V 5DZ, United Kingdom			
Cyber Defence Alliance Limited	United Kingdom	Membership interest	25
The following company has the address of Walker House, 87 Mary Street, George Town, KY1-9005, Cayman Islands			
Asia Trading Holdings Limited	Cayman Islands	$0.01 Ordinary shares	50
The following company has the address of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands			
ATSC Cayman Holdco Limited	Cayman Islands	$0.01 A Ordinary shares	5.3
		$0.01 B Ordinary shares	100
The following companies have the address of Harbour Centre #42 North Church Street, PO Box 1348, Grand Cayman, KY1-1108 Cayman Islands			
Standard Chartered IL&FS Asia Infrastructure (Cayman) Limited	Cayman Islands	$0.01 Ordinary shares	50
Standard Chartered IL&FS Asia Infrastructure Growth Fund Company Limited	Cayman Islands	$1.00 Ordinary shares	50
Standard Chartered IL&FS Asia Infrastructure Growth Fund, L.P.	Cayman Islands	Partnership interest	38.6

40. Related undertakings of the Group continued

Significant investment holdings and other related undertakings continued

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands			
Greathorse Chemical Limited	Cayman Islands	$1.00 Ordinary shares	33.0
Hygienic Group	Cayman Islands	$0.01 Redeemable Exchangeable Preferred shares	29.3
The following company has the address of PO Box 31493, George Town, Grand Cayman, KY1-1206, Cayman Islands			
Chayora Holdings Limited	Cayman Islands	$0.01 Series B Preferred Shares	100
The following company has the address of Unit 4, 14F Ke Chuang Building, No. 16 Buzheng Lane, Haishu District, Ningbo, China			
Ningbo Xingxin Real Estate Development Co.,Ltd	China	CNY1.00 Registered Capital	60
The following company has the address of 3, Floor 1, No.1, Shiner Wuxingcaiyuan, West Er Huan Rd, Xi Shan District, Kunming, Yunnan Province, PRC, China			
Yunnan Golden Shiner Property Development Co., Ltd.	China	CNY1.00 Ordinary shares	50
The following company has the address of Room 1A-1, No.88 Xianxia Road, Changning District, Shanghai, China			
Shanghai Siyanli Industrial Co., Ltd.	China	CNY1.00 Ordinary shares	39
The following company has the address of Nerine House, St George's Place, St Peter Port, GY1 3ZG, Guernsey			
Stonehage Fleming Family and Partners Ltd	Guernsey	£1.00 Class B shares	9.8
		£1.00 Class DC shares	20.2
The following company has the address of 15/F, 1 Duddell Street, Central, Hong Kong			
Fast Great Investment Limited	Hong Kong	HKD1.00 Ordinary shares	28
The following company has the address of Suite 1401, 14 Floor, World Commerce Centre, Harbour City, 7-11 Canton Road, Tsim Sha Tsui, Hong Kong			
Standard Latitude Consultancy (HK) Limited	Hong Kong	$5,000 Ordinary shares	20
The following company has the address of 3i Infotech Limited, Tower 5, 3rd to 6th Floors, International Infotech Park, Vashi, Navi Mumbai, 400 703, India			
3i Infotech Limited	India	INR5.00 Cumulative Redeemable Preference shares	27.3
		INR10.00 Ordinary shares	11.1
The following company has the address of 70, Nagindas Master Road, Fort, Mumbai, 400023, India			
Joyville Shapoorji Housing Private Limited	India	INR10.00 Common Equity shares	25.8
The following company has the address of 5th Floor, Mahindra Towers, Worli, Mumbai, 400018, India			
Mahindra Homes Private Limited	India	INR100.00 Compulsorily Convertible Debentures Series A shares	100
		INR10.00 Compulsorily Convertible Preference Shares	100
		INR10.00 Ordinary-A shares	25
		INR10.00 Ordinary-B shares	100
The following company has the address of 1221 A, Devika Tower, 12th Floor, 6 Nehru Place, New Delhi 110019, New Delhi, 110019, India.			
Mikado Realtors Private Limited	India	INR10.00 Ordinary shares	26
The following company has the address of Elphinstone Building, 2nd Floor,10 Veer Nariman Road, Fort, Mumbai -400001, Maharashtra, India			
TRIL IT4 Private Limited	India	INR10.00 Ordinary shares	26
The following company has the address of 4thFloor, 274, Chitalia House, Dr. Cawasji Hormusji Road, Dhobi Talao, Mumbai City, Maharashtra, India 400 002, Mumbai, 400 002, India			
Industrial Minerals and Chemical Co. Pvt. Ltd	India	INR100.00 Ordinary shares	26

40. Related undertakings of the Group continued

Significant investment holdings and other related undertakings continued

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of No. 1, Kanagam Village, 10th Floor IITM Research Park, , Taramani, Chennai – 600113, Tamil Nadu, India			
IFMR Capital Finance Private Limited (IFMRC)	India	INR20.00 Compulsorily Convertible Preference shares	40.7
		INR10.00 Equity shares	4.6
The following company has the address of Graha Paramita, 3rd Floor, Jalan Denpasar, Raya Block D-2, Kav. 8, Kuningan, Jakarta, 12940, Indonesia			
PT Travira Air	Indonesia	IDR1,000,000.00 Ordinary shares	30
The following company has the address of Trio Building, 8th Floor, Jl, Kebon Sirih Raya Kav, 63, Jakarta 10340, Indonesia			
PT Trikomsel Oke Tbk	Indonesia	IDR50.00 Series B shares	29.2
The following companies have the address of 4th Floor, St Pauls Gate, 22-24 New Street, St Helier, Jersey JE1 4TR, Jersey			
Standard Jazeera Limited	Jersey	$100.00 Ordinary shares	20
Standard Topaz Limited	Jersey	$1,000.00 Ordinary shares	20.1
The following company has the address of 146-8 Chusa-ro Sinam-myeon, Yesan-gun Chungnam, Korea, Republic of			
Daiyang Metal Company Ltd	Korea, Republic of	KRW 500 Common shares	23.1
		KRW 500 Convertible Preference shares	100
The following company has the address of 6th Floor D Tower, 17, Jong-no 3 Gil, Jongno-Gu, Seoul, Korea, Republic of			
Fountain Valley PFV Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	47.3
The following company has the address of 17th Floor, 100, Gongpyeong-dong, Jongno-gu, Seoul, Korea, Republic of			
SCPEK IV	Korea, Republic of	Limited Partnership Interest	41.4
The following company has the address of 17F (Gongpyung-dong), 47, Jongno, Jongno-gu, Seoul, Korea, Republic of			
Standard Chartered Private Equity Korea III	Korea, Republic of	KRW1,000,000.00 Ordinary shares	31
The following company has the address of 14th Fl Sewoo Bldg, 115 Yeouigongwon-ro, Yeongdeungpo-gu, Seoul 07241, 07241, Korea, Republic of			
Lotus PFV Co. Ltd	Korea, Republic of	KRW5,000.00 Ordinary shares	50
The following company has the address of Lot 6.05, Level 6, KPMG Tower, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor, Malaysia			
House Network SDN BHD	Malaysia	RM1.00 Ordinary shares	25
The following company has the address of Area 5, Iperin Gate, Optic Industrial Estate, Agbara, Ogun State, Nigeria			
GZ Industries Limited	Nigeria	NGN1.00 Ordinary shares	11.2
		$1.00 Redeemable Preference shares	75.1
The following company has the address of 168 Robinson Road, #33-01 Capital Tower, 068912, Singapore			
Standard Chartered IL&FS Asia Infrastructure Growth Fund Company Pte. Limited	Singapore	$1.00 Ordinary shares	100
		$0.01 Redeemable Preference shares	83.6
The following company has the address of 1 Venture Avenue, #07-07 Big Box, 608521, Singapore			
Omni Centre Pte. Ltd.	Singapore	$ Redeemable Convertible Preference shares	100
The following company has the address of 180B Bencoolen Street, #11-00 The Bencoolen, 189648, Singapore			
Crystal Jade Group Holdings Pte Ltd	Singapore	$1.00 Ordinary shares	42.6
The following company has the address of Blk 10, Kaki Bukit Avenue 1, #07-05 Kaki Bukitr Industrial Estate, 417492, Singapore			
MMI Technoventures Pte Ltd	Singapore	SGD Ordinary shares	50
		SGD 0.01 Redeemable Preference shares	50

40. Related undertakings of the Group continued

Significant investment holdings and other related undertakings continued

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of 80 Raffles Place, #32-01, UOB Plaza 1, 048624, Singapore			
THSC Investments Pte. Ltd.	Singapore	SGD0.50 Ordinary Shares	33.3
The following company has the address of 80 Robinson Road, #02-00, 068898, Singapore			
Maxpower Group Pte Ltd	Singapore	Redeemable Preference shares	100
The following company has the address of 81 Ubi Avenue 4, #03-11 UB One, 408830, Singapore			
Polaris Limited	Singapore	SGD Ordinary shares	25.8
The following company has the address of EADB Building, Plot 4 Nile Avenue, PO Box 7128, Kampala, Uganda			
East African Development Bank	Uganda	$13,500.00 Class B shares	24.5
The following company has the address of 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States			
Paxata, Inc.	United States	$0.0001 Series C2 Preferred Stock	40.7
The following company has the address of Floor 7, Samco Building, No. 326 Vo Van Kiet, Co Giang Ward, District 1, Ho Chi Minh City, Vietnam			
New Lifestyle Service Corporation	Vietnam	VND Dividend Preference shares	100
		VND Redeemable Preference shares	100
The following company has the address of Floor M, Petroland Building, 12 Tan Trao, Tan Phu Ward, District 7, Ho Chi Minh City			
Online Mobile Services Joint Stock Company	Vietnam	Class A1 Redeemable Preference shares	100
		Class A1 Dividend Preference shares	100
The following company has the address of PO Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI, Virgin Islands, British			
Ecoplast Technologies Inc	Virgin Islands, British	$0.0001 Class C Preferred shares	100

In liquidation

Subsidiary undertakings

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of Deloitte LLP, Hill House, 1 Little New Street, London, EC4A 3TR, United Kingdom			
Chartered Financial Holdings Limited	United Kingdom	£5.00 Ordinary shares	100
		£1.00 Preference shares	100
Standard Chartered Capital Markets Limited	United Kingdom	£1.00 Ordinary shares	100
		$1.00 Ordinary shares	100
Standard Chartered (CT) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Corporate Finance (Canada) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Corporate Finance (Eurasia) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Equitor Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Financial Investments Limited	United Kingdom	£1.00 Ordinary A Shares	100
Standard Chartered Portfolio Trading (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Receivables (UK) Limited	United Kingdom	$1.00 Ordinary shares	100
Compass Estates Limited	United Kingdom	£1.00 Ordinary shares	100
The following company has the address of 648-07 room, Building 2, Shanghai Zhangjiang High-tech Park, 351 Guo shoujing road, Shanghai, 201203, China			
SCL Consulting (Shanghai) Co. Ltd	China	$ Ordinary shares	100
The following company has the address of Cra 7 Nro 71-52 TA if 702, Bogata, Colombia			
Sociedad Fiduciaria Extebandes S.A.	Colombia	COP1.00 Ordinary shares	100

40. Related undertakings of the Group continued

In liquidation continued

Subsidiary undertakings continued

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of Schottegatweg Oost, 44, Curacao, Netherlands Antilles			
American Express International Finance Corp.N.V.	Curaçao	$1,000.00 Ordinary shares	100
Ricanex Participations N.V.	Curaçao	$1,000.00 Ordinary shares	100
The following company has the address of 8/F Eurotrade Centre, 21-23 Des Voeux Road Central, Hong Kong			
GE Capital (Hong Kong) Limited	Hong Kong	HKD10.00 Ordinary shares	100
The following company has the address of 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong			
Leopard Hong Kong Limited	Hong Kong	$ Ordinary shares	100
The following company has the address of Standard Chartered@Chiromo, Number 48, Westlands Road, P. O. Box 30003 – 00100, Nairobi, Kenya			
Standard Chartered Management Services Limited	Kenya	KES20.00 Ordinary shares	100
The following company has the address of 26 Boulevard royal, 2449, Luxembourg			
Standard Chartered Financial Services (Luxembourg) S.A.	Luxembourg	€25.00 Ordinary shares	100
The following company has the address of A Martins & Associados Advogados - Sociedade Unipessoal Lda, Av. Vladimir Lenine, 174, 4º andar, Edifício Millennium Park, Caixa Postal 796, Maputo, Mozambique			
Standard Chartered Bank Mozambique, S.A.	Mozambique	$1.00 Ordinary shares	100
The following company has the address of 380 Canaval y Moreyra, Lima 27, Peru			
Banco Standard Chartered en Liquidacion	Peru	$75.133 Ordinary shares	100
The following companies have the address of 8 Marina Boulevard, #27-01 Marina Bay Financial Centre Tower 1, 018981, Singapore			
Standard Chartered Investments (Singapore) Private Limited	Singapore	$ Ordinary shares	100
Prime Financial Holdings Limited	Singapore	SGD Ordinary shares	100
		$ Ordinary shares	100
The following company has the address of 10 Collyer Quay, #10-01, Ocean Financial Centre, 049315, Singapore			
Standard Chartered Securities (Singapore) Pte. Limited	Singapore	SGD Ordinary shares	100
The following company has the address of Quai du General Guisan 38, 8022, Zurich, Switzerland			
Standard Chartered Bank (Switzerland) S.A.	Switzerland	CHF1,000.00 Ordinary shares	100
		CHF100.00 Participation Capital shares	100
The following company has the address of 6th Floor, Hewlett Packard Building, 337 Fu Hsing North Road, Taipei, Taiwan			
Kwang Hua Mocatta Ltd. (Taiwan)	Taiwan	TWD1,000.00 Ordinary shares	100
The following company has the address of 100/3, Sathorn Nakorn Tower, 3rd Floor, North Sathorn Road, Silom, Bangrak, Bangkok, 10500, Thailand			
Thai Exclusive Leasing Company Limited	Thailand	THB10.00 Ordinary shares	100
Standard Chartered (Thailand) Company Limited	Thailand	THB10.00 Ordinary shares	100
The following company has the address of Luis Alberto de Herrera 1248, Torre II, Piso 11, Esc. 1111, Uruguay			
Standard Chartered Uruguay Representacion S.A.	Uruguay	UYU1.00 Ordinary shares	100

40. Related undertakings of the Group continued

Associates

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of Quadrant House, 4 Thomas More Square, London, E1W 1YW, United Kingdom			
MCashback Limited	United Kingdom	£0.01 Ordinary shares	31.7

Liquidated/dissolved/sold

Subsidiary undertakings

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
Marina Jessamine Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Inishmullen Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishroe Leasing Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Funding BV	Netherlands	€100.00 Ordinary shares	100
Pembroke Thai Aircraft II B.V.	Netherlands	€100.00 Ordinary shares	100
SC2 Investments (Singapore) Private Limited	Singapore	SGD Ordinary shares	100
Standard Chartered (1996) Limited	Singapore	SGD Ordinary shares	100
Price Solutions Singapore Pte. Ltd.	Singapore	SGD Ordinary shares	100
New Group Investments Limited	Virgin Islands, British	$1.00 Ordinary shares	100

Significant investment holdings and other related undertakings

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
Kamoso Distribution (Proprietary) Limited (previously named Spark Capital (Proprietary) Limited)	Botswana	BWP Ordinary shares	49.9
Abacus Eight Limited	Cayman Islands	A Shares	24.5
Abacus Nine Limited	Cayman Islands	A Shares	24.5
Abacus Seven Limited	Cayman Islands	A Shares	24.5
Abacus Ten Limited	Cayman Islands	A Shares	31.2
Etonkids Educational Group Limited	Cayman Islands	$0.001 Series A Preferred Shares	100
		$0.001 Series A-1 Preferred Shares	100
BCC Launchpad, L.P.	Cayman Islands	Partnership Interest	49
Shui Li Realty (Shanghai) Limited	China	Registered Capital	45
Inox India Limited	India	Compulsorily Convertible Preference Shares	100
		Equity Shares	4.6
Guangdong Aiyingdao Children Departmental Store Co. Ltd	China	CNY1.00 Common shares	20.2
Jin Li Realty (Shanghai) Co., Ltd.	China	Registered Capital	48.6
Smoothie King Holdings, Inc.	Korea, Republic of	KRW5,000.00 Ordinary shares	20.3
		KRW5,000.00 Redeemable Convertible Preference shares	58

41. IFRS 9 Financial Instruments

We estimate that the changes in measurement arising on the initial adoption of IFRS 9 results in a decrease in shareholders' equity of approximately $1.1 billion, net of tax, at 1 January 2018 (Company: approximately $7 million). This will result in an increase in the Group's loan impairment provisions from $5.7 billion under IAS 39 to approximately $6.7 billion ($0.2 billion of which is held in other liabilities against undrawn commitments and financial guarantees) and an estimated gain of $35 million from changes in the classification and measurement of assets and liabilities under IFRS 9. The impact on regulatory capital is set out in the Risk review and Capital review (page 184).

The Group continues to refine its expected credit loss models and embed its operational processes which may change the actual impact on adoption.

The estimated impact of the remeasurement and reclassifications and the impact of the changes to the recognition and measurement of credit impairment loss allowances, net of the related tax impacts, is set out by category of reserve in the table below.

	Share capital and share premium account $million	Capital and merger reserves $million	Own credit adjustment reserve $million	Available-for-sale reserve $million	Fair value through OCI reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company shareholders' equity $million	Other equity instruments $million	Non-controlling interests $million	Total $million
As at 31 December 2017	7,097	17,129	54	83	–	(45)	(4,454)	26,641	46,505	4,961	341	51,807
Net impact of:	–	–	–	(83)	(82)	–	–	200	35	–	–	35
IFRS 9 reclassifications	–	–	–	(83)	(86)	–	–	169	–	–	–	–
IFRS 9 re-measurements	–	–	–	–	4	–	–	31	35	–	–	35
Expected credit loss, net	–	–	–	–	65	–	–	(1,296)	(1,231)	–	(8)	(1,239)
Tax impact	–	–	–	–	(6)	–	–	182	176	–	–	176
Impact of IFRS 9 on share of joint ventures and associates, net of tax	–	–	–	–	(1)	–	–	(51)	(52)	–	–	(52)
Estimated IFRS 9 transition adjustments	–	–	–	(83)	(24)	–	–	(965)	(1,072)	–	(8)	(1,080)
As at 1 January 2018	7,097	17,129	54	–	(24)	(45)	(4,454)	25,676	45,433	4,961	333	50,727

The Group will publish an IFRS 9 transition report prior to the issuance of the first quarter 2018 Interim Management Statement. This transition report will be unaudited and provide more extensive disclosures to explain the opening IFRS 9 adjustments and to provide a bridge from IAS 39 to IFRS 9. In particular it will include further details in respect of:

- Quantitative information to reconcile impairment provisions, key risk metrics and the classification and measurement of financial instruments under IAS 39 to those under IFRS 9
- The effect of IFRS 9 on significant accounting policies, credit risk policies and practices and related governance processes
- Explanation of the inputs, assumptions and estimation techniques used in determining expected credit losses and the key judgements made in applying IFRS 9
- Qualitative information regarding volatility and areas of measurement uncertainty
- Supplementary quantitative information on credit risk and classification and measurement of financial instruments in IFRS 9 terms, including stage distribution and an analysis of credit quality and expected credit loss allowances coverage by stage and segment for the loan portfolio

Classification and measurement of financial instruments

IAS 39

There are four asset classifications under IAS 39: fair value through profit or loss (FVTPL), incorporating trading and instruments designated at FVTPL; loans and receivables; held to maturity; and available-for-sale. The classification of assets into these categories was determined based on a mix of management intent and product characteristics. Only the available-for-sale category has no restrictions on classification.

In respect of hybrid financial assets, the embedded derivative component may be separated and measured at fair value, unless closely related to the host contract. If this is not possible, the entire instrument must be designated at FVTPL.

Other instruments may be designated at FVTPL if they are managed on a fair value basis, or where the designation would eliminate or significantly reduce an accounting mismatch.

41. IFRS 9 Financial Instruments continued

Classification and measurement of financial instruments continued

IFRS 9

There are three measurement classifications under IFRS 9: amortised cost, fair value through profit or loss (FVTPL) and, for financial assets, fair value through other comprehensive income (FVOCI). The existing IAS 39 financial asset categories are removed.

Financial assets are classified into these categories based on the business model within which they are held, and their contractual cash flow characteristics.

The business model reflects how groups of financial assets are managed to achieve a particular business objective. Financial assets can only be held at amortised cost if the instruments are held in order to collect the contractual cash flows ('hold to collect'), and where those contractual cash flows are solely payments of principal and interest (SPPI). Principal represents the fair value of the instrument at the time of initial recognition.

Interest in this context represents compensation for the time value of money and associated credit risks together with compensation for other risks and costs consistent with a basic lending arrangement and a profit margin. This requires an assessment at initial recognition of the contractual terms to determine whether it contains a term that could change the timing or amount of cash flows in a way that is inconsistent with the SPPI criteria.

Assets may be sold out of 'hold to collect' portfolios where there is an increase in credit risk. Disposals for other reasons are permitted but such sales should be insignificant in value or infrequent in nature.

Financial asset debt instruments where the business model objectives are achieved by collecting the contractual cash flows and by selling the assets ('hold to collect and sell') and that have SPPI cash flows are held at FVOCI, with unrealised gains or losses deferred in reserves until the asset is derecognised. In certain circumstances, non-trading equity instruments can be irrevocably designated as FVOCI but both unrealised and realised gains or losses are recognised in reserves and no amounts other than dividends received are recognised in the income statement.

All other financial assets will mandatorily be held at FVTPL.

Financial assets may be designated at FVTPL only if doing so eliminates or reduces an accounting mismatch.

There has been no change to the requirements in respect of the classification and measurement of financial liabilities. The Group adopted the changes related to the presentation of fair value changes on own credit in its 2016 financial statements.

The derecognition requirements have also been carried forward unchanged from IAS 39.

Where the contractual terms of financial assets are modified, and that modification does not result in derecognition, a modification gain or loss is recognised in the income statement and the gross carrying amount of the asset adjusted accordingly.

Transition impact

The Group has assessed the business models that it operates across the Group. In its assessment, the Group considered the objectives of the business model, how performance is measured and how staff are remunerated amongst other factors.

Where the objective of a business is to manage financial assets on a fair value basis, the instruments within that business model are measured at FVTPL. This includes the Group's trading portfolios.

Most of the Group's loans to banks and customers are held within a 'hold to collect' business model.

Investment debt securities held with Treasury Markets are held within a 'hold to collect and sell' portfolio. The majority of the remaining investment debt securities are held within a 'hold to collect' business model.

For 'hold to collect' portfolios, the level of sales and the reason for those sales is also monitored to ensure they are consistent with the characteristics of a 'hold to collect' business model.

Instruments that do not meet the SPPI criteria are measured at FVTPL regardless of the business model in which they are held. Other than hybrid financial assets, this primarily arises from prepayment clauses. While prepayment clauses are common across the Group's loan portfolio, prepayment penalties are not considered to meet the SPPI criteria if the prepayment penalty received by the bank is not considered to be reasonable compensation from an IFRS 9 perspective for early termination of the contract. This has impacted a small number of products in Retail Banking and a small number of contracts within the Corporate Finance/Corporate Lending portfolios.

Non-trading equity investments are measured at FVTPL except for a small portfolio of strategic equity investments which are irrevocably designated at FVOCI.

Assets designated at FVTPL under IAS 39 that are not as a result of an accounting mismatch have been de-designated and mandatorily classified as FVTPL either because they are managed on a fair value basis or cash flows are maximised through sale or part of a broader trading business or are hybrid financial assets. There is no impact on the measurement of these instruments. The Group has also elected on initial implementation of IFRS 9 to designate certain financial assets and financial liabilities at FVTPL in order to reduce or eliminate accounting mismatches:

- Loans and advances to customers, to reduce the impact of associated credit derivatives; and
- Sales and repurchase liabilities, where the related financial assets are now required to be accounted for at FVTPL

41. IFRS 9 Financial Instruments continued

Transition impact continued

Impact

The estimated impact on retained earnings and reserves as a result of reclassification and re-measurement of financial assets and liabilities is approximately $35 million.

The amounts previously reported as part of the available-for-sale reserve have been reclassified either to the fair value through OCI reserve or to retained earnings.

Impairment of financial assets not held at FVTPL

IAS 39

For debt instruments held at amortised cost or available-for-sale, specific loss allowances are only recognised where there is objective evidence of impairment as a result of one or more loss events occurring after the initial recognition of the instrument. This includes losses arising from credit related modifications to the contractual terms (such as forbearance).

For debt instruments held at amortised cost, where losses are known, by experience, to have been incurred but have not been separately identified, a portfolio impairment provision (PIP) is recognised. The calculation of PIP is based on regulatory expected loss models, after adjustments made to align the calculation with IFRS, together with adjustments to take into account factors not adequately covered in the underlying models.

A PIP is not, however, recognised for available-for-sale instruments. Impairment loss allowances are also not recognised for loan commitments and financial guarantees.

Where there is objective evidence of impairment for available-for-sale debt instruments, the entire unrealised loss held in reserves is transferred to the income statement and recognised as impairment.

For equity shares classified as available-for-sale, a significant or prolonged decline in the fair value below its cost is considered, among other factors, in assessing objective evidence of impairment. On impairment, the entire unrealised loss held in reserves is transferred to the income statement and recognised as impairment.

See note 8 for further details on the IAS 39 accounting policy.

IFRS 9

A summary of the Group's approach to determining ECL is set out within note 40 to the 2016 Annual Report and Accounts. The Group primarily uses sophisticated models that utilise the probability of default (PD), loss given default (LGD) and exposure at default (EAD) metrics, discounted using the effective interest rate. For lower value, less complex portfolios in Retail Banking, the Group uses roll rate or loss rate models.

Expected credit losses are recognised for all financial debt instruments, loan commitments and financial guarantees that are classified as 'hold to collect'/'hold to collect and sell' and have cash flows that are solely payments of principal and interest. Expected credit losses are not recognised for equity instruments designated at FVOCI.

An ECL allowance is recognised at the time of initial recognition for all financial instruments that are in the scope of ECL in respect of default events that may occur over the next 12 months (so-called 'stage 1 assets' with allowances equivalent to 12-months expected credit losses). ECL continues to be determined on this basis until there is either a significant increase in credit risk (SICR) or the asset becomes credit impaired.

If a financial asset (or portfolio of financial assets) experiences an SICR since initial recognition, an ECL allowance is recognised for default events that may occur over the lifetime of the asset (so-called 'stage 2 assets' with loss allowances equivalent to lifetime expected credit losses). SICR is assessed in the context of an increase in the risk of a default occurring over the remaining life of the financial instrument when compared with that expected at the time of initial recognition for the same period. It is not assessed in the context of an increase in the expected credit loss.

The Group uses a number of qualitative and quantitative measures in assessing SICR. Quantitative measures relate to the relative and absolute changes in the lifetime PD compared with those expected at initial recognition. Qualitative factors include placement of loans on non-purely precautionary early alert, classification as higher risk (CG 12) or where principal and/or interest payments are 30 days or more past due.

An asset is only considered credit impaired, and lifetime expected credit losses recognised, if there is observed objective evidence of impairment. These factors are similar to the indicators of objective evidence of impairment under IAS 39. This includes, amongst other factors, assets in default, experiencing significant financial difficulty or subject to forbearance actions credit-impaired (so-called 'stage 3 assets').

The definition of default is aligned to the regulatory definition within CRR Article 178 and considered to occur when an asset is 90 days or more past due on contractual payments of principal and/or interest or is considered unlikely to pay without realisation of any collateral held.

To the extent that assets are credit-impaired at the point of initial recognition, they are classified as purchased or originated credit-impaired. An expected credit loss allowance is not recognised at initial recognition. Any changes in lifetime expected losses after initial recognition are charged or credited to the income statement through 'Impairment'.

The measurement of expected credit losses across all stages is required to reflect an unbiased and probability weighted amount that is determined by evaluating a range of reasonably possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. The Group uses a Monte Carlo approach to simulate a set of 50 scenarios around the Group's central forecast to incorporate the potential non-linearity.

The period considered when measuring expected credit loss is the shorter of the expected life and the contractual term of the financial asset.

41. IFRS 9 Financial Instruments continued

Impairment of financial assets not held at FVTPL continued

The expected life may be impacted by prepayments and the maximum contractual term by extension options. For certain revolving portfolios, including credit cards, the expected life is assessed over the period that the Group is exposed to credit risk (which is based on the length of time it takes for credit facilities to be withdrawn) rather than the contractual term.

For stage 3 financial assets, the determination of lifetime expected credit losses will be similar to the IAS 39 approach; for example, loan loss allowances within Corporate & Institutional Banking will be based on the present value of estimated future cash flows for individual clients. The estimated cash flows will, however, be based on a probability range of scenarios. Where the cash flows include realisable collateral, the values used will incorporate forward-looking information.

Where the contractual terms of a financial asset have been modified due to financial difficulties (forbearance, for example) and the asset has not been derecognised, a modification loss is recognised as part of 'Impairment' in the income statement. The loss represents the difference between the present value of the cash flows before and after the modification, discounted at the original effective interest rate. Unlike IAS 39, however, no loss allowance is recorded in the balance sheet, as the modification loss is offset against the gross carrying amount of the asset. Modifications for other reasons are accounted for in a similar way, except the modification gain or loss will be reported as part of income.

For assets measured at amortised cost, the balance sheet amount reflects the gross asset less the allowance for ECL.

For debt instruments held at FVOCI, the balance sheet amount reflects the instrument's fair value, with the expected credit loss allowance held as a separate reserve within other comprehensive income.

ECL allowances on off-balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise they will be reported against the drawn component.

Impact

The estimated initial adoption of the ECL approach would reduce retained earnings and reserves by approximately $1.2 billion.

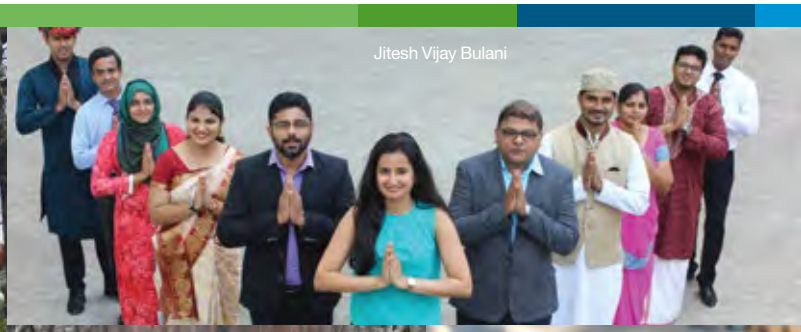
Approximately $1 billion of this estimate related to loans and advances to banks and customers and approximately $0.2 billion to undrawn commitments and financial guarantees (which have been recognised in other liabilities) and $65 million has been recognised in respect of debt securities, which has been offset through a credit to the FVOCI reserve.

The portfolios and products most impacted by the increase in loan loss allowances are Corporate Finance and Lending portfolios, due to the relatively longer maturity profile, and unsecured products in Retail Banking.

Tax

Tax of $176 million has been credited to reserves as a result of transition to IFRS 9. Of this, deferred tax of $142 million has been credited to retained earnings, and is provided on additional deductible temporary differences that have arisen from loss provisions due to initial adoption of the ECL approach.

Ahmed Nizar


Jitesh Vijay Bulani

Abhijit Sinha

Lama Yammine

Wil Thimister

Vijay Anand

ANNUAL REPORT 2017 PHOTO COMPETITION

Purpose in pictures

Recently, we launched our new purpose statement: Driving commerce and prosperity through our unique diversity. We held a photography competition to encourage our colleagues around the globe to interpret this in their own creative ways, and to celebrate that diversity.

We received over 800 high-quality submissions. After an extremely difficult selection process, six outstanding photographs were selected for the final shortlist. Those six images appear on this page.

The winner of the competition is Wil Thimister, with his entry Fisherman in Banyuwangi, which can be found on the front/back cover of this report along with entries from Jitesh Vijay Bulani and Lama Yammine.

Thank you to everybody who took part in the photography competition. The full list of shortlisted photographers is: **Vijay Anand, Jitesh Vijay Bulani, Ahmed Nizar, Abhijit Sinha, Wil Thimister, Lama Yammine**

On how his entry relates to our purpose, Wil says:

"During the years I have been living in Southeast Asia, I have travelled to many places photographing human interest. The region has a fascinating mix of diverse cultures, religions and people. In my photography, I try to portray their daily lives, their labour, their communities and their beliefs.

Many people from our markets participate in small-scale economic activities, right at the foundation of their societies. My photo, of fishermen at a beach near Banyuwangi in East Java, Indonesia, is an example of this. Once the catch is pulled ashore, it will find its way to the local fish market where middlemen will take care of distribution to other businesses and customers. The money they earn will allow the workers to save for a new fishing net, their children's education or maybe even to invest in a boat.

To me, our purpose statement refers to the fact that we can make a difference to those communities by providing them with a finance infrastructure to support their trade. By doing that, we can help them to build a better life."

Supplementary information

310 Supplementary financial information
326 Supplementary people information
328 Supplementary sustainability information
331 Shareholder information
333 Major awards 2017
335 Glossary

Supplementary financial information

Five year summary

	2017 $million	2016 $million	2015 $million	2014 $million	2013 $million
Operating profit before impairment losses and taxation	**4,008**	3,849	4,116	7,289	8,584
Impairment losses on loans and advances and other credit risk provisions	**(1,362)**	(2,791)	(4,976)	(2,141)	(1,617)
Other impairment	**(179)**	(612)	(855)	(1,161)	(1,129)
Profit/(loss) before taxation	**2,415**	409	(1,523)	4,235	6,064
Profit/(loss) attributable to shareholders	**1,219**	(247)	(2,194)	2,613	4,090
Loans and advances to banks[1]	**57,494**	72,609	64,494	83,890	83,702
Loans and advances to customers[1]	**248,707**	252,719	257,356	284,695	290,708
Total assets	**663,501**	646,692	640,483	725,914	674,380
Deposits by banks[1]	**30,945**	36,894	37,611	54,391	43,517
Customer accounts[1]	**370,509**	371,855	350,633	405,353	381,066
Shareholders' equity	**46,505**	44,368	46,204	46,432	46,246
Total capital resources[2]	**68,983**	68,181	70,364	69,685	67,238
Information per ordinary share					
Basic earnings/(loss) per share	**23.5c**	(14.5)c	(91.9)c	97.3c	156.5c
Underlying earnings/(loss) per share	**47.2c**	3.4c	(6.6)c	138.9c	194.2
Dividends per share	**–**	–	13.71c	81.85c	81.85c
Net asset value per share	**1,366.9c**	1,307.8c	1,366.0c	1,833.9c	1,872.8c
Net tangible asset value per share	**1,214.7c**	1,163.9c	1,244.1c	1,610.9c	1,597.6c
Return on assets[3]	**0.2%**	0.0%	(0.3)%	0.4%	0.6%
Ratios					
Statutory return on ordinary shareholders' equity	**1.7%**	(1.1)%	(5.3)%	5.5%	9.0%
Underlying return on ordinary shareholders' equity	**3.5%**	0.3%	(0.4)%	7.8%	11.2%
Statutory cost to income ratio	**72.2%**	72.6%	73.1%	60.2%	54.3%
Underlying cost to income ratio	**70.8%**	72.2%	67.8%	58.9%	54.4%
Capital ratios:					
(CET1)/ Tier 1 capital[4]	**13.6%**	13.6%	12.6%	10.5%	10.9%
Total capital[4]	**21.0%**	21.3%	19.5%	16.7%	17.0%

1 Excludes amounts held at fair value through profit or loss

2 Shareholders' funds, non-controlling interests and subordinated loan capital

3 Represents profit attributable to shareholders divided by the total assets of the Group

4 Unaudited

Analysis of underlying performance by key country

The following tables provide information for key countries in which the Group operates. The numbers are prepared on a management view. Refer to note 2 for details.

	2017							
	Hong Kong $million	**Korea $million**	**China $million**	**Singapore $million**	**India $million**	**UAE $million**	**UK $million**	**US $million**
Operating income	**3,384**	**967**	**707**	**1,419**	**1,008**	**733**	**747**	**675**
Operating expenses	**(1,872)**	**(777)**	**(652)**	**(1,016)**	**(658)**	**(524)**	**(612)**	**(641)**
Operating profit before impairment losses and taxation	**1,512**	**190**	**55**	**403**	**350**	**209**	**135**	**34**
Impairment losses on loans and advances and other credit risk provisions	**(48)**	**(53)**	**(17)**	**(218)**	**(251)**	**(94)**	**(50)**	**(57)**
Other impairment	**(78)**	**(3)**	**–**	**–**	**(3)**	**–**	**(14)**	**(2)**
Profit from associates and joint ventures	**–**	**–**	**229**	**–**	**–**	**–**	**–**	**–**
Underlying profit/(loss) before taxation	**1,386**	**134**	**267**	**185**	**96**	**115**	**71**	**(25)**
Total assets employed	**140,431**	**51,822**	**33,243**	**86,431**	**26,315**	**20,268**	**119,272**	**45,338**
Of which: Loans to customers	**67,292**	**34,891**	**12,899**	**45,495**	**16,515**	**11,328**	**34,694**	**10,092**
Total liabilities employed	**128,577**	**45,966**	**28,151**	**84,288**	**17,614**	**15,142**	**128,270**	**39,646**
Of which: Customer accounts	**108,352**	**36,213**	**21,854**	**59,905**	**14,141**	**11,692**	**80,972**	**11,831**

	2016							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Operating income	3,138	881	696	1,489	960	754	791	661
Operating expenses	(1,789)	(761)	(647)	(967)	(569)	(513)	(496)	(658)
Operating profit before impairment losses and taxation	1,349	120	49	522	391	241	295	3
Impairment losses on loans and advances and other credit risk provisions	(194)	(83)	(108)	(106)	(414)	(272)	(411)	(79)
Other impairment	(44)	(2)	–	–	(1)	–	1	–
Profit from associates and joint ventures	–	–	167	–	–	–	–	–
Underlying profit/(loss) before taxation	1,111	35	108	416	(24)	(31)	(115)	(76)
Total assets employed	137,239	43,917	26,540	83,853	24,729	20,776	122,779	47,609
Of which: Loans to customers	60,866	28,637	10,182	39,141	14,974	10,951	29,996	12,184
Total liabilities employed	125,697	37,548	24,460	85,198	15,321	14,622	119,111	53,356
Of which: Customer accounts	102,409	28,964	19,920	57,290	11,860	10,721	57,575	27,464

Analysis of operating income by product and segment

The following tables provide a breakdown of the Group's underlying operating income by product and client segment.

	2017					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking	2,564	18	747	–	–	3,329
Trade	793	18	386	–	–	1,197
Cash Management and Custody	1,771	–	361	–	–	2,132
Financial Markets	2,266	–	278	–	–	2,544
Foreign Exchange	779	–	164	–	–	943
Rates	503	–	32	–	–	535
Commodities	136	–	21	–	–	157
Credit and Capital Markets	365	–	11	–	–	376
Capital Structuring Distribution Group	254	–	25	–	–	279
Other Financial Markets	229	–	25	–	–	254
Corporate Finance	1,390	–	86	–	–	1,476
Lending and Portfolio Management	284	–	212	–	–	496
Principal Finance	–	–	–	–	–	–
Wealth Management	–	1,438	4	299	–	1,741
Retail Products	–	3,376	6	201	–	3,583
CCPL and other unsecured lending	–	1,366	1	–	–	1,367
Deposits	–	1,245	6	168	–	1,419
Mortgage and Auto	–	692	–	32	–	724
Other Retail Products	–	73	(1)	1	–	73
Treasury	–	–	–	–	1,143	1,143
Other	(8)	2	–	–	(17)	(23)
Total underlying operating income	6,496	4,834	1,333	500	1,126	14,289

	2016					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Transaction Banking	2,168	12	703	1	–	2,884
Trade	787	12	399	1	–	1,199
Cash Management and Custody	1,381	–	304	–	–	1,685
Financial Markets	2,771	–	264	–	–	3,035
Foreign Exchange	973	–	177	–	–	1,150
Rates	659	–	18	–	–	677
Commodities	168	–	22	–	–	190
Credit and Capital Markets	359	–	5	–	–	364
Capital Structuring Distribution Group[1]	285	–	21	–	–	306
Other Financial Markets	327	–	21	–	–	348
Corporate Finance[1,2]	1,394	–	76	–	–	1,470
Lending and Portfolio Management	358	–	239	–	–	597
Principal Finance	(219)	–	2	–	–	(217)
Wealth Management	–	1,199	4	280	–	1,483
Retail Products	–	3,458	7	193	–	3,658
CCPL and other unsecured lending	–	1,556	–	1	–	1,557
Deposits	–	1,124	7	156	–	1,287
Mortgage and Auto	–	703	–	36	–	739
Other Retail Products	–	75	–	–	–	75
Treasury[3]	–	–	–	–	900	900
Other[3]	–	–	–	22	(24)	(2)
Total underlying operating income	6,472	4,669	1,295	496	876	13,808

1 The Group has established a Capital Structuring and Distribution Group to sharpen the focus on asset distribution that has resulted in some income being reclassified from Corporate Finance into Financial Markets. 2016 has been restated

2 Certain non-specialised lending exposures which were previously reported under Corporate Finance are now reflected under Lending and Portfolio Management. 2016 has been restated

3 Treasury income comprises items previously reported under Asset and Liability Management and Treasury-related aspects of Other income. This reflects the reorganisation of the Group's balance sheet, liquidity, and capital management activities such that they are now managed within one Treasury function. 2016 has been restated

Average balance sheets and yields and volume and price variances

Average balance sheets and yield

The following tables set out the average balances and yields for the Group's assets and liabilities for the years ended 31 December 2017 and 31 December 2016. For the purpose of these tables, average balances have been determined on the basis of daily balances, except for certain categories, for which balances have been determined less frequently. The Group does not believe that the information presented in these tables would be significantly different had such balances been determined on a daily basis.

	2017			
	Average non-interest earning balance $million	**Average interest earning balance $million**	**Interest income $million**	**Gross yield %**
Assets				
Cash and balances at central banks	**37,194**	**37,539**	**287**	**0.8**
Gross loans and advances to banks	**5,483**	**82,743**	**1,955**	**2.4**
Gross loans and advances to customers	**–**	**282,912**	**8,928**	**3.2**
Impairment provisions against loans and advances to banks and customers	**–**	**(6,342)**	**–**	**–**
Investment securities	**2,450**	**130,839**	**3,265**	**2.5**
Property, plant and equipment and intangible assets	**9,916**	**–**	**–**	**–**
Prepayments, accrued income and other assets	**85,978**	**–**	**–**	**–**
Total average assets	**141,021**	**527,691**	**14,435**	**2.7**

	2016			
	Average non-interest earning balance $million	Average interest earning balance $million	Interest income $million	Gross yield %
Assets				
Cash and balances at central banks	26,395	44,360	213	0.5
Gross loans and advances to banks	4,077	77,298	1,282	1.7
Gross loans and advances to customers	–	267,068	8,749	3.3
Impairment provisions against loans and advances to banks and customers	–	(6,458)	–	–
Investment securities	2,599	126,388	2,766	2.2
Property, plant and equipment and intangible assets	9,502	–	–	–
Prepayments, accrued income and other assets	93,401	–	–	–
Total average assets	135,974	508,656	13,010	2.6

Average balance sheets and yields and volume and price variances continued

Average balance sheets and yield continued

	2017			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate paid %
Liabilities				
Deposits by banks	**6,696**	**41,565**	**891**	**2.1**
Customer accounts:				
Current accounts and savings deposits	**36,070**	**165,300**	**1,063**	**0.6**
Time and other deposits	**8,096**	**199,426**	**2,796**	**1.4**
Debt securities in issue	**581**	**51,914**	**756**	**1.5**
Accruals, deferred income and other liabilities	**84,881**	**22**	**–**	**–**
Subordinated liabilities and other borrowed funds	**841**	**17,205**	**748**	**4.3**
Non-controlling interests	**73**	**–**	**–**	**–**
Shareholders' funds	**49,903**	**–**	**–**	**–**
Total average liabilities and shareholders' funds	**187,141**	**475,432**	**6,254**	**1.3**
Net yield				**1.4**
Net interest margin				**1.6**

	2016			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate paid %
Liabilities				
Deposits by banks	6,691	42,169	494	1.2
Customer accounts:				
Current accounts and savings deposits	43,432	146,480	852	0.6
Time and other deposits	4,859	180,001	2,335	1.3
Debt securities in issue	449	61,636	700	1.1
Accruals, deferred income and other liabilities	90,792	11	–	–
Subordinated liabilities and other borrowed funds	1,426	20,229	835	4.1
Non-controlling interests	105	–	–	–
Shareholders' funds	48,271	–	–	–
Total average liabilities and shareholders' funds	196,025	450,526	5,216	1.2
Net yield				1.4
Net interest margin				1.5

Volume and price variances

The following table analyses the estimated change in the Group's net interest income attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities, and changes in their respective interest rates for the years presented. Volume and rate variances have been determined based on movements in average balances and average exchange rates over the year and changes in interest rates on average interest-earning assets and average interest-bearing liabilities.

	2017 versus 2016		
	(Decrease)/increase in interest due to:		Net (decrease)/ increase in interest
	Volume $million	Rate $million	$million
Interest earning assets			
Cash and unrestricted balances at central banks	**(52)**	**126**	**74**
Loans and advances to banks	**129**	**544**	**673**
Loans and advances to customers	**485**	**(306)**	**179**
Investment securities	**112**	**387**	**499**
Total interest earning assets	**674**	**751**	**1,425**
Interest bearing liabilities			
Subordinated liabilities and other borrowed funds	**(131)**	**44**	**(87)**
Deposits by banks	**(13)**	**410**	**397**
Customer accounts:			
Current accounts and savings deposits	**121**	**90**	**211**
Time and other deposits	**272**	**189**	**461**
Debt securities in issue	**(142)**	**198**	**56**
Total interest bearing liabilities	**107**	**931**	**1,038**

	2016 versus 2015		
	(Decrease)/increase in interest due to:		Net (decrease)/ increase in interest
	Volume $million	Rate $million	$million
Interest earning assets			
Cash and unrestricted balances at central banks	(89)	64	(25)
Loans and advances to banks	(36)	298	262
Loans and advances to customers	(741)	(883)	(1,624)
Investment securities	(6)	(210)	(216)
Total interest earning assets	(872)	(731)	(1,603)
Interest bearing liabilities			
Subordinated liabilities and other borrowed funds	(69)	339	270
Deposits by banks	(113)	211	98
Customer accounts:			
Current accounts and savings deposits	(82)	(37)	(119)
Time and other deposits	(28)	(138)	(166)
Debt securities in issue	(183)	110	(73)
Total interest bearing liabilities	(475)	485	10

Convenience translation of selected financial statements into Indian Rupees

In compliance with regulation 71(3) read with schedule IV – part B of the Securities and Exchange Board of India (listing obligations and disclosure requirements) regulations, 2015, the Consolidated financial statements (pages 316 to 321) are presented in Indian rupees (INR) using a US dollar/Indian rupee exchange rate of 63.9273 as at 31 December 2017 as published by Reserve Bank of India. Amounts have been translated using the said exchange rate including totals and sub-totals and any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Condensed consolidated income statement (translated to INR)

For the year ended 31 December 2017

	2017 Rs. million	2016 Rs. million
Interest income	**922,791**	831,694
Interest expense	**(399,801)**	(333,445)
Net interest income	**522,990**	498,249
Fees and commission income	**252,001**	234,677
Fees and commission expense	**(27,489)**	(28,128)
Net fees and commission income	**224,512**	206,549
Net trading income	**97,617**	120,567
Other operating income	**77,032**	73,452
Non-interest income	**399,161**	400,568
Operating income	**922,151**	898,817
Staff costs	**(432,021)**	(402,934)
Premises costs	**(52,612)**	(50,950)
General administrative expenses	**(128,302)**	(151,636)
Depreciation and amortisation	**(52,996)**	(47,242)
Operating expenses	**(665,931)**	(652,762)
Operating profit before impairment losses and taxation	**256,220**	246,055
Impairment losses on loans and advances and other credit risk provisions	**(87,069)**	(178,421)
Other impairment		
Goodwill	**(20,457)**	(10,612)
Other	**(11,443)**	(28,512)
Profit/(loss) from associates and joint ventures	**17,133**	(2,365)
Profit before taxation	**154,384**	26,145
Taxation	**(73,325)**	(38,356)
Profit/(loss) for the year	**81,059**	(12,211)
Profit/(loss) attributable to:		
Non-controlling interests	**3,132**	3,581
Parent company shareholders	**77,927**	(15,790)
Profit/(loss) for the year	**81,059**	(12,211)
	Rupees	Rupees
Earnings per share:		
Basic earnings per ordinary share	**15.0**	(9.3)
Diluted earnings per ordinary share	**14.9**	(9.3)

Consolidated statement of comprehensive income (translated to INR)

For the year ended 31 December 2017

	2017 Rs.million	2016 Rs.million
Profit/(loss) for the year	**81,059**	(12,210)
Other comprehensive income/(loss)		
Items that will not be reclassified to Income statement:	**(15,214)**	(28,447)
Own credit losses on financial liabilities designated at fair value through profit and loss	**(15,918)**	(23,781)
Actuarial gains/(losses) on retirement benefit obligations	**2,046**	(6,712)
Taxation relating to components of other comprehensive income	**(1,342)**	2,046
Items that may be reclassified subsequently to Income statement:	**97,936**	(61,880)
Exchange differences on translation of foreign operations:		
Net gains/(losses) taken to equity	**104,649**	(52,229)
Net (losses)/gains on net investment hedges	**(18,411)**	1,918
Share of other comprehensive loss from associates and joint ventures	**(64)**	(703)
Available-for-sale investments:		
Net valuation gains taken to equity	**23,589**	3,069
Reclassified to income statement	**(14,895)**	(12,018)
Cash flow hedges:		
Net gains/(losses) taken to equity	**2,237**	(5,050)
Reclassified to income statement	**703**	3,644
Taxation relating to components of other comprehensive income	**128**	(511)
Other comprehensive income/(loss) for the period, net of taxation	**82,722**	(90,329)
Total comprehensive income/(loss) for the year	**163,781**	(102,541)
Total comprehensive income/(loss) attributable to:		
Non-controlling interests	**3,196**	2,876
Parent company shareholders	**160,585**	(105,417)
	163,781	(102,541)

Consolidated balance sheet (translated to INR)

As at 31 December 2017

	2017 Rs.million	2016 Rs.million
Assets		
Cash and balances at central banks	**3,763,017**	4,520,044
Financial assets held at fair value through profit or loss	**1,762,092**	1,283,468
Derivative financial instruments	**3,006,565**	4,187,813
Loans and advances to banks	**3,675,436**	3,486,467
Loans and advances to customers	**15,899,167**	14,491,871
Reverse repurchase agreements and other similar secured lending	**3,469,654**	2,819,002
Investment securities	**7,481,092**	6,966,286
Other assets	**2,140,927**	2,361,474
Current tax assets	**31,388**	30,302
Prepayments and accrued income	**147,480**	143,069
Interests in associates and joint ventures	**147,480**	123,316
Goodwill and intangible assets	**320,468**	301,673
Property, plant and equipment	**460,980**	463,601
Deferred tax assets	**75,242**	82,722
Assets classified as held for sale	**34,840**	80,165
Total assets	**42,415,828**	41,341,273
Liabilities		
Deposits by banks	**1,978,230**	2,101,418
Customer accounts	**23,685,640**	21,619,254
Repurchase agreements and other similar secured borrowing	**2,543,220**	2,409,548
Financial liabilities held at fair value through profit or loss	**1,063,303**	1,061,065
Derivative financial instruments	**3,074,967**	4,200,791
Debt securities in issue	**2,964,884**	2,985,405
Other liabilities	**2,253,885**	2,118,934
Current tax liabilities	**24,037**	20,904
Accruals and deferred income	**351,153**	333,892
Subordinated liabilities and other borrowed funds	**1,098,015**	1,248,053
Deferred tax liabilities	**25,827**	22,566
Provisions for liabilities and charges	**11,699**	13,617
Retirement benefit obligations	**29,087**	33,562
Liabilities included in disposal groups held for sale	**–**	61,690
Total liabilities	**39,103,947**	38,230,699
Equity		
Share capital and share premium account	**453,692**	453,308
Other reserves	**816,160**	736,698
Retained earnings	**1,703,087**	1,646,320
Total parent company shareholders' equity	**2,972,939**	2,836,326
Other equity instruments	**317,143**	253,727
Total equity excluding non-controlling interests	**3,290,082**	3,090,053
Non-controlling interests	**21,799**	20,521
Total equity	**3,311,881**	3,110,574
Total equity and liabilities	**42,415,828**	41,341,273

Consolidated statement of changes in equity (Translated to INR)

For the year ended 31 December 2017

	Share capital and share premium account Rs.million	Capital and merger reserve[1] Rs.million	Own credit adjustment reserve Rs.million	Available -for-sale reserve Rs.million	Cash flow hedge reserve Rs.million	Translation reserve Rs.million	Retained earnings Rs.million	Parent company shareholders' equity Rs.million	Other equity instruments Rs.million	Non-controlling interests Rs.million	Total Rs.million
At 1 January 2016	453,117	1,094,563	–	8,438	(2,941)	(321,299)	1,721,818	2,953,697	127,024	20,521	3,101,241
Transfer of own credit adjustment, net of taxation[2]	–	–	40,338	–	–	–	(40,338)	–	–	–	–
(Loss)/profit for the year	–	–	–	–	–	–	(15,790)	(15,790)	–	3,580	(12,210)
Other comprehensive loss	–	–	(21,863)	(8,694)	(2,493)	(49,799)	(6,776)[3]	(89,626)	–	(703)	(90,329)
Distributions	–	–	–	–	–	–	–	–	–	(2,365)	(2,365)
Shares issued, net of expenses	192	447	–	–	–	–	–	639	–	–	639
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	126,704	–	126,704
Net own shares adjustment	–	–	–	–	–	–	(2,941)	(2,941)	–	–	(2,941)
Share option expense, net of taxation	–	–	–	–	–	–	5,114	5,114	–	–	5,114
Dividends[4]	–	–	–	–	–	–	(14,767)	(14,767)	–	–	(14,767)
Other movements[5]	–	–	–	–	–	–	–	–	–	(511)	(511)
As at 31 December 2016	**453,309**	**1,095,010**	**18,475**	**(256)**	**(5,434)**	**(371,098)**	**1,646,320**	**2,836,326**	**253,728**	**20,522**	**3,110,575**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**77,927**	**77,927**	**–**	**3,132**	**81,059**
Other comprehensive (loss)/income	**–**	**–**	**(15,023)**	**5,562**	**2,557**	**86,366**	**3,196[3]**	**82,658**	**–**	**64**	**82,722**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,260)**	**(3,260)**
Shares issued, net of expenses	**384**	**–**	**–**	**–**	**–**	**–**	**–**	**384**	**–**	**–**	**384**
Other equity instruments issued, net of expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**63,416**	**–**	**63,416**
Net own shares adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**639**	**639**	**–**	**–**	**639**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**7,991**	**7,991**	**–**	**–**	**7,991**
Dividends[4]	**–**	**–**	**–**	**–**	**–**	**–**	**(28,448)**	**(28,448)**	**–**	**–**	**(28,448)**
Other movements[6]	**–**	**–**	**–**	**–**	**–**	**–**	**(4,539)**	**(4,539)**	**–**	**1,342**	**(3,196)**
At 31 December 2017	**453,693**	**1,095,010**	**3,452**	**5,306**	**(2,877)**	**(284,732)**	**1,703,086**	**2,972,938**	**317,144**	**21,800**	**3,311,883**

1 Includes capital reserve of Rs.320 million, capital redemption reserve of Rs.831 million and merger reserve of Rs.1,093,860 million

2 The Group early adopted IFRS 9 Financial Instruments to present own credit adjustments within Other comprehensive income (rather than Net trading income)

3 Comprises actuarial gain/(loss), net of taxation and share from associates and joint ventures Rs.3,196 million (2016: Rs.(6,776) million)

4 Comprises of dividends on preferences shares classified as equity and Additional Tier 1 securities Rs.28,448 million (2016: Rs.14,767 million)

5 Mainly due to completion of sale of businesses with non-controlling interest in Pakistan and issuance of shares to non-controlling interest in Angola

6 Mainly due to additional share capital issued including the premium by Nepal to its non-controlling interests of Rs.1,982 million, non-controlling interest with respect to an acquisition during 2017 of Rs.575 million and offset by other equity adjustments of Rs.5,753 million

Cash flow statement (translated to INR)

For the year ended 31 December 2017

	Group		Company	
	2017 Rs.million	2016 Rs.million	**2017 Rs.million**	2016 Rs.million
Cash flows from operating activities:				
Profit before taxation	**154,384**	26,146	**13,233**	12,274
Adjustments for non-cash items and other adjustments included within income statement	**207,188**	295,024	**39,315**	44,941
Change in operating assets	**(871,009)**	(529,702)	**29,343**	7,032
Change in operating liabilities	**371,993**	836,169	**36,758**	(39,571)
Contributions to defined benefit schemes	**(9,142)**	(6,265)	**–**	–
UK and overseas taxes paid	**(58,493)**	(82,274)	**(895)**	(767)
Net cash (used in)/from operating activities	**(205,179)**	539,098	**117,754**	23,909
Cash flows from investing activities:				
Purchase of property, plant and equipment	**(10,548)**	(12,466)	**–**	–
Disposal of property, plant and equipment	**1,854**	1,470	**–**	–
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired	**(2,813)**	(15,215)	**(63,927)**	(351,600)
Dividends received from associates and joint ventures	**128**	192	**25,060**	13,041
Disposal of subsidiaries	**–**	40,658	**–**	–
Purchase of investment securities	**(16,952,625)**	(13,250,467)	**–**	(255,709)
Disposal and maturity of investment securities	**16,705,226**	13,479,519	**182,193**	83,105
Net cash (used in)/from investing activities	**(258,778)**	243,691	**143,326**	(511,163)
Cash flows from financing activities:				
Issue of ordinary and preference share capital, net of expenses	**384**	639	**384**	639
Exercise of share options	**639**	320	**639**	320
Purchase of own shares	**–**	(3,260)	**–**	(3,260)
Issue of Additional Tier 1 capital, net of expenses	**63,416**	126,704	**63,416**	126,704
Gross proceeds from issue of subordinated liabilities	**–**	79,909	**–**	79,909
Interest paid on subordinated liabilities	**(47,498)**	(58,813)	**(22,566)**	(38,612)
Repayment of subordinated liabilities	**(190,759)**	(170,430)	**(79,845)**	(6,712)
Proceeds from issue of senior debt	**146,521**	348,596	**95,955**	280,321
Repayment of senior debt	**(266,065)**	(413,610)	**(206,933)**	(251,937)
Interest paid on senior debts	**(57,279)**	(29,023)	**(52,740)**	(23,333)
Repayment/(Investment in) from non-controlling interests	**1,342**	(511)	**–**	–
Dividends paid to non-controlling interests and preference shareholders	**(31,708)**	(17,133)	**(28,448)**	(14,767)
Net cash (used in)/from financing activities	**(381,007)**	(136,612)	**(230,138)**	149,272
Net (decrease)/increase in cash and cash equivalents	**(844,864)**	646,177	**30,942**	(337,982)
Cash and cash equivalents at beginning of the year	**6,199,478**	5,652,963	**973,613**	1,311,596
Effect of exchange rate movements on cash and cash equivalents	**221,828**	(99,663)	**–**	–
Cash and cash equivalents at end of the year	**5,576,442**	6,199,477	**1,004,555**	973,614

Company balance sheet (translated to INR)

As at 31 December 2017

	2017 Rs.million	2016 Rs.million
Non-current assets		
Investments in subsidiary undertakings	**2,228,058**	2,164,131
Current assets		
Derivative financial instruments	**4,475**	33,818
Investment securities	**777,292**	959,485
Amounts owed by subsidiary undertakings	**1,004,554**	973,613
Taxation	**192**	–
	1,786,513	1,966,916
Current liabilities		
Derivative financial instruments	**31,452**	98,512
Other creditors	**25,891**	25,507
Taxation	**–**	895
	57,343	124,914
Net current assets	**1,729,170**	1,842,001
Total assets less current liabilities	**3,957,228**	4,006,132
Non-current liabilities		
Debt securities in issue	**1,033,641**	1,095,203
Subordinated liabilities and other borrowed funds	**887,439**	932,188
	1,921,080	2,027,392
Total assets less liabilities	**2,036,148**	1,978,740
Equity		
Share capital and share premium account	**453,692**	453,308
Other reserves	**1,095,011**	1,095,011
Retained Earnings	**170,302**	176,695
Total shareholders' equity	**1,719,005**	1,725,013
Other equity instruments	**317,143**	253,727
Total equity	**2,036,148**	1,978,740

Company statement of changes in equity (translated to INR)

For the year ended 31 December 2017

	Share capital and share premium account Rs.million	Capital and merger reserve[1] Rs.million	Retained earnings Rs.million	Other equity instruments Rs.million	Total Rs.million
At 1 January 2016	453,117	1,094,563	177,206	127,024	1,851,910
Profit for the year	–	–	12,082	–	12,082
Shares issued, net of expenses	192	447	–	–	639
Other equity instruments issued, net of expenses		–	–	126,704	126,704
Net own shares adjustment	–	–	(2,941)	–	(2,941)
Share option expense	–	–	5,114	–	5,114
Dividends[2]	–	–	(14,767)	–	(14,767)
At 31 December 2016	**453,309**	**1,095,010**	**176,694**	**253,728**	**1,978,741**
Profit for the year	**–**	**–**	**13,425**	**–**	**13,425**
Shares issued, net of expenses	**384**	**–**	**–**	**–**	**384**
Other equity instruments issued, net of expenses	**–**	**–**	**–**	**63,416**	**63,416**
Net own shares adjustment	**–**	**–**	**639**	**–**	**639**
Share option expense	**–**	**–**	**7,991**	**–**	**7,991**
Dividends[2]	**–**	**–**	**(28,448)**	**–**	**(28,448)**
At 31 December 2017	**453,693**	**1,095,010**	**170,301**	**317,144**	**2,036,148**

1 Includes capital reserve of Rs. 320 million, capital redemption reserve of Rs. 831 million and merger reserve of Rs. 1,093,860 million

2 Comprises dividends on preferences shares classified as equity and Additional Tier 1 securities Rs. 28,448 million (2016: Rs. 14,767 million)

Summary of significant differences between Indian GAAP and IFRS

The consolidated financial statements of the Group for the year ended 31 December 2017 with comparatives as at 31 December 2016 are prepared in accordance with IFRS and IFRS Interpretations Committee interpretations as adopted by the European Union.

IFRS differs in certain significant respects from Indian GAAP. Such differences involve methods for measuring the amounts shown in the financial statements of the Group, as well as additional disclosures required by Indian GAAP.

Set out below are descriptions of certain accounting differences between IFRS and Indian GAAP that could have a significant effect on loss attributable to parent company shareholders for the years ended 31 December 2017 and 31 December 2016 and total parent company shareholders' equity as at the same dates. This section does not provide a comprehensive analysis of such differences. In particular, this description considers only those Indian GAAP pronouncements for which adoption or application is required in financial statements for years ended on or prior to 31 December 2017. The Group has not quantified the effect of differences between IFRS and Indian GAAP, nor prepared consolidated financial statements under Indian GAAP, nor undertaken a reconciliation of IFRS and Indian GAAP financial statements. Had the Group undertaken any such quantification or preparation or reconciliation, other potentially significant accounting and disclosure differences may have come to its attention which are not identified below. Accordingly, the Group does not provide any assurance that the differences identified below represent all the principal differences between IFRS and Indian GAAP relating to the Group. Furthermore, no attempt has been made to identify future differences between IFRS and Indian GAAP. In addition, no attempt has been made to identify all differences between IFRS and Indian GAAP that may affect the financial statements as a result of transaction or events that may occur in the future.

In making an investment decision, potential investors should consult their own professional advisors for an understanding of the differences between IFRS and Indian GAAP and how those differences may have affected the financial results of the Group. The summary does not purport to be complete and is subject and qualified in its entirety by reference to the pronouncements of the IASB, together with the pronouncements of the Indian accounting profession.

Changes in accounting policy

IFRS (IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

Changes in accounting policy are applied retrospectively. Comparatives are restated and the effect of period(s) not presented is adjusted against opening retained earnings of the earliest year presented. Policy changes made on the adoption of a new standard are made in accordance with that standard's transitional provisions.

Indian GAAP (AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies)

The cumulative amount of the change is included in the income statement for the period in which the change is made except as specified in certain standards (transitional provision) where the change during the transition period resulting from adoption of the standard has to be adjusted against opening retained earnings and the impact disclosed.

Where a change in accounting policy has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such an amount is not ascertainable, this fact should be indicated.

Functional and presentation currency

IFRS (IAS 21 The Effects of Changes in Foreign Exchange Rates)

An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency.

Assets and liabilities are translated at the closing rate at the date of that statement of financial position. Income statement items are translated at the exchange rate at the date of transaction or at average rates. The functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Group is US dollars.

Indian GAAP (AS 11 The Effects of Changes in Foreign Exchange Rates)

There is no concept of functional or presentation currency. Entities in India have to prepare their financial statements in Indian rupees.

A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount, the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

At each balance sheet date:

a. Foreign currency monetary items should be reported using the closing rate

b. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction

c. Non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined

Consolidation

IFRS (IFRS 10 Consolidated Financial Statements)

Entities are consolidated when the Group controls an entity. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. This also includes entities where control is not derived through voting rights such as structured entities.

Indian GAAP (AS 21 Consolidated Financial Statements)

Guidance is based on the power through the ability to govern the financial and operating policies of an entity so as to obtain benefits while not taking into consideration potential voting rights.

No specific guidance is given by Indian GAAP on consolidation of Structured Entities.

Business combinations

IFRS (IFRS 3 Business Combinations)

All business combinations are treated as acquisitions. Assets, liabilities and contingent liabilities acquired are measured at their fair values. Pooling of interest method is prohibited.

For acquisitions occurring on or after 1 January 2004, IFRS 3 Business Combinations requires that, when assessing the value of the assets of an acquired entity, certain identifiable intangible assets must be recognised and if considered to have a finite life, amortised through the income statement over an appropriate period.

Adjustments to provisional fair values are permitted provided those adjustments are made within 12 months from the date of acquisition, with a corresponding adjustment to goodwill. After reassessment of respective fair values of net assets acquired, any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised immediately in the income statement. Where less than 100 per cent of an entity is acquired, non-controlling interests are stated at their proportion of the fair value of the identifiable net assets and contingent liabilities acquired.

Indian GAAP (AS 14 Accounting for Amalgamations)

Treatment of a business combination depends on whether the acquired entity is held as a subsidiary, whether it is an amalgamation or whether it is an acquisition of a business. For an entity acquired and held as a subsidiary, the business combination is accounted for as an acquisition. The assets and liabilities acquired are incorporated at their existing carrying amounts.

For an amalgamation of an entity, either pooling of interests or acquisition accounting may be used. The assets and liabilities amalgamated are incorporated at their existing carrying amounts or, alternatively, if acquisition accounting is adopted, the consideration can be allocated to individual identifiable assets (which may include intangible assets) and liabilities on the basis of their fair values.

Adjustments to the value of acquired or amalgamated balances are not permitted after initial recognition. Any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised as capital reserve, which is neither amortised nor available for distribution to shareholders. However, in the case of an amalgamation accounted under the purchase method, the fair value of intangible assets with no active market is reduced to the extent of capital reserve, if any, arising on the amalgamation. Minority interests arising on the acquisition of a subsidiary are recognised at their share of the historical book value.

Goodwill

IFRS (IFRS 3 Business Combinations and IAS 38 Intangible Assets)

IFRS 3 requires that goodwill arising on all acquisitions by the Group and associated undertakings is capitalised but not amortised and is subject to an annual review for impairment. Goodwill is tested annually for impairment. Any impairment losses recognised may not be reversed in subsequent accounting periods.

Indian GAAP (AS 14 Accounting for Amalgamations and AS 26 Intangible Assets)

Goodwill arising on amalgamations is capitalised and amortised over useful life not exceeding five years, unless a longer period can be justified. For goodwill arising on acquisition of a subsidiary or a business, there is no specific guidance. In practice, there is either no amortisation or amortisation not exceeding 10 years. Goodwill is reviewed for impairment whenever an indicator of impairment exists. Impairment losses recognised may be reversed under exceptional circumstances only in subsequent accounting periods through the income statement.

Acquired and internally generated intangible assets

IFRS (IAS 38 Intangible Assets)

Intangible assets are recognised if they are deemed separable and arise from contractual or other legal rights. Assets with a finite useful life are amortised on a systematic basis over their useful life. An asset with an indefinite useful life and which is not yet available for use should be tested for impairment annually.

Indian GAAP (AS 26 Intangible Assets)

Intangible assets are capitalised if specific criteria are met and are amortised over their useful life, generally not exceeding 10 years. The recoverable amount of an intangible asset that is not available for use or is being amortised over a period exceeding 10 years should be reviewed at least at each financial year end even if there is no indication that the asset is impaired.

Property, plant and equipment

IFRS (IAS 16 Property, Plant and Equipment, IAS 23 Borrowing Costs)

Fixed assets are recorded at cost or revalued amounts. The Group has elected the cost model.

Foreign exchange gains or losses relating to the procurement of property, plant and equipment, under very restrictive conditions, can be capitalised as part of the asset. Depreciation is recorded over the asset's estimated useful life. The residual value and the useful life of an asset and the depreciation method shall be reviewed at least at each financial year end. The Group has the option to capitalise borrowing costs incurred during the period that the asset is getting ready for its intended use.

Indian GAAP (AS 10 Fixed Assets, AS 16 Borrowing Cost and AS 6 Depreciation Accounting)

Fixed assets are recorded at historical costs or revalued amounts. Relevant borrowing costs are capitalised if certain criteria in AS 16 are met. Depreciation is recorded over the asset's useful life. Schedule II (Part C) of the Companies Act 2013 and Banking Regulations prescribe minimum rates of depreciation and these are typically used as the basis for determining useful life.

Recognition and measurement of financial instruments

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)

IAS 39 requires all financial instruments to be initially measured at their fair value, which is usually to be the transaction price. In those cases where the initial fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement, but is amortised to the income statement until the inputs become observable, the transaction matures or is terminated.

At the time of initial recognition, IAS 39 requires all financial assets to be classified as either:

a. Held at fair value through profit or loss (as a trading instrument or as designated by management), with realised and unrealised gains or losses reflected in profit or loss

b. Available-for-sale at fair value, with unrealised gains and losses reflected in shareholders' equity and recycled to the income statement when the asset is sold or is impaired

c. Held-to-maturity at amortised cost, where there is the intent and the ability to hold them to maturity

d. As loans and receivables at amortised cost

At the time of initial recognition, IAS 39 requires all financial liabilities to be classified as either:

a. Held at fair value through profit or loss (as a trading instrument or as designated by management), with realised and unrealised gains or losses reflected in profit or loss

b. At amortised cost

A financial asset or financial liability, other than one held for trading, can be designated as being held at fair value through profit or loss if it meets the criteria set out below:

a. The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis

b. A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis, or

c. Assets or liabilities include embedded derivatives and such derivatives are not recognised separately

The designation of a financial instrument as held at fair value through profit or loss is irrevocable in respect of the financial instruments to which it relates. Subsequent to initial recognition, instruments cannot be classified into or out of this category. Changes in the fair value of available-for-sale financial assets resulting from movements in foreign currency exchange rates are included in the income statement as exchange differences. Foreign currency exchange movements for available-for-sale equity securities are recognised in reserves.

Indian GAAP (AS 13 Investments)

AS 13 requires investments to be categorised as follows:

a. Current investments, which are those readily realisable and intended to be held for less than one year, are carried at the lower of cost and fair value, with changes in fair value taken directly to profit or loss

b. Long-term investments, which are those investments not classified as current, are carried at cost unless there is a permanent diminution in value, in which case a provision for diminution is required to be made by the entity

For investments, Reserve Bank of India (RBI) outlines similar classifications to IFRS, but the classification criteria and measurement requirements differ from those set out in IFRS. Financial liabilities are usually carried at cost. There is no ability to designate instruments at fair value.

Derivatives

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)

IAS 39 requires that all derivatives be recognised on balance sheet at fair value. Changes in the fair value of derivatives that are not hedges are reported in the income statement. Changes in the fair value of derivatives that are designated as hedges are either offset against the change in fair value of the hedged asset or liability through earnings, or recognised directly in equity until the hedged item is recognised in earnings, depending on the nature of the hedge. The ineffective portion of the hedge's change in fair value is immediately recognised in earnings. A derivative may only be classified as a hedge if an entity meets stringent qualifying criteria in respect of documentation and hedge effectiveness.

IAS 39 requires the separation of derivatives embedded in a financial instrument if it is not deemed to be closely related to the economic characteristics of the underlying host instrument.

Indian GAAP

Foreign exchange contracts held for trading or speculative purposes are carried at fair value, with gains and losses recognised in the income statement. In the absence of specific guidance, equity options are carried at the lower of cost or market value.

For banks, there are guidelines prescribed by RBI on measurement and accounting of Interest Rate Swaps and Forward Rate Agreements entered onto for hedging purposes.

Impairment of financial assets

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)

At each balance sheet date, an assessment is made as to whether there is any objective evidence of impairment. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment.

Assets held at amortised cost

If objective evidence of impairment exists, an assessment is made to determine what, if any, impairment loss should be recognised. The impairment loss is the difference between the asset's carrying amount and its estimated recoverable amount.

The recoverable amount is determined based on the present value of expected future cash flows, discounted at the instrument's original effective interest rate, either individually or collectively. Individually assessed assets for which there is no objective evidence of impairment are collectively assessed for impairment.

Available-for-sale assets

If objective evidence of impairment exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any previously recognised impairment) is removed from equity and recognised in the income statement.

Market recoveries leading to a reversal of an impairment provision for available-for-sale debt securities are recognised in the income statement. Impairment losses for equity instruments classified as available-for-sale are not permitted to be reversed through profit or loss.

Indian GAAP (AS 13 Investments)

Long-term investments are written down when there is a decline in fair value, which is deemed to be other than temporary.

Impairments may be reversed through the income statement in subsequent periods if the investment rises in value or the reasons for the impairment no longer exist.

In accordance with RBI regulations, in respect of available-for-sale investments, impairments are required to be reversed through Investment Reserve Account (equity reserve) if the investment rises in value or the reasons for the impairment no longer exist.

For loans and advances, the RBI regulations stipulate minimum provision based on days past due. Additionally, RBI regulations require banks to hold provisions in respect of standard assets and for specific country risk exposures.

Derecognition of financial assets

IFRS (IAS 39 Financial Instruments Recognition and Measurement)

A financial asset is derecognised if substantially all the risks and rewards of ownership have been transferred. If substantially all the risks and rewards have not been transferred, the asset will continue to be recognised to the extent of any continuing involvement.

Indian GAAP (RBI Guidelines on Securitisation of Standard Assets)

There is limited guidance on derecognition of financial assets. Securitised financial assets can only be derecognised if the originator has surrendered control over the assets. Control is not surrendered where the securitised assets are not beyond the reach of the creditors of the originator or where the transferee does not have the right to pledge, sell, transfer or exchange the securitised asset for its own benefit, or where there is an option that entitles the originator to repurchase the financial assets transferred under a securitisation transaction from the transferee.

Liabilities and equity

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)

A financial instrument is classified as a liability where there is a contractual obligation to deliver either cash or another financial asset to the holder of that instrument, regardless of the manner in which the contractual obligation will be settled. Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Indian GAAP

Classification is based on the legal form rather than substance.

Provisions for liabilities and charges

IFRS (IAS 37 Provisions, Contingents Liabilities and Contingent Assets)

The amount recognised as a provision is the best estimate at the balance sheet date of the expenditure required to settle the obligation, discounted using a pre-tax market discount rate if the effect is material.

Indian GAAP (AS 29 Provisions, Contingents Liabilities and Contingent Assets)

Provisions are recognised and measured on a similar basis to IFRS, except that there is no requirement for discounting the provision or liability.

Pension obligations

IFRS (IAS 19 Employee Benefits)

For defined contribution plans, contributions are charged to operating expenses. For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans, the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds. Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The net interest expense on the net defined liability for the year is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payment. Net interest expense and other expense related to defined benefit plans are recognised in the income statement.

Indian GAAP (AS 15 Employee Benefits)

The discount rate to be used for determining defined benefit obligations is established by reference to market yields at the balance sheet date on government bonds. The expected return on plan assets is based on market expectation for the returns over the entire life of the related obligation. Actuarial gains or losses are recognised immediately in the statement of income.

Share-based compensation

IFRS (IFRS 2 Share-based payments)

IFRS 2 requires that all share-based payments are accounted for using a fair value method. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For equity-settled awards, the total amount to be expensed over the vesting period must be determined by reference to the fair value of the options granted (determined using an option pricing model), excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions must be included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards must be revalued at each balance sheet date on an intrinsic value basis (being the difference between the market price of the share at the measurement date and the exercise price) with any changes in fair value charged or credited to staff costs in the income statement.

Deferred tax is recognised based on the intrinsic value of the award and is recorded in the income statement if the tax deduction is less than or equal to the cumulative share-based compensation expense or equity if the tax deduction exceeds the cumulative expense.

Indian GAAP

Entities may either follow the intrinsic value method or the fair value method for determining the costs of benefits arising from share-based compensation plans. Although the fair value approach is recommended, entities may use the intrinsic value method and provide fair value disclosures.

Deferred tax is not recognised as it is not considered to represent a timing difference.

Entities are also permitted the option of recognising the related compensation cost over the service period for the entire award (that is, over the service period of the last separately vesting portion of the award), provided that the amount of compensation cost recognised at any date at least equals the fair value of the vested portion of the award at that date.

Deferred taxation

IFRS (IAS 12 Income Taxes)

Deferred tax is determined based on temporary differences, being the difference between the carrying amount and tax base of assets and liabilities, subject to certain exceptions.

Deferred tax assets are recognised if it is probable (more likely than not) that sufficient future taxable profits will be available to utilise to deferred tax assets.

Indian GAAP (AS 22 Accounting for Taxes on Income)

Deferred tax is determined based on timing differences, being the difference between accounting income and taxable income for a period that is capable of reversal in one or more subsequent periods. Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Interest income and expense

IFRS (IAS 18 Revenue)

Interest income and expense is recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Indian GAAP (IAS 9 Revenue Recognition)

As per AS 9, interest is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable. In the absence of a specific effective interest rate requirement, premiums and discounts are usually amortised on a straight-line basis over the term of the instrument.

Dividends

IFRS (IAS 10 Events After The Reporting Date)

Dividends to holders of equity instruments, when proposed or declared after the balance sheet date, should not be recognised as a liability on the balance sheet date. A company, however, is required to disclose the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue.

Indian GAAP

Accounting and disclosure of dividend is similar to IFRS with effect from 1 April 2016.

Supplementary people information

Global[1]	2017	2016	% change
Full-time employees (FTE)	**85,931**	86,580	-0.7
Headcount (year end)	**86,021**	86,693	-0.8
Employed workers	**82,838**	82,381	0.6
Fixed-term workers	**3,183**	4,312	-26.2
Non-employed workers	**15,043**	14,834	1.4
Headcount (12-month average)	**86,794**	84,916	2.2
Male			
FTE	**46,634**	46,468	0.4
Headcount	**46,658**	46,502	0.3
Female			
FTE	**39,297**	40,112	-2.0
Headcount	**39,363**	40,191	-2.1
Nationalities	**125**	130	-3.8

Position type	2017	2016	% change
Executive and non-executive director	**13**	13	0.0
Female executive and non-executive director	**4**	3	33.3
Senior management (Bands 1-2)	**255**	239	6.7
Female senior management	**43**	33	30.3
Middle management (Bands 3-4)	**3,635**	3,655	-0.5
Female middle management	**956**	959	-0.3

Employment type	2017	2016	% change
Business FTE	**40,594**	42,833	-5.2
Business headcount	**40,636**	42,888	-5.3
Business female headcount	**20,219**	21,434	-5.7
Support services FTE	**45,337**	43,747	3.6
Support services headcount	**45,385**	43,805	3.6
Female support services headcount	**19,144**	18,757	2.1

Regional	2017	2016	% change
Greater China & North Asia FTE	**20,428**	20,935	-2.4
Greater China & North Asia headcount	**20,451**	20,957	-2.4
Greater China & North Asia female headcount	**12,894**	13,224	-2.5
ASEAN & Southeast Asia FTE	**47,794**	47,378	0.9
ASEAN & Southeast Asia headcount	**47,814**	47,412	0.8
ASEAN & Southeast Asia female headcount	**18,981**	19,326	-1.8
Africa & Middle East FTE	**13,928**	14,620	-4.7
Africa & Middle East headcount	**13,941**	14,645	-4.8
Africa & Middle East female headcount	**5,831**	6,026	-3.2
Europe & Americas FTE	**3,782**	3,647	3.7
Europe & Americas headcount	**3,815**	3,679	3.7
Europe & Americas female headcount	**1,657**	1,615	2.6

Age	2017	2016	% change
< 30 years FTE	**22,890**	24,749	-7.5
< 30 years headcount	**22,898**	24,763	-7.5
< 30 years female headcount	**11,856**	12,802	-7.4
30-50 years FTE	**57,639**	56,743	1.6
30-50 years headcount	**57,696**	56,816	1.5
30-50 years female headcount	**25,128**	25,129	0.0
> 50 years FTE	**5,402**	5,087	6.2
> 50 years headcount	**5,427**	5,114	6.1
> 50 years female headcount	**2,379**	2,260	5.3

Talent management	2017	2016	% change
Global voluntary turnover rate %	**13.0**	14.4	-1.4
Global turnover rate %	**17.3**	19.1	-1.8
Male %	**16.9**	19.8	-2.8
Female %	**17.6**	18.5	-0.9
Greater China & North Asia %	**18.2**	20.5	-2.3
ASEAN & South Asia %	**17.7**	19.8	-2.1
Africa & Middle East %	**14.9**	16.1	-1.2
Europe & Americas %	**15.2**	15.8	-0.6
< 30 years %	**24.2**	26.6	-2.4
30-50 years %	**14.4**	16.1	-1.6
> 50 years %	**16.7**	17.9	-1.2
Average tenure – male (years)	**6.2**	5.9	3.5
Average tenure – female (years)	**6.5**	6.3	3.4
Roles filled internally %	**37.5**	31.2	6.3
of which filled by females %	**44.5**	44.7	-0.2
Employees with completed performance appraisal[2] %	**99.9**	99.4	0.5
Absenteeism rate[3] %	**46.2**	43.4	2.8

Learning	2017	2016	% change
Employees receiving training %	**95.7**	95.0	0.7
Employees receiving training (excluding mandatory learning) %	**89.2**	83.9	5.3
Female %	**96.3**	95.4	0.9
Senior management %	**92.6**	92.5	0.1
Middle management %	**97.2**	96.4	0.8
Average number of training days per employee (including mandatory learning)	**3.17**	3.50	-9.4
Average cost of training per employee	**640**	677	-5.5

1 For all metrics expressed as a percentage, percentage change means percentage point change

2 Employees with completed performance appraisal numbers are based on 30 September 2017 eligible population

3 Absenteeism rate excludes Korea

Supplementary sustainability information

Contributing to sustainable economic growth

Environmental and social risk management

Employees trained in environmental and social risk management	2017	2016	2015
Employees trained[1]	**568**	118	1,708

1 Employees targeted for training are those in client-facing roles and relevant support teams. A new policy framework, launched in 2014, required a significant level of training to be delivered in 2015 and thus a one-off increase in training attendance

Equator Principles

	Project finance mandates			Project-related corporate loans			Project advisory mandates
	Cat A[1]	Cat B[2]	Cat C[3]	Cat A	Cat B	Cat C	
Total 2015	4	9	–	–	1	–	–
Total 2016	7	6	–	–	–	–	2
Total 2017	**1**	**11**	**1**	**1**	**2**	**–**	**1**
2017							
Sector							
Mining	–	1	–	–	–	–	–
Infrastructure	1	3	1	–	1	–	–
Oil & Gas	–	3	–	1	–	–	1
Renewables	–	–	–	–	–	–	–
Telecoms	–	–	–	–	–	–	–
Power	–	2	–	–	1	–	–
Other	–	2	–	–	–	–	–
Region							
Greater China	–	–	1	–	1	–	–
North East Asia	–	–	–	–	–	–	–
South Asia	–	2	–	–	–	–	–
ASEAN	–	–	–	–	–	–	–
MENAP	–	7	–	1	–	–	1
Africa	1	2	–	–	–	–	–
Americas	–	–	–	–	1	–	–
Europe	–	–	–	–	–	–	–
Designation[4]							
Designated	–	–	–	–	1	–	–
Non-Designated	1	11	1	1	1	–	–
Independent Review							
Yes	1	11	1	1	2	–	–
No	–	–	–	–	–	–	–

1 'Cat A' or Category A are projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented

2 'Cat B' or Category B are projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures

3 'Cat C' or Category C are projects with minimal or no adverse environmental and social risks and/or impacts

4 'Designation' is split into designated and non-designated countries. Designated countries are deemed by the Equator Principles to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment. Non-designated countries are countries that are not found on the list of designated countries. The list of countries can be found at www.equator-principles.com

Being a responsible company

Environment

	2017		2016		2015	
	Measured	**Scaled Up**	Measured	Scaled Up	Measured	Scaled Up
Offices reporting	**188**	**–**	189	–	190	–
Net internal area of occupied property (m^2)	**814,886**	**1,194,363**	840,510	1,237,043	846,480	1,261,320
Green lease clause inclusion[1] (%)	**76**	**–**	71	–	67	–
Occupied net internal area where data is collected (%)	**85**	**–**	72	–	73	–
Full-time employees (FTE) covered by reporting	**64,648**	**86,021**	58,699	86,693	58,528	84,076
Annual operating income from 1 October to 30 September ($m)	**–**	**14,614**	–	12,515	–	17,566
Greenhouse gas emissions – Absolute (tonnes CO_2eq/year)						
Scope 1 emissions (combustion of fuels)	**5,870**	**7,922**	6,312	13,562	8,865	16,904
Scope 2 emissions (purchased electricity)	**113,908**	**180,014**	136,570	186,553	132,030	184,912
Scope 1 & 2 emissions	**119,777**	**187,936**	142,882	200,115	140,895	201,816
Scope 3 emissions without distance uplift (air travel)	**59,179**	**59,179**	49,393	52,056	54,519	54,519
Scope 3 emissions with distance uplift (air travel)	**64,505**	**64,505**	53,839	56,741	59,426	59,426
Scope 1, 2 & 3 emissions	**178,956**	**247,115**	192,275	252,171	195,414	256,335
Scope 3 emissions (Global Data Centre)[2]	**–**	**23,904**	–	22,653	–	19,339
Greenhouse gas emissions – Intensity						
Scope 1 & 2 emissions/m2 (kg CO_2eq/m^2/year)	**147**	**157**	170	162	166	160
Scope 1 & 2 emissions/FTE (tonnes CO_2eq/FTE/year)	**1.85**	**2.18**	2.43	2.31	2.41	2.40
Scope 3 emissions/FTE without distance uplift (tonnes CO_2eq/FTE/year)	**0.69**	**0.69**	0.57	0.60	0.64	0.65
Scope 3 emissions/FTE with distance uplift (tonnes CO_2eq/FTE/year)	**0.75**	**0.75**	0.62	0.65	0.69	0.71
Scope 1, 2 & 3 emissions/m2 (kg CO_2eq/m^2/year)	**220**	**207**	229	204	231	203
Scope 1, 2 & 3 emissions/FTE (tonnes CO_2eq/FTE/year)	**2.77**	**2.87**	3.28	2.91	3.34	3.05
Scope 1 & 2 emissions/$m operating income (tonnes CO_2eq/$m/year)	**–**	**12.86**	–	15.99	–	11.49
Scope 1, 2 & 3 emissions/$m operating income (tonnes CO_2eq/$m/year)	**–**	**16.91**	–	20.15	–	14.59
Environmental resource efficiency						
Energy						
Indirect non-renewable energy consumption[3] (GWh/year)	**168**	**277**	185	245	201	284
Indirect renewable energy consumption[4] (GWh/year)	**21**	**19**	23	20	14	13
Direct non-renewable energy consumption[5] (GWh/year)	**24**	**32**	26	47	36	68
Direct renewable energy consumption[6] (GWh/year)	**–**	**–**	–	–	–	–
On-site renewable energy consumption[7] (MWh/year)	**330**	**330**	247	247	276	276
Energy consumption (GWh/year)	**213**	**327**	234	312	252	365
Energy consumption/FTE (kWh/FTE/year)	**3,291**	**3,807**	3,986	3,599	4,306	4,341
Energy consumption/m^2 (kWh/m^2/year)	**261**	**274**	278	252	298	289
Water						
Water consumption (ML/year)	**649**	**1,149**	917	1,181	793	1,037
Water consumption/FTE (m^3/FTE/year)	**10**	**13**	16	14	14	12
Water consumption/m^2 (kL/m^2/year)	**0.80**	**0.96**	1.09	0.95	0.94	0.82
Paper[8]						
Print paper consumption (ktonnes/year)	**1.62**	**1.89**	–	–	–	–
Print paper consumption/FTE (kg/FTE/year)	**21.97**	**–**	–	–	–	–
Waste[9]						
Waste (ktonnes/year)	**4.8**	**–**	5	–	5.2	–
Waste/FTE (kg/FTE/year)	**74**	**–**	85	–	89	–
Waste reused or recycled (%)	**24**	**–**	38	–	27	–
Retired IT equipment reused or recycled (ktonnes/year)	**0.19**	**–**	0.15	–	0.19	–

1 Percentage of green lease clause inclusion in all new and renewed leases within the reporting year. Refer to the eco-efficiency criteria for more information

2 Scope 3 emissions calculated from total energy consumption from our outsourced global data centres

3 Indirect non-renewable energy refers to purchased electricity from non-renewable sources

4 Indirect renewable energy refers to purchased electricity from off-site renewable sources

5 Direct non-renewable energy refers to the gross calorific values of fuels consumed on-site

6 Direct renewable energy refers to the gross calorific values of renewable fuels consumed on-site

7 On-site renewable energy refers to renewable energy generated and consumed on-site

8 During 2017, we introduced new methodology to measure paper consumption. This resulted in both an increase in reporting and overall paper consumption. Data from 2015 and 2016 is no longer considered representative and is, therefore, not shown

9 During 2017, more branches measured their waste generation and those reporting were found to have generated more waste per branch than our previous sample population. As a result, total waste generated across the portfolio increased. We are reviewing our scaling-up approach; scaled-up data from 2015 and 2016 is no longer representative, and is, therefore, not shown

Additional notes on environment data

The emissions within our inventory correspond to a reporting period of 1 October 2016 to 30 September 2017. This is to allow sufficient time for independent assurance to be gained prior to the publication of results. Accordingly, the operating income used in this inventory corresponds to the same period rather than the calendar year used in financial reporting. This is consistent with international carbon reporting practice.

We use measured data to calculate our energy and water use across our properties, which we then 'scale up' to reflect the portion of the portfolio we do not gather measurements from.

'Measured' data is collected from Global Environment Management System (GEMS) properties, defined as all properties that are over 10,000 square feet for energy and water.

'Scaled-up' data represents measured data taken from a sample of branches, which is then extrapolated to reflect the Group's total property footprint for energy and water. For paper and business travel, it is defined per full-time employee (as at the end of the reporting period).

Carbon abatement benefit from indirect renewable energy is not taken into account.

Total energy use is normalised to reflect periods of vacancy in certain sites during the reporting period.

Net internal areas used for water use intensity do not include sites that have reported zero water consumption in demised areas.

Warehouses, empty land, car parks, unoccupied sites for business continuity purposes, residential properties, space occupied by automated teller machines, vaults and space sub-let to tenants are excluded from this extrapolation.

Scope 3 emissions are drawn from reliable data collected from 20 countries, based on seating class and distance flown.

As we operate largely outside of the UK, all flights domestic or international with flight distance of less than 463km, labelled by the Department for Business, Energy and Industrial Strategy (DBEIS) as 'domestic flights', have been classified as 'short haul'. All flights with distance flown ranging from 463 to 1,108km, labelled by DBEIS as 'short haul' have been classified as 'medium haul'.

The Carbon Trust is our independent third-party assurance provider for Greenhouse Gas (GHG) emissions. In 2017, our measured Scope 1 and Scope 2 emissions were assured by The Carbon Trust, ensuring the accuracy and credibility of our reporting.

+ For additional information, review the Independent Assurance Report at sc.com/environmentalassurance

Financial crime prevention

	2017[1]	2016
Staff completing anti-money laundering (AML) e-learning	**99.2**	97.7
Staff completing anti-bribery and corruption (ABC) e-learning	**99.3**	97.9
Staff completing sanctions e-learning	**99.6**	97.9

1 In 2017, we introduced a Mandatory Learning reporting standard that records employees who have completed training as well as those who are yet to complete, but remain within the allotted time for completion. Previously, we only recorded completion as at the report date. As a result, 2017 completion rate percentage values have slightly increased and are not directly comparable to prior periods

Investing in communities

Community expenditure

	2017 $million	2016[3] $million	2015 $million
Cash contributions	**22.1**	21.3	24.5
Employee time (non-cash item)	**18.1**	17.3	20.0
Gifts In Kind (non-cash item)[1]	**0.1**	–	0.1
Management costs	**4.5**	4.7	5.5
Total (direct investment by the Group)	**44.8**	43.3	50.1
Leverage[2]	**5.0**	9.6	10.2
Total (incl. leverage)	**49.8**	52.9	60.3
Percentage of prior year operating profit (PYOP)[4]	**12.18**	–	1.42

1 Gifts In Kind comprises all non-monetary donations

2 Leverage data relates to the proceeds from staff and other fundraising activity

3 Figures for 2016 are restated to include additional contributions

4 PYOP for 2016 was not meaningful based on 2015 operating profit

Shareholder information

Dividend and interest payment dates

Ordinary shares	Final dividend
Results and dividend announced	27 February 2018
Ex dividend date	8 March (UK) 7 March (HK) 2018
Record date for dividend	9 March 2018
Last date to elect for share dividend or to change standing instructions	19 April 2018
Dividend payment date	17 May 2018

Preference shares	1st half yearly dividend	2nd half yearly dividend
73/8 per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2018	1 October 2018
81/4 per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2018	1 October 2018
6.409 per cent Non-cumulative redeemable preference shares of $5 each	30 January 2018	30 July 2018
7.014 per cent Non-cumulative redeemable preference shares of $5 each	30 January 2018	30 July 2018

Annual General Meeting

The Annual General Meeting (AGM) details are as follows:

Date and time

Wednesday 9 May 2018
11.00am London time
(6.00pm Hong Kong time)

Location

etc. venues
200 Aldersgate
St Paul's
London EC1A 4HD

Details of the business to be transacted at the AGM are included in the Notice of AGM.

+ Details of voting at the Company's AGM and of proxy votes cast can be found on the Company's website at investors.sc.com

Interim results

The interim results will be announced to the London Stock Exchange, The Stock Exchange of Hong Kong Limited, BSE Limited (Bombay Stock Exchange) and the National Stock Exchange of India Limited and put on the Company's website.

Country-by-country reporting

In accordance with the requirements of the Capital Requirements (country-by-country reporting) Regulations 2013, the Group will publish additional country-by-country information in respect of the year ended 31 December 2017, on or before 31 December 2018. We have also published our approach to tax and tax policy.

+ This information will be available on the Group's website at sc.com

ShareCare

ShareCare is available to shareholders on the Company's UK register who have a UK address and bank account, and allows you to hold your Standard Chartered PLC shares in a nominee account. Your shares will be held in electronic form so you will no longer have to worry about keeping your share certificates safe. If you join ShareCare you will still be invited to attend the Company's AGM and receive any dividend at the same time as everyone else. ShareCare is free to join and there are no annual fees to pay.

+ If you would like to receive more information, please visit our website at investors.sc.com/shareholder or contact the shareholder helpline on 0370 702 0138.

Previous dividend payments (unadjusted for the impact of the 2015/2010/2008 Rights Issues)

Dividend and financial year	Payment date	Dividend per ordinary share	Cost of one new ordinary share under share dividend scheme
Interim 2006	11 October 2006	20.83c/11.14409p/HK$1.622699	£13.2360/$25.03589
Final 2006	11 May 2007	50.21c/25.17397p/HK$3.926106	£14.2140/$27.42591
Interim 2007	10 October 2007	23.12c/11.39043p/HK$1.794713	£15.2560/$30.17637
Final 2007	16 May 2008	56.23c/28.33485p/HK$4.380092	£16.2420/$32.78447
Interim 2008	9 October 2008	25.67c/13.96133p/HK$1.995046	£14.00/$26.0148
Final 2008	15 May 2009	42.32c/28.4693p/HK$3.279597	£8.342/$11.7405
Interim 2009	8 October 2009	21.23c/13.25177p/HK$1.645304	£13.876/$22.799
Final 2009	13 May 2010	44.80c/29.54233p/HK$3.478306	£17.351/$26.252
Interim 2010	5 October 2010	23.35c/14.71618p/HK$1.811274/INR0.9841241	£17.394/$27.190
Final 2010	11 May 2011	46.65c/28.272513p/HK$3.623404/INR1.99751701	£15.994/$25.649
Interim 2011	7 October 2011	24.75c/15.81958125p/HK$1.928909813/INR1.137971251	£14.127/$23.140
Final 2011	15 May 2012	51.25c/31.63032125p/HK$3.9776083375/INR2.66670151	£15.723/$24.634
Interim 2012	11 October 2012	27.23c/16.799630190p/HK$2.111362463/INR1.3498039501	£13.417/$21.041
Final 2012	14 May 2013	56.77c/36.5649893p/HK$4.4048756997/INR2.9762835751	£17.40/$26.28792
Interim 2013	17 October 2013	28.80c/17.8880256p/HK$2.233204992/INR1.68131	£15.362/$24.07379
Final 2013	14 May 2014	57.20c/33.9211444p/HK$4.43464736/INR3.3546261	£11.949$19.815
Interim 2014	20 October 2014	28.80c/17.891107200p/HK$2.2340016000/INR1.6718425601	£12.151/$20.207
Final 2014	14 May 2015	57.20c/37.16485p/HK$4.43329/INR3.5140591	£9.797/$14.374
Interim 2015	19 October 2015	14.40c/9.3979152p/HK$1.115985456/INR0.861393721	£8.5226/$13.34383
Final 2015	No dividend declared	N/A	N/A
Interim 2016	No dividend declared	N/A	N/A
Final 2016	No dividend declared	N/A	N/A
Interim 2017	No dividend declared	N/A	N/A

1 The INR dividend is per Indian Depository Receipt

Donating shares to ShareGift

Shareholders who have a small number of shares often find it uneconomical to sell them. An alternative is to consider donating them to the charity ShareGift (registered charity 1052686), which collects donations of unwanted shares until there are enough to sell, and uses the proceeds to support UK charities. There is no implication for Capital Gains Tax (no gain or loss) when you donate shares to charity, and UK taxpayers may be able to claim income tax relief on the value of their donation.

+ Further information can be obtained from the Company's registrars or from ShareGift on 020 7930 3737 or from sharegift.org

Bankers' Automated Clearing System (BACS)

Dividends can be paid straight into your bank or building society account.

+ Please register online at investorcentre.co.uk or contact our registrar for a mandate form

Registrars and shareholder enquiries

If you have any enquiries relating to your shareholding and you hold your shares on the UK register, please contact our registrar Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ or call the shareholder helpline number on 0370 702 0138.

If you hold your shares on the Hong Kong branch register and you have enquiries, please contact Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

+ You can check your shareholding at computershare.com/hk/investors

If you hold Indian Depository Receipts and you have enquiries, please contact Karvy Computershare Private Limited, Karvy Selenium Tower B, Plot 31-32, Gachibowli, Financial District, Nanakramguda, Hyderabad 500032, India.

Chinese translation

If you would like a Chinese version of the 2017 Annual Report and Accounts please contact Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

本年報之中文譯本可向香港中央證券登記有限公司索取，地址☒香港灣仔皇后大道東183號合和中心17M樓

Shareholders on the Hong Kong branch register who have asked to receive corporate communications in either Chinese or English can change this election by contacting Computershare.

If there is a dispute between any translation and the English version of this Annual Report and Accounts, the English text shall prevail.

Taxation

Information on taxation applying to dividends paid to you if you are a shareholder in the UK, Hong Kong or the US will be sent to you with your dividend documents.

Electronic communications

If you hold your shares on the UK register and in future you would like to receive the Annual Report and Accounts electronically rather than by post, please register online at: investorcentre.co.uk. Then click on Register and follow the instructions. You will need to have your Shareholder or ShareCare reference number when you log on. You can find this on your share certificate or ShareCare statement. Once registered you can also submit your proxy vote and dividend election electronically, and change your bank mandate or address information.

Forward-looking statements

This document may contain 'forward-looking statements' that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or other words of similar meaning. By their very nature, such statements are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. Recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. The factors that could cause actual results to differ materially from those described in the forward-looking statements include (but are not limited to) changes in global, political, economic, business, competitive, market and regulatory forces or conditions, future exchange and interest rates, changes in tax rates, future business combinations or dispositions and other factors specific to the Group. Any forward-looking statement contained in this document is based on past or current trends and/or activities of the Group and should not be taken as a representation that such trends or activities will continue in the future.

No statement in this document is intended to be a profit forecast or to imply that the earnings of the Group for the current year or future years will necessarily match or exceed the historical or published earnings of the Group. Each forward-looking statement speaks only as of the date of the particular statement. Except as required by any applicable laws or regulations, the Group expressly disclaims any obligation to revise or update any forward looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

Nothing in this document shall constitute, in any jurisdiction, an offer or solicitation to sell or purchase any securities or other financial instruments, nor shall it constitute a recommendation or advice in respect of any securities or other financial instruments or any other matter.

Major awards 2017

Banking awards

IFR Asia League Tables – Bonds League Tables

- Top bookrunners of Asia Pacific Securitisations (ex-Japan and Australia) (ex-A$ and CDOs) – Rank #1

The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards

- Best in Working Capital & Trade Finance – South Asia
- Best in Treasury & Working Capital – MNCs/LLCs – Bangladesh
- Best Service Providers – Supply Chain Solutions – Bangladesh
- Best Service Providers – Esolutions Partner – Bangladesh
- Best Service Providers – Supply Chain Solutions – India
- Best Service Providers – Trade Finance – India
- Best Service Providers – Supply Chain Solutions – Sri Lanka
- Best Service Providers – Cash Management – Sri Lanka
- Best Service Providers – Trade Finance – Sri Lanka
- Best in Treasury & Cash Management – MENA
- Best in Working Capital & Trade Finance – MENA
- Best in Treasury & Cash Management – North Asia
- Best Service Providers – Liquidity Management – China
- Best Service Providers – Liquidity Management – Hong Kong
- Best Service Providers – Transaction Bank – Hong Kong
- Best in Treasury & Working Capital – SMEs – South Korea
- Best Service Providers – Trade Finance – South Korea
- Best Service Providers – Esolutions Partner – South Korea
- Best Service Providers – Liquidity Management – Taiwan
- Best Renminbi Bank – Hong Kong
- Best in Treasury & Cash Management – ASEAN
- Best Service Providers – Structured Trade Finance – Indonesia
- Best Service Providers – Structured Trade Finance – Malaysia
- Best Service Providers – Risk Management – Malaysia
- Best in Treasury & Working Capital – MNCs/LLCs – Vietnam
- Best in Treasury & Working Capital – FIs/NBFIs – Vietnam
- Best Service Providers – Transaction Bank – Vietnam
- Best in Treasury & Working Capital – Best Structured Trade Finance Bank
- Best in Treasury & Working Capital – Best Renminbi Liquidity Management Bank
- Best Service Providers – Fis/NBFIs
- Best Service Providers – ECA Financing
- Renminbi Banker of the Year (Carmen Ling)

Euromoney Awards for Excellence

- Best Bank for Markets – Middle East
- Africa Best Bank for Markets
- Best Bank in Zambia
- Best Bank in Zimbabwe

Global Transaction Banking Services – Distinguished Provider

- Transaction Banking Services – EUR to EUR
- Transaction Banking Services – USD to USD
- Transaction Banking Services – USD to EUR

The Innovators 2017

- Trade Finance – Intelligent OCR, Process Innovation
- Trade Finance – Intelligent OCR, Process Innovation (Islamic)

The World's Best Securities Services Providers 2017

- Best Global Custodian – Asia
- Best Global Custodian – Africa
- Best Subcustodian – Middle East
- Best Subcustodian – Ghana
- Best Subcustodian – India
- Best Subcustodian – Jordan
- Best Subcustodian – Kenya
- Best Subcustodian – Bahrain
- Best Subcustodian – Pakistan

GlobalCapital Bond Awards

- Most Impressive FIG Issuer of Capital – Rank #1
- Most Impressive House for Middle Eastern Bonds – Rank #1

Euromoney FX Survey

- Overall Market Share (Currencies) – Rank #1
- Market Share (Africa) – Rank #1
- Quality of Salesforce (Asia) – Rank #1
- Most Improved by Region (Asia) – Rank #1
- Most Improved by Region (Middle East) – Rank #1
- Most Improved by Region (Africa) – Rank #1
- Most Improved by Institution Type (Leveraged Funds) – Rank #1

Banking awards continued

The Asset Triple A Asset Servicing, Fund Management & Investors Awards

- Best Custody Specialist – Africa
- Best Fund Administrator for Retail Funds – Vietnam
- Best Subcustodian – Jordan
- Best Subcustodian – Korea
- Best Subcustodian – Middle East (Highly Commended)
- Custodian Banker of the Year (Margaret Hardwood-Jones, Global Securities Services)

World's Best Treasury and Cash Management Providers

- Best Bank for Payments and Collections (Global)
- Best Bank for Working Capital Optimisation – Asia-Pacific
- Best Bank for Liquidity Management – Africa

World's Best Trade Finance Providers

- Best Supply Chain Finance Bank in Africa
- Best Trade Finance Providers in Bangladesh

Global Custodian Agent Banks in Frontier Markets Survey

- Bangladesh – Market Outperformer
- Mauritius – Market Outperformer
- Mauritius – Category Outperformer
- Sri Lanka – Market Outperformer
- Sri Lanka – Category Outperformer
- Zambia – Market Outperformer
- Zimbabwe – Market Outperformer
- Zimbabwe – Category Outperformer
- Jordan – Global Outperformer
- Jordan – Category Outperformer
- Tanzania – Category Outperformer

Asia Risk Awards 2017

- Currency House of the Year
- Clearing Bank of the Year
- Commodities House of the Year

Asiamoney New Silk Road Finance Awards

- Best international Bank in Southeast Asia for BRI (Belt & Road Initiative)
- Best Bank for BRI-related finance in Southeast Asia

The Stars of China

- Best Bank for RMB Services
- Best Bank for Commodities
- Best Bank for Corporate Social Responsibility
- Best OBOR Initiative (Foreign)

The Asset Benchmark Research Awards – Top Banks in Asian Currency Bonds

- Top Bank in Government Bonds (Offshore) – Rank #1
- Top Bank in Corporate Bonds (Offshore) – Rank #1

The Asset Triple A Country Awards

- Best Bond Advisor (Global, India)

Reporting awards

- IR Society award for Best FTSE100 Annual Report (2016 Annual Report)
- ICSA award for Risk Disclosure of the Year (2016 Annual Report)

Sustainability indices

Dow Jones Sustainability Index

We were included in the Dow Jones Sustainability Index (DJSI), World Index. We were noted for our strong performance in corporate governance, tax strategy, environmental reporting, corporate citizenship and anti-crime policy and measures.

FTSE4Good

We were listed in the FTSE4Good Index. The FTSE4Good measures the performance of companies that meet globally recognised corporate responsibility standards.

CDP

We participate in the CDP Climate questionnaire.

Glossary

AT1 or Additional Tier 1 capital
Additional Tier 1 capital consists of instruments with no fixed maturity issued by the bank and related share premium that meet the Basel III criteria for inclusion in total capital.

Additional value adjustment
See Prudent valuation adjustment.

Advanced Internal Rating Based (AIRB) approach
The AIRB approach under the Basel II framework is used to calculate credit risk capital based on the Group's own estimates of certain parameters.

Advances-to-deposits (ADR) ratio
The ratio of total loans and advances to customers relative to total customer accounts. A low advances-to-deposits ratio demonstrates that customer accounts exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers.

ASEAN
Association of South East Asian Nations (ASEAN) which includes the Group's operations in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

AUM or Assets under management
Total market value of assets such as deposits, securities and funds held by the Group on behalf of the clients.

Basel II
The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the International Convergence of Capital Measurement and Capital Standards.

Basel III
Global framework issued by the BCBS in December 2010, revised in June 2011, which sets regulatory standards on banks' composition of capital, counterparty credit risk, liquidity and leverage ratios. The new requirements will be phased in and fully implemented by 1 January 2019.

Basis point (bps)
One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent.

BCBS or Basel Committee on Banking Supervision
A forum on banking supervisory matters which develops global supervisory standards for the banking industry. Its members are officials from 45 central banks or prudential supervisors from 28 countries and territories.

BIPRU
The PRA's Prudential Sourcebook for Banks, Building Societies and Investment Firms.

CRD or Capital Requirements Directive IV
The Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) that implement the Basel III proposals in Europe.

Capital resources
Sum of Tier 1 and Tier 2 capital after regulatory adjustments.

CGU or cash-generating unit
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Clawback
An individual is required to pay back variable remuneration to the Group under certain circumstances.

CRE or Commercial real estate
Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multi-family housing buildings, warehouses, garages, and industrial properties. Commercial real estate loans are those backed by a package of commercial real estate assets.

CET1 (Common Equity Tier 1 capital)
CET1 capital consists of the common shares issued by the Group and related share premium, retained earnings, accumulated other comprehensive income and other disclosed reserves, eligible non-controlling interests and regulatory adjustments required in the calculation of CET1.

CET1 ratio
A measure of the Group's CET1 capital as a percentage of risk-weighted assets under CRD IV.

Constant currency
Constant currency change is derived by applying a simple translation of the previous period functional currency number in each entity using the current average and period end US dollar exchange rates to the income statement and balance sheet respectively.

Contractual maturity
Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.

CIR or Cost to income ratio
Represents the proportion of total operating expenses to total operating income.

Countercyclical capital buffer
Regulatory Capital of up to 2.5 per cent of risk-weighted assets in a given jurisdiction that is required to be held under Basel III rules to ensure that banks build up surplus capital when macroeconomic conditions indicate excess credit growth.

Counterparty credit risk
The risk that counterparty defaults before satisfying its obligations under a contract.

Cover ratio
Represents the extent to which non-performing loans are covered by impairment provisions.

CCF or Credit Conversion Factor
An estimate of the amount the Group expects a customer to have drawn down further on a facility limit at the point of default, either prescribed by BIPRU or modelled by the Group.

CDS or credit default swaps
A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

Credit institutions
An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

Credit risk mitigation
Credit risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees.

CVA or credit valuation adjustments
An adjustment to the fair value of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the contracts.

Customer accounts
Money deposited by all individuals and companies which are not credit institutions including securities sold under repurchase agreement (see repo/reverse repo). Such funds are recorded as liabilities in the Group's balance sheet under customer accounts.

DVA or debit valuation adjustment
An adjustment to the fair value of derivative contracts that reflect the possibility that the Group may default and not pay the full market value of contracts.

Debt securities
Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

Debt securities in issue
Debt securities in issue are transferrable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.

DTA or deferred tax asset
Income taxes recoverable in future periods in respect of deductible temporary differences between the accounting and tax base of an asset or liability that will result in tax deductible amounts in future periods, the carry-forward of tax losses or the carry-forward of unused tax credits.

DTL or deferred tax liability
Income taxes payable in future periods in respect of taxable temporary differences between the accounting and tax base of an asset or liability that will result in taxable amounts in future periods.

Defined benefit obligation
The present value of expected future payments required to settle the obligations of a defined benefit scheme resulting from employee service.

Defined benefit scheme
Pension or other post-retirement benefit scheme other than a defined contribution scheme.

Defined contribution scheme
A pension or other post-retirement benefit scheme where the employer's obligation is limited to its contributions to the fund.

Delinquency
A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as arrears.

Deposits by banks
Deposits by banks comprise amounts owed to other domestic or foreign credit institutions by the Group including securities sold under repo.

Dividend per share
Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.

Effective tax rate
The tax on profit/(losses) on ordinary activities as a percentage of profit/(loss) on ordinary activities before taxation.

Encumbered assets
On-balance sheet assets pledged or used as collateral in respect of certain of the Group's liabilities.

EU or European Union
The European Union (EU) is a political and economic union of 28 member states that are located primarily in Europe.

Eurozone
Represents the 19 EU countries that have adopted the euro as their common currency.

Expected loss
The Group measure of anticipated loss for exposures captured under an internal ratings-based credit risk approach for capital adequacy calculations. It is measured as the Group-modelled view of anticipated loss based on Probability of Default, loss given default and exposure at default, with a one-year time horizon.

Exposures
Credit exposures represent the amount lent to a customer, together with any undrawn commitments.

EAD or exposure at default
The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

ECAI or External Credit Assessment Institutions
For the standardised approach to credit risk for sovereigns, corporate and institutions, external ratings are used to assign risk weights. These external ratings must come from PRA approved rating agencies, known as External Credit Assessment Institutions; which are Moody's, Standard & Poor's and Fitch.

FCA or Financial Conduct Authority
The Financial Conduct Authority regulates the conduct of financial firms and, for certain firms, prudential standards in the UK. It has a strategic objective to ensure that the relevant markets function well.

Forbearance
Forbearance takes place when a concession is made to the contractual terms of a loan in response to an obligor's financial difficulties. The Group classifies such modified loans as either 'Forborne – not impaired loans' or 'Loans subject to forbearance – impaired'. Once a loan is categorised as either of these, it will remain in one of these two categories until the loan matures or satisfies the 'curing' conditions described in note 8 to the financial statements.

Forborne – not impaired loans
Loans where the contractual terms have been modified due to financial difficulties of the borrower, but the loan is not considered to be impaired. See 'Forbearance'.

Free deliveries
A transaction in which securities, foreign currencies or commodities have been paid for before receiving them or where securities, foreign currencies or commodities have been delivered before receiving payment for them.

Free funds
Free funds include equity capital, retained reserves, current year unremitted profits and capital injections net of proposed dividends. It does not include debt capital instruments, unrealised profits or losses or any non-cash items.

Funded/unfunded exposures
Exposures where the notional amount of the transaction is funded or unfunded. Represents exposures where there is a commitment to provide future funding is made but funds have been released/ not released.

FVA or Funding valuation adjustments
FVA reflects an adjustment to fair value in respect of derivative contracts that reflect the funding costs that the market participant would incorporate when determining an exit price.

G-SIBs or Global Systemically Important Banks
Global financial institutions whose size, complexity and systemic interconnectedness mean that their distress or failure would cause significant disruption to the wider financial system and economic activity. The list of G-SIBs is re-assessed through annual re-scoring of banks and a triennial review of the methodology.

G-SIB buffer
A CET1 capital buffer which results from designation as a G-SIB. The G-SIB buffer is between 1% and 3.5%, depending on the allocation to one of five buckets based on the annual scoring. The G-SIB buffer is being phased in by 1 January 2019. In the EU, the G-SIB buffer is implemented via CRD IV as Global Systemically Important Institutions (G-SII) buffer requirement.

Impaired loans
Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

Impairment provision
A provision held on the balance sheet as a result of the raising of a charge against profit for an incurred loss. An impairment provisions may either be identified or unidentified and individual (specific) or collective (portfolio). Underlying impairment provisions exclude impairments which are the consequence of the 2015 Strategic Review and goodwill impairments. A reconciliation between underlying and statutory earnings is contained in Note 2 to the financial statements.

IIP or Individual impairment provisions
Impairment that is measured for assets that are individually significant to the Group. Typically assets within the Corporate & Institutional Banking segment of the Group are assessed individually.

Interest rate risk
The risk of an adverse impact on the Group's income statement due to changes in interest rates.

IRB approach or internal ratings-based approach
Used to calculate risk-weighted assets in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of certain parameters.

IMA approach or internal model approach
The approach used to calculate market risk capital and RWA with an internal market risk model approved by the PRA under the terms of CRD IV/CRR.

IAS or International Accounting Standard
A standard that forms part of the International Financial Reporting Standards framework.

IASB or International Accounting Standards Board
An independent standard-setting body responsible for the development and publication of IFRS, and approving interpretations of IFRS standards that are recommended by the IFRS Interpretations Committee (IFRIC).

IFRS or International Financial Reporting Standards
A set of international accounting standards developed and issued by the International Accounting Standards Board, consisting of principles-based guidance contained within IFRSs and IASs. All companies that have issued publicly traded securities in the EU are required to prepare annual and interim reports under IFRS and IAS standards that have been endorsed by the EU.

IFRIC
The IFRS Interpretations Committee supports the IASB in providing authoritative guidance on the accounting treatment of issues not specifically dealt with by existing IFRSs and IASs.

Investment grade
A debt security, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.

Leverage ratio
A ratio introduced under CRD IV that compares Tier 1 capital to total exposures, including certain exposures held off balance sheet as adjusted by stipulated credit conversion factors. Intended to be a simple, non-risk based backstop measure.

Liquid Asset Ratio
Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.

Liquidation portfolio
A portfolio of assets which is beyond our current risk appetite metrics and is held for liquidation.

LCR or Liquidity Coverage Ratio
The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.

Loans and advances
This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument.

Loans to banks
Amounts loaned to credit institutions including securities bought under Reverse repo.

LTV or loan-to-value ratio
A calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loans past due
Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made.

Loans subject to forbearance – impaired
Loans where the terms have been renegotiated on terms not consistent with current market levels due to financial difficulties of the borrower. Loans in this category are necessarily impaired. See 'Forbearance'.

LGD or loss given default
The percentage of an exposure that a lender expects to lose in the event of obligor default.

Malus
An arrangement that permits the Group to prevent vesting of all or part of the amount of an unvested variable remuneration award, due to a specific crystallised risk, behaviour, conduct or adverse performance outcome.

Master netting agreement
An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.

Mezzanine capital
Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.

MREL or minimum requirement for own funds and eligible liabilities
A requirement under the Bank Recovery and Resolution Directive for EU resolution authorities to set a minimum requirement for own funds and eligible liabilities for banks. Similar to Total Loss Absorbing Capacity, MREL is intended to ensure there is sufficient equity and specific types of liabilities to facilitate an orderly resolution that minimises any impact on financial stability and ensures the continuity of critical functions and avoids exposing taxpayers to loss.

Net asset value (NAV) per share
Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.

Net exposure
The aggregate of loans and advances to customers/loans and advances to banks after impairment provisions, restricted balances with central banks, derivatives (net of master netting agreements), investment debt and equity securities, and letters of credit and guarantees.

NII or net interest income
The difference between interest received on assets and interest paid on liabilities.

NIM or net interest margin
Net interest income divided by average interest earning assets.

NSFR or net stable funding ratio
The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. It is a longer-term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one year time horizon.

NPLs or non-performing loans
Any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is: (a) renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected; or (b) renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no further loss of principal is expected.

Normalised items
See 'Underlying earnings'.

Operating expenses
Staff and premises costs, general and administrative expenses, depreciation and amortisation. Underlying operating expenses exclude expenses which are the consequence of the 2015 Strategic Review. A reconciliation between underlying and statutory earnings is contained in Note 2 to the financial statements.

Operating income or operating profit
Net interest, net fee and net trading income, as well as other operating income. Underlying operating income represents the income line items above, on an underlying basis. See 'Underling earnings'.

OTC or over-the-counter derivatives
A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.

OCA or own credit adjustment
An adjustment to the Group's issued debt designated at fair value through profit or loss that reflects the possibility that the Group may default and not pay the full market value of the contracts.

Physical risks
The risk of increased extreme weather events including flood, drought and sea level rise.

Pillar 1
The first pillar of the three pillars of Basel II/ Basel III which provides the approach to calculation of the minimum capital requirements for credit, market and operational risk.

Pillar 2
The second pillar of the three pillars of Basel II/Basel III which requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available.

Pillar 3
The third pillar of the three pillars of Basel II/ Basel III which 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

PIP or portfolio impairment provisions
Impairment assessment on a collective basis for homogeneous groups of loans to cover losses which have been incurred but have not yet been identified at the balance sheet date. Typically Retail clients are assessed on a portfolio basis.

Private equity investments
Equity securities in operating companies generally not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.

PD or Probability of default
PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Profit (loss) attributable to ordinary shareholders
Profit (loss) for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.

PVA or prudent valuation adjustment
A deduction from CET1 capital, to reflect the difference between fair value and prudent value positions, where the application of prudence results in a lower absolute carrying value than recognised in the financial statements.

PRA or Prudential Regulation Authority
The Prudential Regulation Authority is the statutory body responsible for the prudential supervision of banks, building societies, credit unions, insurers and a small number of significant investment firms in the UK. The PRA is a part of the Bank of England.

Repo/reverse repo
A repurchase agreement or repo is a short-term funding agreement, which allows a borrower to sell a financial asset, such as asset backed securities or Government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

Residential mortgage
A loan to purchase a residential property which is then used as collateral to guarantee repayment of the loan. The borrower gives the lender a lien against the property, and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a home loan.

RoE or Return on equity
Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period. Underlying return on equity represents the ratio above using underlying earnings. See 'Underlying earnings'.

RoRWA or return on risk-weighted assets
Profit before tax for year as a percentage of RWA. Profit may be statutory or underlying and is specified where used. See 'RWA' and 'Underlying earnings'.

RWA or risk-weighted assets
A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the PRA.

Risks-not-in-VaR (RNIV)
A framework for identifying and quantifying marginal types of market risk that are not captured in the Value at Risk (VaR) measure for any reason, such as being a far-tail risk or the necessary historical market data not being available.

Secured (fully and partially)
A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Group is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.

Securitisation
Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a special purpose entity (SPE) which then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors.

Senior debt
Debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.

Sovereign exposures
Exposures to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned. Sovereign exposures, as defined by the European Banking Authority, include only exposures to central governments.

Standardised approach
In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.

Structured note
An investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.

Subordinated liabilities
Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

Tier 1 capital
The sum of Common Equity Tier 1 capital and Additional Tier 1 capital.

Tier 1 capital ratio
Tier 1 capital as a percentage of risk-weighted assets.

Tier 2 capital
Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provisions and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.

TLAC or Total Loss Absorbing Capacity
A standard which recommends that GSIBs hold sufficient equity and specified liabilities which can be used to absorb losses and recapitalise a bank in resolution. It is intended to facilitate an orderly resolution that minimises any impact on financial stability, ensures the continuity of critical functions, and avoids exposing taxpayers to loss.

TSR or Total shareholder return
The total return of the Group's equity (share price growth and dividends) to investors.

Transition risks
The risk of changes to market dynamics or sectoral economics due to governments' response to climate change.

UK bank levy
A levy that applies to certain UK banks and the UK operations of foreign banks The levy is payable each year based on a percentage of the chargeable equities and liabilities on the Group's consolidated balance sheet date. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting.

Underlying earnings
The Group's statutory performance adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period, and items which management and investors would ordinarily identify separately when assessing performance period-by-period. A reconciliation between underlying and statutory performance is contained in Note 2 to the financial statements.

VaR or Value at Risk
An estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.

ViU or Value-in-Use
The present value of the future expected cash flows expected to be derived from an asset or CGU.

Writedowns
After an advance has been identified as impaired and is subject to an impairment provision, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Writedowns will occur when and to the extent that, the whole or part of a debt is considered irrecoverable.

XVA
The term used to incorporate credit, debit and funding valuation adjustments to the fair value of derivative financial instruments. See 'CVA', 'DVA' and 'FVA'.

Designed and produced by Friend
www.friendstudio.com

Printed by Park Communications on FSC® certified paper.

Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average, 99% of any waste associated with this production will be recycled.

This document is printed on Revive 50 silk, a paper containing 50% recycled fibre (25% post-consumer and 25% pre-consumer) and 50% virgin fibre sourced from well-managed, responsible, FSC® certified forests. The pulp used in this product is bleached using an elemental chlorine free (ECF) process.

This document is fully recyclable.

FSC www.fsc.org MIX Paper from responsible sources FSC® C001785

NAPM RECYCLED 50%

© Standard Chartered PLC.
All rights reserved.

The STANDARD CHARTERED word mark, its logo device and associated product brand names are owned by Standard Chartered PLC and centrally licensed to its operating entities.

Registered Office: 1 Basinghall Avenue, London EC2V 5DD.
Telephone +44 (0) 20 7885 8888.

Principal place of business in Hong Kong: 32nd Floor, 4-4A Des Voeux Road, Central, Hong Kong.

Registered in England No. 966425.

CONTACT INFORMATION

Global headquarters

Standard Chartered Group
1 Basinghall Avenue
London, EC2V 5DD
United Kingdom

telephone: +44 (0)20 7885 8888
facsimile: +44 (0)20 7885 9999

Digital Annual Report and Accounts

sc.com/annualreport

Shareholder enquiries

ShareCare information
investors.sc.com/shareholder
0370 702 0138

ShareGift information
sharegift.org
020 7930 3737

Registrar information

UK
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol, BS99 6ZZ
0370 702 0138

Hong Kong
Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong
computershare.com/hk/investors

Indian Depository Receipts
Karvy Computershare Private Limited
Karvy Selenium Tower B, Plot 31-32
Gachibowli, Financial District
Nanakramguda
Hyderabad 500032, India

Chinese translation

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Register for electronic communications

investorcentre.co.uk

LSE Stock code: STAN.LN
HKSE Stock code: 02888
BSE/NSE Stock code: STAN.IN

Standard Chartered

STANDARD CHARTERED PLC
CORPORATE GOVERNANCE REPORT

As a company incorporated in England and Wales with ordinary shares listed on the London Stock Exchange and the Hong Kong Stock Exchange, Standard Chartered PLC (the "**Company**") is required to comply with the UK and Hong Kong corporate governance regimes or, in the case of non-compliance, explain the reasons therefor.

The Indian corporate governance practices, including those set out in the table below are imposed on Indian-listed entities in accordance with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended (the "**Listing Regulations**"). Prior to the enactment of the Listing Regulations, the corporate governance practices were imposed in accordance with the equity listing agreement entered into between the listed entity and the Indian Stock Exchanges. Under Regulation 72(1) of the Listing Regulations, the Company is required only to comply with the applicable UK and Hong Kong practices with respect to corporate governance.

As required by Regulation 72(2) of the Listing Regulations, the Company is required to file a comparative analysis of the corporate governance provisions that are applicable in the UK and Hong Kong along with the compliance of the same *vis-a-vis* the corporate governance requirements applicable under Regulation 17 to Regulation 27 of the Listing Regulations, applicable to other Indian-listed companies.

In terms of the circular dated November 4, 2015, issued by the Securities and Exchange Board of India ("**SEBI**"), to give effect to Regulation 72(2) of the Listing Regulations, the Company is guided by the formats prescribed under circular dated September 24, 2015 issued by SEBI.

The following table summarises certain material differences in the corporate governance requirements applicable to an Indian-listed entity under the Listing Regulations and the corporate governance requirements which the Company complies/will comply with as a UK and Hong Kong listed company. The Company's compliance with the UK and HK corporate governance practices is also set out below in the table.

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
Corporate Governance Code		
In terms of Regulation 72(1) of the Listing Regulations, the listed entity is required to comply with the corporate governance provisions as applicable	72	The UK Corporate Governance Code complements and supplements the UK Listing Rules by providing "best practice"

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
in the home country and other jurisdictions where its equity shares are listed. Further, in terms of Regulation 72(2) of the Listing Regulations, the listed entity is required to submit to the stock exchange a comparative analysis of the corporate governance provisions that are applicable in its home country and other jurisdictions in which its equity shares are listed along with the compliance of the same *vis-a-vis* the corporate governance requirements applicable under Regulation 17 to Regulation 27 of the Listing Regulations, applicable to other Indian-listed companies.		guidelines. The most recent edition of the UK Corporate Governance Code was published in April 2016 and applies to accounting periods commencing on or after 17 June 2016. The 2014 edition of the UK Corporate Governance Code applied to the Company's financial year commencing 1 January 2016 while the 2016 version applied to its financial year beginning on 1 January 2017. Whilst compliance with the UK Corporate Governance Code is not strictly mandatory, the Company is required to include in its annual report and accounts a statement as to whether or not it has complied with the provisions of the UK Corporate Governance Code and, if it has not complied, state the provisions it has not complied with, the period of non-compliance in the case of provisions of a continuing nature and detailed reasons for non-compliance. The regime in Hong Kong is similar to the UK. The HK Corporate Governance Code sets out two levels of recommendations: code provisions and recommended best practices. The recommended best practices are for guidance only, while any deviation from the code provisions is required to be stated in the interim and annual reports of the Company giving considered reasons.
Board Composition		

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
In terms of Regulation 17(1) of the Listing Regulations, the board of directors of a listed entity shall have an optimum combination of executive and non-executive directors with at least one woman director and not less than 50% of the board of directors comprising non-executive directors. Further, if the chairperson of the board of directors is a non-executive director, at least one-third of the board of directors shall comprise independent directors and where the listed entity does not have a regular non-executive chairperson, at least half of the board of directors shall comprise independent directors[1].	17(1)	The board of directors and its committees should have the appropriate balance of skills, experience, independence, diversity of perspectives and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. The board of directors should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking. In the UK, at least half the board,

[1] **Note**: "Independent director", as defined in terms of Regulation 16(1)(b) of the Listing Regulations, means: a non-executive director other than a nominee director of the listed entity:
(i) who in the opinion of the board, is a person of integrity and possesses relevant expertise and experience;
(ii) who is or was not a promoter of the listed entity or its holding, subsidiary or associate company;
(iii) who is not related to promoters or directors in the listed entity, its holding, subsidiary or associate company;
(iv) who apart from receiving director's remuneration, has or had no material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;
(v) none of whose relatives has or had pecuniary relationship or transaction with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent. or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;
(vi) who, neither himself, nor any of his relatives –
(A) holds or has held the position of a key managerial personnel or is or has been employee of the listed entity or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;
(B) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of – (1) a firm of auditors or company secretaries in practice or cost auditors of the listed entity or its holding, subsidiary or associate company; or (2) any legal or a consulting firm that has or had any transaction with the listed entity, its holding, subsidiary or associate company amounting to ten per cent or more of the gross turnover of such firm;
(C) holds together with his relatives two per cent or more of the total voting power of the listed entity; or
(D) is a chief executive or director, by whatever name called, of any non-profit organisation that receives twenty-five per cent or more of its receipts or corpus from the listed entities, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent or more of the total voting power of the listed entity;
(E) is a material supplier, service provider or customer or a lessor or lessee of the listed entity;
(vii) who is not less than 21 years of age.

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
If the non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of board of director or at one level below the board of directors, at least half of the board of directors of the listed entity should consist of independent directors.		excluding the chairman, should comprise non-executive directors determined by the board to be independent. The board should be of sufficient size that the requirements of the business can be met and that changes to the board's composition and that of its committees can be managed without undue disruption, and should not be so large as to be unwieldy. Under the UK Corporate Governance Code, the division of responsibility between the chairman and chief executive should be clearly established, set out in writing and agreed by the board, and the chief executive should not go on to be chairman of the same company. If, exceptionally, the board of directors decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report. In Hong Kong, the board of directors must include at least three independent non-executive directors. Independent non-executive directors of a Hong Kong listed company should represent at least one-third of the board. In addition, a policy should be in place in relation to diversity on the board and this policy should be disclosed in the Corporate Governance Report. The disclosure should include measurable objectives that the nomination committee or the board has set for

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		implementing the diversity policy and progress on achieving those objectives. There should be a clear division of responsibilities at the head of the company between the management of the board and the day-to-day management of the company's business. Similar to the UK, under the HK Corporate Governance Code, the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. No one individual should have unfettered powers of decision. It is a code provision that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Disclosure of deviation from this code provision and the reasons for such deviation are required if the board of directors decides that a chief executive should become chairman.
Board Meetings		
The board of directors is required to meet at least four times a year, with a maximum time gap of four months between any two meetings.	17(2)	Under UK practice, the board should meet sufficiently regularly to discharge its duties effectively. The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management. Under the HK Corporate Governance Code, the board should meet at least four times a year at approximately quarterly intervals.

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		In the UK, the chairman should hold meetings with the non-executive directors without the executives present. Led by the senior independent director, the non-executive directors should meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate. Similarly, under the HK Corporate Governance Code the chairman should at least annually hold meetings with the non-executive directors without the executive directors present, although there is no equivalent concept of a "senior independent director". In the UK, directors should record any unresolved concerns about the running of the company or a proposed action in the board minutes and on resignation a non-executive director should provide a written statement to the chairman of any such concerns they have, to be circulated to the board. Similarly, in Hong Kong, on resignation a director must provide the reasons for his resignation (including any disagreement with the board), which must be disclosed in the company's announcement of the resignation. In addition, board minutes should record any concerns or dissenting views raised by directors.
Review of Compliance Reports		

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
The board of directors is required to periodically review compliance reports pertaining to all laws applicable to the listed entity, as well as the steps taken to rectify instances of non-compliances.	17(3)	There is no such requirement in the UK or Hong Kong.
Plans for orderly succession for appointments		
The board of directors is required to satisfy itself that plans are in place for orderly succession for appointment to the board of directors and senior management.	17(4)	The UK Corporate Governance Code provides that the Board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board. It also states that non-executive directors have a prime role in succession planning. In Hong Kong, the Nomination Committee should assess the independence of independent non-executive directors and make recommendations to the board on the appointment and re-appointment of directors as well as on succession planning for directors.
Code of Conduct		
The board of directors is required to lay down a code of conduct (suitably incorporating the duties of independent directors as laid down in the Companies Act, 2013) for all members of board of directors and senior management of the listed entity.	17(5)	While there is no requirement in the UK or HK corporate governance regimes to adhere to a code of business conduct and ethics, Standard Chartered has adopted a Code of Conduct relating to the lawful and ethical conduct of business and this is supported by the Company's core values. The

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		Code of Conduct has been communicated to all employees. All employees are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Company operates. The directors are also subject to numerous duties under the UK Companies Act 2006 and the annual report should include a statement of how the directors have fulfilled their duties. The directors are also subject to duties under the HK Companies Ordinance 2014.
Fees/compensation		
The board of directors is required to recommend all fees or compensation, if any, paid to non-executive directors, including independent directors, which requires approval of shareholders in general meeting (which approval shall also specify the maximum number of stock options that may be granted to non-executive directors, in any financial year and in aggregate). The requirement of obtaining approval of shareholders does not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 2013 for payment of sitting fees without approval of the Central Government. In addition, independent directors are not entitled to any stock option.	17(6)	The UK Corporate Governance Code provides that executive directors' remuneration should be designed to promote the long-term success of the company and performance-related elements should be transparent, stretching and rigorously applied. Under the UK Companies Act, a provision in a service contract for a "guaranteed term" exceeding two years must be approved by a resolution of the shareholders. A resolution approving such a provision must not be passed unless a memorandum setting out the proposed contract incorporating the provision is made available to members of the company whose approval is sought 15 days before the meeting (and at the meeting itself) or, in the case of a written resolution, sent out to members along with the resolution. Under the UK Listing Rules, shareholders should also be invited specifically

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		to approve all new long-term incentive schemes and significant changes to existing schemes, save in certain permitted circumstances. Similarly, the HK Listing Rules provide that shareholders' approval at a general meeting is required before an issuer or its subsidiaries can approve a service contract of a director or a proposed director which: (a) is for a duration that may exceed three years; or (b) has a notice period of more than one year or requires compensation or other payments equivalent to more than one year's emoluments. In Hong Kong, notice of an annual general meeting must be sent to members of the company whose approval is sought at least 20 clear business days before the meeting. The notice period is at least 10 clear business days before the meeting for all other general meetings. Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role. In the UK, remuneration for non-executive directors should not include share options or other performance-related elements. There is no such restriction in Hong Kong. In the UK, if, exceptionally, options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the non-executive director leaves the board. There is no such requirement or recommendation in Hong Kong.

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim should be to avoid rewarding poor performance. In the UK, the remuneration committee should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss. Similarly, in Hong Kong, the remuneration committee should review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive. The remuneration committee should also review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate. In the UK, quoted companies are required to prepare a directors' remuneration policy which is subject to a binding shareholder vote at least every three years. Once the policy is approved, the company is only able to make payments within the limits it allows. There is no equivalent requirement in Hong Kong. Under the HK Corporate Governance Code, an issuer is required to disclose its directors' remuneration policy and other remuneration-related matters. The procedure for setting policy on executive directors' remuneration and all directors' remuneration packages should be formal and

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		transparent. Remuneration levels should be sufficient to attract and retain directors to run the company successfully without paying more than necessary. No director should be involved in deciding his own remuneration. Since 1 July 2015, banks have been subject to the CRR Remuneration Code (contained in the 'Remuneration' Part of the PRA's Rulebook) and the Dual-Regulated firms Remuneration Code (contained in the FCA's Handbook), together the "Remuneration Codes". The Remuneration Codes require banks to establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. The Remuneration Codes set out in detail 12 remuneration principles which firms should follow. The aim of the Remuneration Codes is to ensure that firms' boards focus more closely on ensuring that firms have risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose them to excessive risk. The Remuneration Codes make specific and detailed provision relating to the payment of variable remuneration (i.e., bonuses). Fixed and variable components of total remuneration need to be appropriately balanced and the fixed component must represent a sufficiently high proportion of the

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		total remuneration to allow the operation of a fully flexible policy on the variable component, including the possibility of paying no variable remuneration component if appropriate. Policies, including performance appraisal processes and decisions, should be clear and documented. Unless otherwise approved by shareholders, the ratio of the variable component of total remuneration to the fixed component for certain employees of financial institutions cannot exceed 1:1. If shareholder approval is obtained, this ratio may be increased to a maximum of 2:1. All variable remuneration must be subject to clawback or malus arrangements and variable remuneration paid to senior managers must be deferred for at least 7 years. The Remuneration Codes apply to senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm's risk profile.
Minimum Information		
The minimum information to be placed before the board of directors as per Part A of Schedule II of the Listing Regulations.	17(7)	The UK Corporate Governance Code provides that the board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		duties. The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors should seek clarification or amplification where necessary. There is no list of minimum information to be placed before the board per se in Hong Kong. However, there are mandatory items to be disclosed in the annual report relating to, among other things, corporate governance practices, risk management and internal controls, remuneration of directors, directors' securities transactions and auditor's remuneration. There are also recommended items to be included such as share interests of senior management, investor relations and management functions.
Compliance Certificate		
The chief executive officer and the chief financial officer are required to provide the compliance certificate to the board of directors as specified in Part B of Schedule II of the Listing Regulations.	17(8)	While there is no specific equivalent English law rule, the UK Corporate Governance Code provides that the audit committee should monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them. The audit committee should also, where requested by the board, provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		shareholders to assess the company's position and performance, business model and strategy. In addition, the audit committee should review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, review the company's internal control and risk management systems The UK Corporate Governance Code operates on a comply or explain basis, as described above. Similarly, there is no specific equivalent rule in Hong Kong. The HK Corporate Governance Code provides that the audit committee should monitor integrity of the issuer's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. The audit committee should also review the issuer's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the issuer's risk management and internal control systems. Deviation from the above requirements are required to be explained in the annual report and interim report.
Risk Assessment & Management		
The listed entity is required to lay down procedures to inform members of board of directors about risk assessment and minimization procedures,	17(9)	The UK Corporate Governance Code provides that the board is responsible for determining the nature and extent of the

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
and the board of directors is responsible for framing, implementing and monitoring the risk management plan.		principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems. The directors should confirm in the annual report that they have carried out a robust assessment of the risks facing the company and explain how such risks are being managed. The board should also monitor the company's internal risk management systems (including financial, operational and compliance controls) and, at least annually, carry out a review of their effectiveness and report on that review in the annual report. The PRA Risk Control Rulebook also provides that certain banks and other financial institutions should establish a board risk committee separately from the audit committee with responsibility for oversight and advice to the board on the current risk exposures of the firm and future risk strategy, including strategy for capital and liquidity management. The Company has such a risk committee. The board should also be served by an independent senior manager with distinct responsibility for the risk management function reporting to the board risk committee. In Hong Kong, the board is responsible for overseeing on an ongoing basis the risk management and internal control systems of a Hong Kong listed company, conducting a review of the systems at least annually and reporting to the shareholders in the company's Corporate Governance Report. The board should oversee the design, implementation

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		and monitoring of the risk management and internal control systems.
Performance Evaluation of Independent Directors		
The performance evaluation of independent directors shall be done by the entire board of directors, in the absence of the director who is subject to evaluation.	17(10)	The UK Corporate Governance Code provides that the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. Also, the Code states that the non-executive directors, led by the senior independent director, should be responsible for the performance evaluation of the chairman, taking into account the views of executive directors. The UK Corporate Governance Code also provides that non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. Moreover, the chairman should hold meetings with the non-executive directors without the executives present. Led by the senior independent director, the non-executive directors should also meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate. In Hong Kong, it is a recommended best practice that the board should conduct a regular evaluation of its performance.

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		There are no specific requirements regarding the evaluation of the performance of independent directors.
Composition of Audit Committee		
The audit committee shall have a minimum of three directors as members. Two-thirds of the members of the audit committee shall be independent directors. All members of the audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise. The chairman of the audit committee shall be an independent director and is required to be present at the annual general meeting to answer shareholder queries. The company secretary shall act as the secretary to the committee.	18(1)	In the UK, the board should establish an audit committee of at least three members who should all be independent non-executive directors. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience. The HK Listing Rules require that an audit committee must comprise non-executive directors only, with a minimum of three members. At least one of the members must be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. In Hong Kong, the majority of the audit committee members must be independent non-executive directors, one of whom must chair the audit committee.
Meeting of Audit Committee		
The audit committee should meet at least four times a year and not more than one hundred and twenty days shall elapse between two meetings.	18(2)	In the UK, the main role and responsibilities of the audit committee should be set out in written terms of reference and should include:

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
The quorum shall be either two members or one-third of the members of the audit committee, whichever is greater, but there should be a minimum of two independent directors present. The audit committee has powers to investigate any activity within its terms of reference, seek information from any employee, obtain outside legal or other professional advice, and secure attendance of outsiders with relevant expertise, if it considers this necessary. The audit committee is also required to approve all related party transactions. The audit committee is required to approve appointments of CFO after assessing the qualifications, experience and background, etc. of the candidate. The role of the audit committee and the information to be reviewed by it is as per Part C of Schedule II of the Listing Regulations.		• to monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them; • to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems; • to monitor and review the effectiveness of the company's internal audit function; • to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor; • to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; • to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		provision of non-audit services by the external audit firm, and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and • to report to the board on how it has discharged its responsibilities. There are similar provisions in Hong Kong. In the UK, where requested by the board, the audit committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy. In the UK, the audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. In Hong Kong, the audit committee's terms of reference should include the review of arrangements for employees to raise concerns about possible financial reporting improprieties, internal control or other matters.

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		In both the UK and Hong Kong, the audit committee should monitor and review the effectiveness of the internal audit activities. In the UK, the audit committee report should describe the work of the committee in discharging its responsibilities, including: • the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; • an explanation of how the audit committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted (FTSE 350 companies are required to put the external audit contract out to tender at least every ten years); and • if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded. In Hong Kong, the audit committee report should describe how the committee has fulfilled its duties under the HK Corporate Governance Code, including the review of the

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		company's financial results, the effectiveness of the company's internal audit function and, unless expressly addressed by a separate board risk committee or the board, the review of the company's risk management and internal control systems. Certain requirements contained in the UK Disclosure, Guidance and Transparency Rules overlap with the above requirements. These apply to accounting periods commencing on or after 29 June 2008 and require the company to have a body responsible for carrying out audit functions, and for the company to issue a statement identifying the body which carries out the audit functions and describes how that body is composed. There are no equivalent rules in Hong Kong.
Composition of Nomination and Remuneration Committee		
The board of directors is required to constitute the nomination and remuneration committee to primarily, determine qualifications, positive attributes and independence of a director and recommend to the board a policy on specific remuneration packages for directors, key managerial personnel and other employees. This committee is also responsible to formulate the criteria for evaluation of independent directors. This committee should comprise at least three directors, all of whom should be non-executive directors with at least half of them being independent	19(1) and (2)	In the UK, the board should establish a remuneration committee of at least three independent non-executive directors. The chairman of the company may be a member of, but not chair, the committee if he was considered independent on appointment as chairman. Under the HK Listing Rules, a majority of the members of the remuneration committee should be independent non-

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
directors and the chairman of the committee should be an independent director. The role of the nomination and remuneration committee is as per Part A of Part D of Schedule II of the Listing Regulations.		executive directors and the committee should be chaired by an independent non-executive director. In the UK, the remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments. The remuneration committee should also recommend and monitor the level and structure of remuneration for senior management. In Hong Kong, the remuneration committee should adopt one of two models, either (i) to have delegated responsibilities similar to those in the UK or (ii) to make recommendations to the board for the board to decide on the remuneration packages of individual executive directors and senior management. There should be disclosure in the corporate governance report as to which of the two models the remuneration committee has adopted. If the second model is adopted, the HK Corporate Governance Code also recommends that where the board resolves to approve any remuneration or compensation arrangements with which the remuneration committee disagrees, it is a recommended best practice that the board disclose the reasons for its resolution in its next corporate governance report. The board itself or, where required by the articles of association, the shareholders should determine the remuneration of the non-executive directors within the limits

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		set in the articles of association. The articles provide that the directors shall be paid a fee at such rate as may from time to time be determined by the board provided that the aggregate of all fees so paid to directors (excluding amounts payable under any other provision of the articles) does not exceed £1,500,000 p.a. or such higher amount as may from time to time be decided by ordinary resolution of the company. The Remuneration Codes extend the oversight of the remuneration committee for certain banks and other financial institutions to all categories of staff, including senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm's risk profile. The Remuneration Codes also set out further responsibilities of the remuneration committee, including responsibility for the preparation of decisions regarding remuneration. In the UK, in addition to the remuneration committee, there should be a nomination committee which should lead the process for board appointments and make recommendations to the board. The UK Corporate Governance Code provides that a majority of members of the nomination committee should be independent non-executive directors. The chairman or an independent non-executive director should chair the committee, but the chairman should not chair the

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		nomination committee when it is dealing with the appointment of a successor to the chairmanship. The PRA General Organisation Rulebook provides that, for certain banks and other financial institutions, the nomination committee must be composed of members of the management body who do not perform any executive functions. In practice, this would mean that the nomination committee should be composed entirely of non-executive directors. The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. There are similar provisions in Hong Kong. In addition, the nomination committee should review the structure, size and composition of the board at least annually and make recommendations of any changes to the board. Furthermore, the board should assess the independence of independent non-executive directors and make recommendations to the board on the appointment re-appointment of directors as well as on succession planning for directors. The nomination committee should also have a policy concerning the diversity of its board members, details of which should be disclosed in the annual report.

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
Composition of Stakeholders' Relationship Committee		
A stakeholders' relationship committee under the chairmanship of a non-executive director shall be formed to specifically look into the mechanism of the redressal of shareholder and investor complaints such as the transfer of shares, non-receipt of annual report and non-receipt of declared dividends. The role of the stakeholders' relationship committee is as per Part B of Part D of Schedule II of the Listing Regulations.	20(1) and (2)	The UK Corporate Governance Code recommends that the board appoints one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary and that such person should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate. The annual report should include a description of how the board has taken the impact on key stakeholders into account when making decisions as well as an explanation of how the directors have fulfilled their duties under the UK Companies Act 2006, including the non-exhaustive list of items included in section 172 UK Companies Act 2006 which deals with stakeholders. The HK Corporate Governance Code requires that the chairman should ensure that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the board as a whole.
Composition and role of Risk Management Committee		

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
The board of directors is required to constitute a risk management committee and the majority of members should consist of the members of the board of directors. The board of directors is required to define the role and responsibilities of the risk management committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit. (Note: Regulation 21 of the Listing Regulations is only applicable to top 100 listed entities determined on the basis of market capitalisation, as at the end of the immediate previous financial year.)	21 (1), (2), (3) and (4)	The PRA Risk Control Rulebook provides that certain banks and other financial institutions should establish a board risk committee separately from the audit committee with responsibility for oversight and advice to the board on the current risk exposures of the firm and future risk strategy, including strategy for capital and liquidity management. The head of the risk management function should be an independent senior manager with distinct responsibility for the risk management function. The Board Risk Committee is responsible for the oversight of the risk management and internal control systems of the Company (other than internal control over financial reporting). Such corporate governance structure complies with the HK Corporate Governance Code. The board is required to disclose in the Company's Corporate Governance Report certain information relating to the Board Risk Committee, including its role and function, its composition and a summary of its work during the year.
Vigil Mechanism		
A vigil mechanism is required to be formulated by the listed entity for its directors and employees to report genuine concerns. The vigil mechanism is required to provide adequate safeguards against victimization of director(s) or employee(s) or any other person who avail the mechanism	22	The UK Corporate Governance Code provides that the audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
and also provide for direct access to the chairperson of the audit committee in appropriate or exceptional cases.		independent investigation of such matters and for appropriate follow-up action. In addition, the Company has numerous employee engagement strategies and policies including: regular team meetings and discussions with line managers; twice-yearly formal performance review; employee engagement survey; quick polls and comment facilities on the global intranet, and; employee forums and message boards. In Hong Kong, minutes of board meetings and meetings of board committee should record in sufficient detail any concerns raised by directors or dissenting views expressed. The audit committee is also required to review arrangements employees of the issuer can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.
Policy for Related Party Transactions		
The listed entity is required to formulate a policy on materiality of related party transactions and on dealing with related party transactions. A transaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the	23 (1), (5), (6), (7) and (8)	The UK Listing Rules provide that if a listed company enters into a related party transaction then the listed company, subject to certain limited exceptions, must:

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity. The provisions of Regulations 23 (2), (3) and (4) do not apply to transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval. All entities falling under the definition of related parties are required to abstain from voting irrespective of whether the entity is a party to the particular transaction or not. All existing material related party contracts or arrangements entered into prior to December 1, 2015, and which may continue beyond such date shall be placed for approval of the shareholders in the first General Meeting subsequent to December 1, 2015.		(1) make a notification to an RIS containing the name of the related party and the nature and extent of the related party's interest in the transaction; (2) send a circular to its shareholders; (3) obtain approval of its shareholders either before the transaction is entered into or if the transaction is expressed to be conditional on that approval before it is completed; and (4) ensure the related party does not vote on the relevant resolution and takes all reasonable steps to ensure that the related party's associates do not vote on the relevant resolution. There are modified requirements for smaller related party transactions whereby confirmation from the sponsor on the reasonableness of the terms is required, as well as an RIS announcement. Transactions must also be aggregated meaning that if a number of transactions take place in any 12 month period which, when aggregated, take the listed entity outside of this smaller related party regime, then the entity has to comply with the full related party rules. The Company has internal systems, processes and procedures in place to identify and monitor non-exempt connected and continuing connected transactions. These are

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		reviewed and updated periodically and their adequacy and effectiveness are subject to internal audit process. It is also stated that the Company will comply with the applicable announcements, reporting, annual review and independent shareholders' approval requirements. There is no requirement in Hong Kong for a Hong Kong listed company to formulate a policy on the materiality of connected transactions. However, under the HK Listing Rules, there are requirements to announce or obtain independent shareholders' approval in respect of connected transactions exceeding a certain size (0.1% for announcement and 5% for shareholders' approval). The percentage ratios are calculated by reference to assets, revenue, consideration and the number of shares issued as consideration.
Prior or Omnibus approval of Audit Committee for all related party transactions		
All related party transactions require prior approval of the audit committee. The audit committee may grant omnibus approval for related party transactions proposed to be entered into by the listed entity subject to the following conditions: (a) the audit committee shall lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the listed	23(2) and (3)	There is no such equivalent requirement in Hong Kong. In the UK, the audit report in the annual report and accounts must include a confirmation that all related party transactions have been reviewed and approved by the board, or if not, how such transactions were monitored, and a disclosure of transactions that are significant, whether by virtue of their

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
entity and such approval shall be applicable in respect of transactions which are repetitive in nature; (b) the audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity; (c) the omnibus approval shall specify: (i) the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into (ii) the indicative base price / current contracted price and the formula for variation in the price if any; and (iii) such other conditions as the audit committee may deem fit. If the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may grant omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction. (d) The audit committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given; and		significance to the business, the individuals involved or the perception of potential conflict. The Company also has internal systems, processes and procedures in place to identify and monitor non-exempt connected and continuing connected transactions. These are reviewed and updated periodically and their adequacy and effectiveness are subject to internal audit process. It is also stated that the Company will comply with the applicable announcements, reporting, annual review and independent shareholders' approval requirements.

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
(e) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.		
Approval for material related party transactions		
All material related party transactions require approval of the shareholders through resolution and the related parties shall abstain from voting on such resolutions whether the entity is a related party to the particular transaction or not.	23(4)	Subject to certain limited exceptions, the UK Listing Rules provide that if a listed company enters into a related party transaction then the listed company must: • obtain approval of its shareholders either before the transaction is entered into or if the transaction is expressed to be conditional on that approval before it is completed; and • ensure the related party does not vote on the relevant resolution and takes all reasonable steps to ensure that the related party's associates do not vote on the relevant resolution. All connected transactions, unless exempted in accordance with the HK Listing Rules, require the approval of shareholders at a general meeting. Any shareholder who has a material interest in the relevant transaction may not vote on the resolution approving the transaction.
Composition of Board of Directors of unlisted material Subsidiary		

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
At least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, incorporated in India.	24(1)	There is no such requirement in Hong Kong or the UK.
Other Corporate Governance requirements with respect to subsidiary of listed entity		
The audit committee of the listed entity is required to also review the financial statements, in particular, the investments made by the unlisted subsidiary. Further, the minutes of the meetings of the board of directors of the unlisted subsidiary are required to be placed at the meeting of the board of directors of the listed entity. The management of the unlisted subsidiary has to periodically bring to the notice of the board of directors of the listed entity, a statement of all significant transactions and arrangements (any individual transaction or arrangement that exceeds or is likely to exceed ten percent of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the unlisted material subsidiary for the immediately preceding accounting year) entered into by the unlisted subsidiary. A listed entity cannot dispose of shares in its material subsidiary resulting in reduction of its shareholding (either on its own or together with other subsidiaries) to less than fifty percent or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting	24(2),(3),(4), (5) and (6)	There is no such equivalent English law requirement. In Hong Kong, a listed company is required to include in its financial statements certain information about each of its subsidiaries, including its name, principal country of operation, country of incorporation and details regarding transactions in the securities of each subsidiary during the financial year, as well as particulars of any contract of significance involving a subsidiary and a controlling shareholder (or any of its subsidiaries).

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal. Further, selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary on an aggregate basis during a financial year requires prior approval of shareholders by way of special resolution, unless the sale/disposal/lease is made under a scheme of arrangement duly approved by a Court/Tribunal.		
Maximum Directorship & Tenure		
A person is not permitted to serve as an independent director in more than seven listed entities. Further, a person serving as a whole time director in any listed entity is permitted to serve as an independent director in not more than three listed entities. The maximum tenure of independent directors has to be in accordance with the Companies Act, 2013 and rules made thereunder.	25(1) and (2)	The UK Corporate Governance Code provides that the board should not agree to a full time executive director taking on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company. The Code also states that all directors of FTSE 350 companies should be subject to annual election by shareholders. All other directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years. Non-executive directors who have served longer than nine years should be subject to annual re-election. The names of directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election.

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		For banks, the PRA's rules on directorship limits provide that, for 'significant firms', a director can have one executive directorship and two non-executive directorships, or four non-executive directorships. Under the HK Corporate Governance Code, all directors should be subject to re-election at regular intervals. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. If an independent non-executive director serves longer than nine years, his/her further appointment should be subject to a separate resolution to be approved by shareholders.
Meeting of independent directors		
The independent directors of the listed entity are required to hold at least one meeting in a year, without the presence of non-independent directors and members of the management to *inter alia*: (a) review the performance of non-independent directors and the board of directors as a whole; (b) review the performance of the chairperson of the listed entity, taking into account the views of executive directors and non-executive directors; and (c) assess the quality, quantity and timeliness of flow of information between the management of the listed entity and the board of directors	25(3) and (4)	The UK Corporate Governance Code provides that non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. Moreover, the chairman should hold meetings with the non-executive directors without the executives present. Led by the senior independent director, the non-executive directors should meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate. Also, the Code states that the non-executive directors, led by the senior independent director, should be

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
that is necessary for the board of directors to effectively and reasonably perform their duties.		responsible for performance evaluation of the chairman, taking into account the views of executive directors. The HK Corporate Governance Code provides that the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.
Familiarization of independent directors		
The listed entity is required to familiarise the independent directors through various programmes about the listed entity.	25(7)	The UK Corporate Governance Code provides that the chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should avail themselves of opportunities to meet major shareholders. The chairman should regularly review and agree with each director their training and development needs. In Hong Kong, every newly appointed director of a listed company should receive a comprehensive, formal and tailored induction on appointment, as well as the necessary briefings, to ensure a proper understanding of a director's roles and responsibilities and the company's operations and business.
Memberships in Committees		

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
A director cannot be a member in more than ten committees or act as chairperson of more than five committees across all listed entities in which he is a director, which shall be determined as follows: (a) the limit of the committees on which a director may serve in all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies under Section 8 of the Companies Act, 2013 shall be excluded; and (b) for the purpose of determination of limit, chairpersonship and membership of the audit committee and the Stakeholders' Relationship Committee alone shall be considered.	26(1)	The UK Corporate Governance Code provides that the board should not agree to a full time executive director taking on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company. For Banks, the PRA's rules on directorship limits provide, for 'significant firms', a director can have one executive directorship and two non-executive directorships, or four non-executive directorships. In Hong Kong, each director should disclose to the issuer at the time of his appointment, on a periodic basis and in a timely manner for any change, among other things, the number and nature of offices held in public companies or organisations and other significant commitments, with the identity of the public companies or organisations and an indication of the time involved. The board should determine for itself how frequently this disclosure should be made.
Affirmation of compliance to code of conduct from members of Board of Directors and Senior management personnel		
All members of the board of directors and senior management personnel are required to affirm compliance with the code of conduct of board of directors and senior management on an annual basis.	26(3)	While there is no requirement in the UK or HK corporate governance regimes to adhere to a code of business conduct and ethics or for all members of the board of directors and senior management to affirm compliance, Standard Chartered has adopted a Code of Conduct relating to the lawful and ethical conduct of business and this is supported

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		by the Company's core values. The Code of Conduct has been communicated to all employees. All employees are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Company operates.
Disclosure of Shareholding by Non-Executive Directors		
Non-executive directors are required to disclose their shareholding, held either by them or on a beneficial basis for any other persons in the listed entity in which they are proposed to be appointed as directors, in the notice to the general meeting called for appointment of such director.	26(4)	In the UK, the EU Market Abuse Regulation requires persons discharging managerial responsibilities (including non-executive directors and persons closely associated with them) to notify the company in writing of the occurrence of all transactions relating to their shares in the company and the company is required to publically announce the information. In Hong Kong, directors of a listed company are required to disclose their interests in the shares in the listed company in the initial announcement regarding their appointment. There is also an ongoing duty to disclose their interests in the shares of the listed company under the Securities and Futures Ordinance.
Policy with respect to obligations with respect to employees, including senior management, key managerial persons, directors and promoters		

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
Every director is required to inform the listed entity about the committee positions he or she occupies in other listed entities and notify changes as and when they take place. Further, senior management is required to make disclosures to the board of directors relating to all material, financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the listed entity at large. Further, an employee, including a key managerial personnel or director or promoter of a listed entity, can enter into an agreement for himself or on behalf of any other person, with any shareholder or any other third party with regard to compensation or profit sharing in connection with dealings in the securities of such listed entity, only with the prior approval for the same from the board of directors of the listed entity as well as public shareholders, by way of an ordinary resolution. Further, all interested persons involved in the transaction covered under such agreement are required to abstain from voting in the general meeting.	26(2),26(5) and 26(6)	The UK Companies Act contains a duty to avoid conflicts of interest. The UK Listing Rules also provide that the company must notify an RIS of all directorships held by newly appointed directors in other publicly quoted companies at any time in the previous five years, indicating whether or not he or she is still a director. Notification to an RIS is also required if other directorships held by existing directors in other publicly quoted companies change. In Hong Kong, each director should disclose to the issuer at the time of his appointment, on a periodic basis and in a timely manner for any change, among other things, the number and nature of offices held in public companies or organisations and other significant commitments, with the identity of the public companies or organisations and an indication of the time involved. The board should determine for itself how frequently this disclosure should be made.
Other Requirements		
The listed entity may, at its discretion, comply with requirements as specified in Part E of Schedule II of the Listing Regulations.	27(1)	In relation to those requirements listed in enclosure F:

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		A: There is no equivalent requirement in the UK or Hong Kong. B: The UK Disclosure, Guidance and Transparency Rules provide that a listed company must make public a half-yearly financial report. In Hong Kong, a listed company is required to prepare and send an interim report in respect of the first six months of its financial year to shareholders. C: In Hong Kong, where the auditors' report in relation to the annual or interim financial results of a listed company is likely to be qualified or modified, the listed company is required to disclose details of the qualification or modification in the relevant preliminary announcement. In the UK, the auditor's report can be either qualified or unqualified and must include a reference to any matters to which the auditors wish to draw attention by way of emphasis without qualifying the report.; D: Under the UK Corporate Governance Code, the chief executive should not go on to be chairman of the same company. If, exceptionally, the board of directors decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report. Similarly, in Hong Kong, the roles of chairman and chief executive should be separate and performed by different individuals. Disclosure of deviation from this code provision and the reasons for such deviation

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		are required if the board of directors decides that a chief executive should become chairman; E: The UK Corporate Governance Code provides that the audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report. There are similar provisions in Hong Kong. In Hong Kong, where an internal audit function exists, the terms of reference of the audit committee should include ensuring co-ordination between the internal and external auditors of the listed company, as well as reviewing and monitoring the effectiveness of the internal audit function.
Quarterly Report		
The listed entity is required to submit a quarterly compliance report on corporate governance to the recognised stock exchange(s) within fifteen days from close of the quarter. This report will include disclosure of all material transactions with related parties. The report has to be signed by either the compliance officer or the chief executive officer of the listed entity.	27(2) and (3)	Whilst compliance with the UK Corporate Governance Code is not strictly mandatory, the Company is required to include in its annual report and accounts a statement as to whether or not it has complied with the provisions of the UK Corporate Governance Code and, if it has not complied, state the provisions it has not complied with, the period of non-compliance in the case of provisions of a continuing nature and detailed reasons for non-compliance.

Indian Practice	Regulation No. under Listing Regulations	UK and HK Practice
		Under the HK Corporate Governance Code, the Company is required to state in its annual report and accounts whether it has complied with the code provisions as set out in the HK Corporate Governance Code during the relevant accounting period. If it has not complied, the Company must give considered reasons for each deviation.

Compliance with UK and Hong Kong Corporate Governance Practices

The Company applies the provisions of the UK Corporate Governance Code 2016 (the Code). The Directors confirm that the Group has complied with all of the provisions set out in the Code during the year ended 31 December 2017.

The Company has complied with the code provisions of the HK Corporate Governance Code (Appendix 14 of the HK Listing Rules).

As part of the Company's regulatory obligations, it has in place a code of conduct related to securities transactions by directors the terms of which are no less exacting than required by the UK Listing Rules' Model Code and Appendix 10 of the HK Listing Rules.

Definitions:

Companies Act, 2013	Companies Act, 2013, as amended and the rules made thereunder
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Indian Stock Exchanges	BSE Limited and National Stock Exchange of India Limited

Listing Regulations	Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended
London Stock Exchange	London Stock Exchange plc or its successors

Standard Chartered

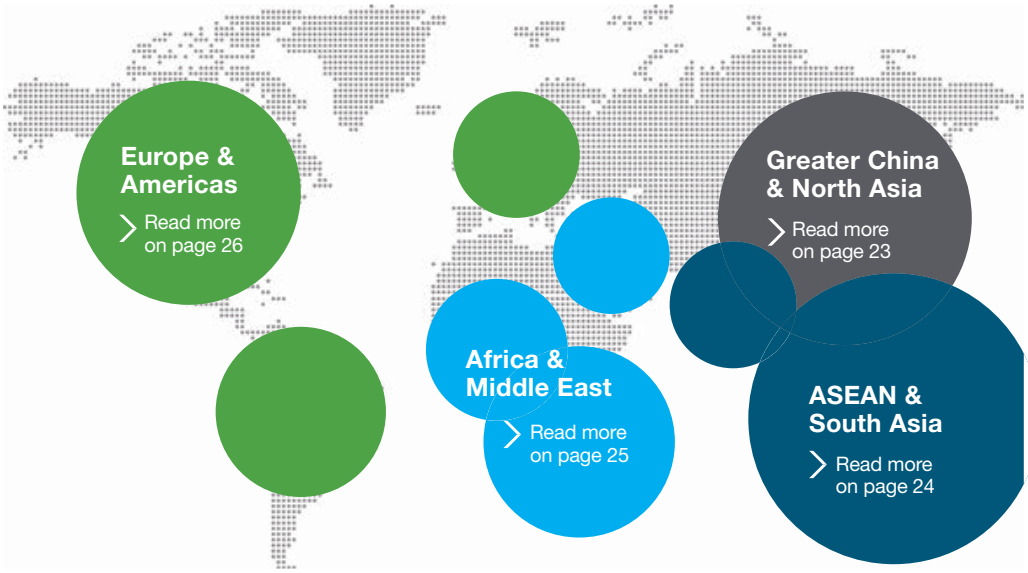
Strategic Report 2017

Driving commerce and prosperity through our unique diversity

Who we are

Standard Chartered is a leading international banking group. Our heritage and values are expressed in our brand promise, Here for good.

We operate in 63 markets worldwide, including some of the world's most dynamic. More than 80 per cent of our income and profits are derived from Asia, Africa and the Middle East. Our businesses serve four client segments in four regions, supported by seven global functions.



About this report

Sustainability reporting is embedded across our Strategic Report and our full Annual Report and Accounts. It is also available in consolidated form in our Sustainability Summary at sc.com/sustainabilitysummary

The Group uses a number of alternative performance measures in the discussion of its performance. These measures exclude certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. They also provide the reader with insight into how management measures the performance of the business.

For more information please visit sc.com

Further information is available where you see these icons:

- Additional information can be found within the report
- More information is available online

- @StanChart
- linkedin.com/company/standard-chartered-bank
- facebook.com/standardchartered

Photo competition

We wanted to make this year's reporting suite as engaging and diverse as possible. As part of this, we invited all colleagues to participate in a photo competition. The top three entrants can be found on the front and back covers, and there is further information on page 47

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

Unless the context requires, within this document, 'China' refers to the People's Republic of China and, for the purposes of this document only, excludes Hong Kong Special Administrative Region (Hong Kong), Macau Special Administrative Region (Macau) and Taiwan. 'Korea' or 'South Korea' refers to the Republic of Korea. Greater China & North Asia (GCNA) includes China, Hong Kong, Japan, Korea, Macau and Taiwan; ASEAN & South Asia (ASA) includes Australia, Bangladesh, Brunei, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka, Thailand and Vietnam; and Africa & Middle East (AME) includes Bahrain, Egypt, Iraq, Jordan, Lebanon, Oman, Pakistan, Qatar, Saudi Arabia and the United Arab Emirates (UAE).

Within the tables in this report, blank spaces indicate that the number is not disclosed, dashes indicate that the number is zero and nm stands for not meaningful.

Standard Chartered PLC is headquartered in London. The Group's head office provides guidance on governance and regulatory standards. Standard Chartered PLC stock codes are: HKSE 02888; LSE STAN.LN; and BSE/NSE STAN.IN.

OUR PURPOSE AND PROGRESS

At Standard Chartered our purpose is to drive commerce and prosperity through our unique diversity

In this report we describe our progress in realising this goal and the strategic objectives we are pursuing to strengthen our business, get closer to our clients and fulfil the Group's potential. We gauge our annual progress against a set of Group key performance indicators (KPIs), summarised below, as well as Client segment KPIs, some of which are shown on pages 18 to 21

Throughout this report, we use these icons to represent the different stakeholders groups for whom we create value.
Read more on page 13

Clients

Regulators and governments

Investors

Colleagues

Society

FINANCIAL KPIs

Return on equity

3.5% ↑ 320bps
Underlying basis

1.7% ↑ 280bps
Statutory basis

Read more on page 05

Common Equity Tier 1 ratio

13.6%

Read more on page 05

Total shareholder return

17.6% ↓ 10bps

Read more on page 05

NON FINANCIAL KPIs

Diversity and inclusion: women in senior roles

25.7% ↑ +0.8%

Read more on page 39

Employee engagement

5.9% ↑ 146%

Read more on page 39

OTHER FINANCIAL MEASURES

Operating income

$14,289m ↑ 3%
Underlying basis

$14,425m ↑ 3%
Statutory basis

Read more on page 29

Profit before tax

$3,010m ↑ 175%
Underlying basis

$2,415m ↑ 490%
Statutory basis

Read more on page 29

Earnings per share

47.2 cents ↑ 43.8 cents
Underlying basis

23.5 cents ↑ 38 cents
Statutory basis

Read more on page 29

Contents

Strategic report

02	What we do
03	Where we do it
04	Chairman's statement
06	Group Chief Executive's review
10	Market environment
12	Business model
14	Strategy
18	Client segment reviews
23	Regional reviews
28	Group Chief Financial Officer's review
33	Group Chief Risk Officer's review
38	Stakeholders and responsibilities
45	Viability statement
48	Governance overview
53	Directors' remuneration report overview

This document is only part of our Annual Report and Accounts. To find out more about our performance and activities in 2017, please visit sc.com/annualreport

Both the auditor's report in the full Annual Report and Accounts, and the auditor's statement of consistency in that report, were unqualified.

What we do

Serving client segments with differentiated expertise

Read more about our client segments' performance on pages 18 to 21

Global

Corporate & Institutional Banking

Serving over 5,300 large corporations, governments, banks and investors.

Operating income

$6,496m	$6,523m
Underlying basis	Statutory basis

Private Banking

Helping 7,000 high-net-worth individuals manage, preserve and grow their wealth.

Operating income

$500m	$500m
Underlying basis	Statutory basis

Regional

Commercial Banking

Supporting over 40,000 local corporations and medium-sized enterprises across Asia, Africa and the Middle East.

Operating income

$1,333m	$1,329m
Underlying basis	Statutory basis

Retail Banking

Serving over nine million individuals and small businesses.

Operating income

$4,834m	$4,903m
Underlying basis	Statutory basis

Central & other items (segment)

Operating income

$1,126m	$1,170m
Underlying basis	Statutory basis

Total operating income

$14,289m	**$14,425m**
Underlying basis	Statutory basis

Global functions

Our client-facing businesses are supported by seven global functions, which work together to ensure the Group's day-to-day operations run smoothly and are compliant with banking regulations.

Human Resources
Recruits and builds talent while providing learning and development opportunities to motivate colleagues

Legal
Enables sustainable business and protects the Group from legal-related risk

IT & Operations
Responsible for the Group's operations, systems development and technology infrastructure

Where we do it

Building a sustainable business in dynamic economies

Read more about our regions' performance on pages 23 to 26

Greater China & North Asia

Serving clients in China, Hong Kong, Korea, Japan, Taiwan and Macau. The Group's largest region by income.

Operating income

$5,616m	$5,613m
Underlying basis	Statutory basis

ASEAN & South Asia

Our largest markets in ASEAN & South Asia by income are Singapore and India. We are active in all 10 ASEAN countries.

Operating income

$3,833m	$3,870m
Underlying basis	Statutory basis

Africa & Middle East

Present in 25 markets, of which the most sizeable by income are the UAE, Nigeria, Pakistan and Kenya.

Operating income

$2,764m	$2,764m
Underlying basis	Statutory basis

Europe & Americas

Centred in London and New York with a presence across both continents. Key income originator for the Group.

Operating income

$1,601m	$1,596m
Underlying basis	Statutory basis

Central & other items (region)

Operating income

$475m	$582m
Underlying basis	Statutory basis

Total operating income

$14,289m	**$14,425m**
Underlying basis	Statutory basis

Risk & Compliance
Responsible for the sustainability of our business through good management of risk across the Group and ensuring that business is conducted in line with regulatory expectations

Group COO
Provides control and governance to operating platforms and processes, ensuring operating efficiency

Group CFO
Incorporates seven support functions: Finance, Treasury, Strategy, Investor Relations, Corporate Development, Supply Chain and Property. The leaders of these functions report directly to Andy Halford, Group Chief Financial Officer

Corporate Affairs & Brand and Marketing
Manages the Group's communications and engagement with stakeholders in order to protect and promote the Group's reputation, brand and services

Group Chairman's statement

Focused on unlocking potential while strengthening culture and resilience

In my statement last year – my first as Chairman of the Group – I committed to focus my efforts on three priorities: helping the Group to unlock its true potential; improving its resilience to shocks; and ensuring excellent governance and the highest ethical standards. This is critical to achieving sustainable, long-term growth and improving long-term value.

Unlocking the Group's potential

The Group's underlying profit before tax trebled in the last year. This is encouraging given that the extraordinary engine that sits within the Group is not yet firing on all its cylinders, but we must improve the result further.

To increase the Group's returns over the medium term, we need to grow income in a strong, safe and sustainable manner, while maintaining both cost and capital discipline. We are confident that we can do this. There are clear links between the global economy, international banks and trade that are fundamentally tied to global growth and prosperity. As one of the world's top-three trade banks, the Group is ideally positioned to benefit from the opportunities that the continuing recovery in global trade will bring.

Banking plays a crucial role at the heart of the economy and in the lives of individuals. We are privileged to be present in some of the most exciting and dynamic economies in the world, which are inhabited by two-thirds of the world's population. This unique position brings with it a tremendous responsibility. Our obligation is to carry out our business in a way which not only provides returns for our shareholders but also delivers good things for society: our clients, communities, and people. All of our extensive work in our markets to improve standards of conduct and control is aimed at helping to improve the lives of people in the communities where we work, through enabling sustainable growth. We complement this with our successful health and education programmes such as Seeing is Believing (seeingisbelieving.org) and Goal (sc.com/goalprogramme).

Improving our resilience

We have experienced a decade of lower economic growth, subdued world trade, low interest rates, stricter regulation and increasing competition, including from the technology sector. Recent political controversies about globalisation have further complicated the situation.

Yet, as Bill Winters describes in his review, many indicators are now changing in a positive direction. Economic forecasts have been upgraded again, with global growth broadening and projected to improve this year and next, and world trade continues to advance at a healthy pace. It is up to us to continue working hard to identify and seize the opportunities as they arise, becoming more competitive, embracing technological change and innovation, and continuing to develop attractive value propositions for our clients.

At the same time, we should be mindful of the risks around this favourable outlook. These range from the geopolitical situations in North Korea and the Middle East, and protectionist fears, to those stemming from the challenges of normalising monetary policy in an environment of elevated market valuations and high leverage. The realisation of some of these risks could provoke sharp market corrections, undermine the global recovery and adversely affect emerging markets that are more leveraged or exhibit weaker fundamentals. It is essential that we continue our efforts to increase the Group's resilience to such potential shocks.

I believe the completion by international standard setters of the international regulatory capital framework for banks, known as Basel III, is a positive development for the industry overall. Although banks, as well as their investors and clients, do not yet know precisely how the rules will be applied in practice, having the framework in place is an important step towards a more resilient banking system that supports the real economy.

Against this backdrop, the Group's strengthening position was evident in several respects in 2017. The quality of our balance sheet improved significantly, loan impairment reduced to around half the level it was in 2016, and we passed what was considered the toughest Bank of England stress test to date. It is critical that we maintain the focus and progress into 2018 while – as I said at this time last year – being willing to adapt and make the necessary decisions as conditions evolve.

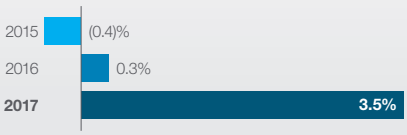
José Viñals
Group Chairman

Financial KPIs

Underlying return on equity (RoE)

Aim Deliver sustainable improvement in the Group's profitability as a percentage of the value of shareholders' equity

3.5% ↑ 320bps



Analysis Underlying RoE of 3.5 per cent in 2017 was a substantial improvement on 0.3 per cent in 2016 but further progress is required

The underlying profit attributable to ordinary shareholders expressed as a percentage of average ordinary shareholders' equity

Capital ratio

Aim Maintain a strong capital base and a Common Equity Tier 1 (CET1) ratio of 12 to 13 per cent

13.6%

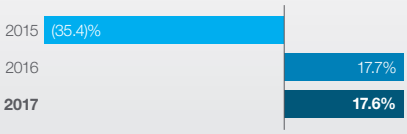
Analysis The Group's CET1 ratio remained at 13.6 per cent – above the top end of the range

The components of the Group's capital are summarised in the Capital section of the full Annual Report

Total shareholder return (TSR)

Aim Deliver a positive return on shareholders' investment through share price appreciation and dividends paid

17.6% ↓ 10bps



Analysis The Group's TSR in the full year 2017 was 17.6 per cent, compared to 17.7 per cent in 2016 and negative 35.4 per cent in 2015

Combines simple share price appreciation with dividends paid to show the total return to the shareholder and is expressed as a percentage

Ensuring excellent governance

The independent, externally facilitated Board evaluation that I commissioned shortly after becoming Chairman concluded that the Board is operating effectively and provided useful ideas on how to maximise its leadership to the Group. More details can be found in the Directors' report in the full Annual Report.

Towards the end of the year, following the departure of Dr Kurt Campbell, Dr Ngozi Okonjo-Iweala joined us as an independent non-executive director. Ngozi has significant geopolitical, economic, risk and development experience at a government level and in international organisations. She twice served as Finance Minister in Nigeria, Africa's largest economy and one of our most significant African markets, and was part of the senior leadership of the World Bank. I would like to take this opportunity to thank Kurt for his significant contributions to the Group, and welcome Ngozi to the Board.

We also recently announced the appointment of Christine Hodgson as Senior Independent Director of the Group, in addition to her current role as Chair of the Remuneration Committee. Christine takes over this role from Naguib Kheraj, who will remain as Deputy Chairman and Chair of the Audit Committee.

Embedding a culture of ethical banking

Deeply embedding a culture of ethical banking will ensure we are able to deliver for our investors, our clients, our colleagues and our communities. Good conduct – doing business in the right way – can, and will, be a powerful differentiator for our Group.

Since I wrote to you in the 2017 Half Year Report, I have continued to travel extensively across our franchise, meeting our clients, colleagues, investors, regulators and other stakeholders. This has reinforced for me what an extraordinary organisation we have, with talented and dedicated colleagues and remarkably strong client relationships.

As part of our focus on brand and culture in 2017, we engaged with our colleagues around the world to identify the essence of what we stand for, who we are and how we need to behave to deliver our full potential. This led to our invigorated purpose statement – "Driving commerce and prosperity through our unique diversity" – and a refreshed set of valued behaviours. These are designed to support the Group's desired culture, drive our transformation and increase our returns and resilience.

The Board continues to oversee far-reaching changes to transform the Group's response to financial crime. This is a critical journey, and we must remain focused on delivering this transformation to provide the foundation for a strong, sustainable business in the long term.

Dividend

In recognition of our increased confidence in the prospects for the Group, I am pleased to report that we are recommending the resumption of dividends with an 11 cent per share distribution in respect of 2017. The Board understands the importance of the ordinary dividend to shareholders and intends to increase the full year dividend per share over time taking into account the earnings outlook, group and local regulatory capital requirements and opportunities to invest to grow the business.

Conclusion

This is an exciting time to be at Standard Chartered. I remain convinced that if we work hard, with dedication, passion and creativeness to seize the opportunities ahead of us, our future will be bright. I look forward to updating you on our progress in our 2018 Half Year Report.

José Viñals
Group Chairman

27 February 2018

Group Chief Executive's review

A year of progress
on a path that is now clear

In 2015, we set out a strategy designed to address our performance issues and reposition our business for success. We needed to secure our foundations, become lean and focused, and continually invest and innovate. Thanks to the outstanding efforts of our 86,000 colleagues around the world, I am proud to say we are succeeding. Financial performance in 2017 has been steady rather than spectacular but has significantly improved. The trebling of underlying profits, a strong capital position and emerging regulatory clarity allows us to resume paying dividends.

Of course, we have a long way to go. We are working hard to establish income growth momentum across all our businesses, and our return on equity continues to fall short of our cost of capital. At the time of writing we are just under halfway to our initial milestone of 8 per cent underlying return on equity. Our key investment areas are growing well and we are encouraged by our start to 2018. But we are well aware that this franchise is capable of much more. I would like to update you on the work we have done so far, and set out how we intend to build upon our successes to capture our full potential.

Securing our foundations

Our foundations have been secured. Our capital and liquidity positions are strong and our risk appetite is properly calibrated, with much greater front-line ownership. Loan impairments are at less than half the levels of recent years and we have made substantial progress on the items we set out for restructuring. Our enhanced resilience has been confirmed by our performance in the most recent Bank of England stress tests, which we passed without caveat. Despite this progress, we are not complacent and remain focused on further enhancing the risk management framework and capabilities of the Group, particularly in areas such as cyber security.

Getting lean and focused

We are ahead of our plans to remove inefficient cost from the business. This has enabled us to increase investment significantly while remaining on track to hold overall expenses flat over the initial three years of our plan to the end of 2018.

We are also working to instil a culture of excellence across our organisation. As José Viñals noted in his Chairman's statement, we recently re-set expectations for every employee of the Group, based on three new valued behaviours: *Do the right thing*, *Never settle*, and *Better together*. Taken together these behaviours will help us to continuously challenge the way we do things, make better decisions, and hold each other accountable for delivery. They will be ingrained into every aspect of our business as we seek to put the client experience at the centre of every plan, every process, and every product offering. They will also inform our hiring policies and how we measure individual performance. We are building a truly client-centric organisation with no tolerance for complacency or mediocrity.

Investing and innovating

We have increased the rate of investment in our business by over 50 per cent since 2015, spending close to $1.5 billion in 2017 to improve our controls and bolster our franchise capabilities. We have focused on the areas we set out in 2015: the opening of China, the digitisation of Retail Banking, the wealth management needs of the growing affluent populations across our markets, and the ongoing development of countries in Africa. We are beginning to see the pay-back in terms of client satisfaction and strong income momentum in these areas, which together with our highly relevant network offering and strong brand are the foundations for our future. We were convinced these were the areas of our competitive advantage in 2015 and we believe it even more so today.

Technology is already changing the financial services landscape, reflecting evolving client expectations. While it threatens the status quo in some respects it will also be a source of relative advantage for us. Our presence in more than 60 markets gives us an unparalleled opportunity to test and refine new concepts in single locations before rolling them out across many. We are doing this in Côte d'Ivoire currently, trialling a purely digital retail banking offering. And as one of the world's leading trade banks we are ideally placed to drive a better client experience and higher returns for our shareholders by utilising new technologies. For example, we are using blockchain technology to streamline cross-border payments as part of the first live, real-time payments corridor between Singapore and India that we initiated in 2017. We will expand this capability to five more pairs of countries in 2018.

Bill Winters
Group Chief Executive

New valued behaviours

1. Do the right thing
2. Never settle
3. Better together

Invested in 2017

$1.5bn

2016: $1.4bn
2015: $0.9bn

Proportion of Retail Banking income generated from Priority clients

45%

2016: 39%
2015: 35%

Proportion of Retail Banking clients that are digitally active

45%

2016: 40%
2015: 36%

Business performance

Our Corporate & Institutional Banking business has been re-positioned around our core strengths as a global network bank. This focus enabled us to on-board over 90 mainly OECD-based multinational companies in 2017. They were attracted by our strength in the emerging markets where they are investing. Early incremental income gains from this cohort are encouraging.

Simon Cooper, the CEO of this business, explained at an investor seminar in November how over the coming years we will grow the top line further, while improving our efficiency through cost management, process improvement and upgrading technology. He also outlined initiatives to allocate capital more effectively within the business and further improve its funding mix. At the same seminar the new head of our Financial Markets business Roberto Hoornweg explained our plans to re-establish it as a leading risk manager in global markets and the leading provider in emerging markets.

The Retail Banking business has continued to attract more affluent clients in core commercial cities across our footprint and to improve our digital offering. We have successfully targeted Priority clients with improved wealth and advice products and a more focused service offering. As a result, the proportion of income generated from that segment grew from 39 per cent to nearly 45 per cent in 2017, constituting most of the business's 7 per cent income growth in the year, excluding the effect of exiting Thailand and the Philippines. Over the same period the proportion of Retail Banking clients that are digitally active rose from just under 40 per cent to around 45 per cent.

Ben Hung, who took over as CEO of Retail Banking in November, will host an investor seminar later in the first half of this year in which he will further explain our plans and ambitions for this business.

The ongoing transformation of our Commercial Banking business is delivering results. Enhanced frontline management and risk monitoring has translated into significantly lower loan impairment. It has returned to profitability and is now far better integrated with the other client segments, which will help it to generate higher quality and more sustainable income.

In Private Banking, we have continued to make significant investments in people and technology. We are encouraged by the increase in net new money driven in part by higher productivity from our new relationship managers, and in 2018 the business will target further improvements in both respects.

Group outlook

We believe these business initiatives will help the Group generate income at a compound annual growth rate of between 5 and 7 per cent in the medium term, with our personal banking businesses likely to grow at a relatively faster rate than our corporate businesses, given our focus on optimising the returns from our credit portfolios. We expect to achieve this growth while tightly managing costs, which we aim to increase below the rate of inflation across the Group. The operating leverage this creates, together with our continued focus on risks, will enable us to deliver an underlying return on equity above 8 per cent in the medium term.

Continued focus on conduct

Group-wide awareness of our collective responsibility to our clients and the communities that we serve has tangibly improved. We have developed and implemented a framework defining and identifying good conduct, and I have made it a strategic priority in 2018 for every segment and region rigorously to review, refine and strengthen our conduct environment. While incidents cannot be entirely avoided, we have no tolerance nor appetite for breaches of laws and regulations, and are determined to ensure that our employees do the right thing.

Group Chief Executive's review continued

It also remains a central part of our mission to help combat financial crime. Over the course of 2017, our work has made a real impact by identifying and preventing criminal activity in the financial system. We continue to innovate, putting into place more efficient and effective tools, practices and processes that should position us among the leaders in discovering and disrupting financial crime. We take our responsibility as a leading international bank seriously and continue to invest significantly in improving standards across our markets through our correspondent banking and new NGO academies. Significantly, in 2017, the New York State Department of Financial Services recognised that the Group has made "substantial progress" towards remediating past financial crime controls issues and noted that we remain "fully committed" to finishing the job. As described in the financial statements in the full Annual Report, we continue to cooperate with authorities in the US and the UK in their investigations of past conduct and are engaged in ongoing discussions to resolve them. Concluding these historical matters, which could have a substantial financial impact, remains a focus for us.

The external outlook

The global economic environment continues to improve. Productivity remains weak but is improving, and inflation remains low. Commodity prices have increased but are still at levels that do not threaten global growth. Geopolitical risks remain high but have not affected economic activity. We expect these conditions to persist for some time, and as such expect interest rates to continue to normalise and trade volumes to increase. We expect the Middle East region to return to growth in 2018, while many sub-Saharan Africa economies are showing signs of stabilisation and recovery.

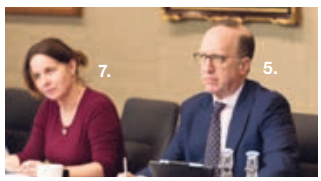
Conclusion

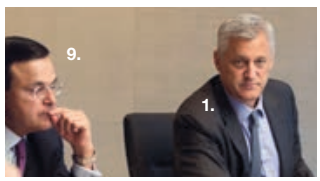
We have made encouraging progress in transforming the Group, the path ahead is clear and we are now well positioned to drive sustainable profit growth across our markets. We remain focused on improving our service to our clients, generating strong returns for our investors, and contributing even more to the communities in which we operate. This will enable us to realise the Group's full potential.

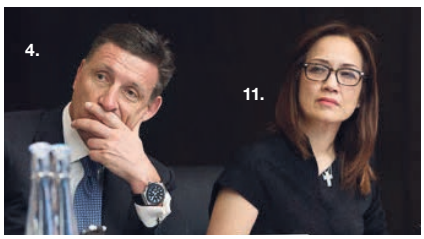
Bill Winters
Group Chief Executive

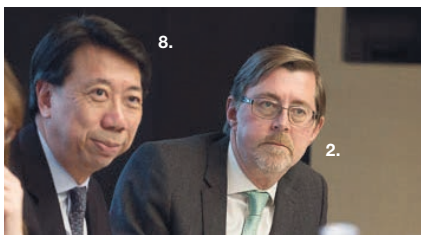
27 February 2018

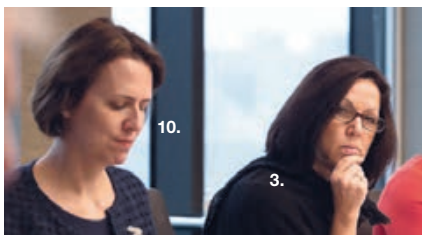
Management Team











1. **Bill Winters, CBE**
   Group Chief Executive
2. **Andy Halford**
   Group Chief Financial Officer
3. **Tracy Clarke**
   Regional CEO, Europe & Americas
4. **Simon Cooper**
   CEO, Corporate & Institutional Banking
5. **David Fein**
   Group General Counsel
6. **Dr Michael Gorriz**
   Group Chief Information Officer
7. **Doris Honold**
   Group Chief Operating Officer
8. **Benjamin Hung Pi Cheng**
   Regional CEO, Greater China & North Asia; and CEO, Retail Banking
9. **Sunil Kaushal**
   Regional CEO, Africa & Middle East
10. **Anna Marrs**
    Regional CEO, ASEAN & South Asia; and CEO, Commercial and Private Banking
11. **Judy Hsu**
    CEO, Singapore and ASEAN Markets (Malaysia, Vietnam, Thailand and Rep Offices)
12. **Tracey McDermott, CBE**
    Group Head of Corporate, Public and Regulatory Affairs
13. **Mark Smith**
    Group Chief Risk Officer
14. **Pam Walkden**
    Group Head, Human Resources

Driving commerce and prosperity through our unique diversity

Working with NGOs to fight financial crime

Our efforts to fight financial crime can have unintended consequences for clients that deliver critical humanitarian services to people in need

Financial crime controls can prevent legitimate payments to and from development and non-profit organisations providing humanitarian programmes in countries where bribery, corruption and money laundering are prevalent.

We are helping these clients to mitigate financial crime risk through education. In October 2017, we hosted our first Financial Crime Risk Management workshop in Washington for US-headquartered clients in partnership with the World Bank Group, World Vision and the US NGO-membership group InterAction.

The event shared international best practices in financial crime compliance and showed organisations how they could strengthen their fraud, anti-money laundering and counter-terrorist financing controls. We also offer free financial crime compliance e-learning. modules to our NGO clients.

Market environment

Macroeconomic factors affecting the financial landscape

Trends in 2017

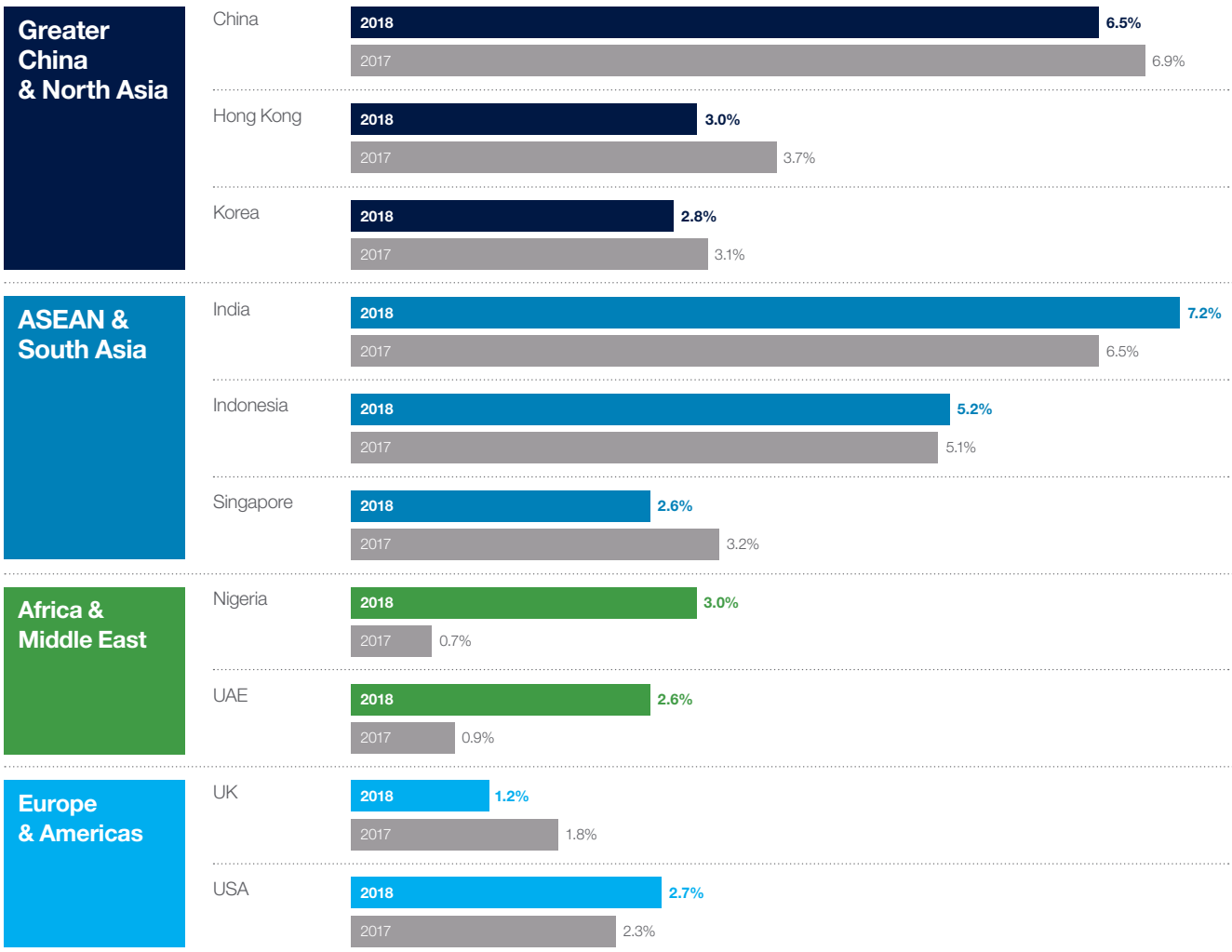
- The world economy enjoyed a cyclical recovery in 2017, growing at an estimated 3.8 per cent, compared to 3.2 per cent in 2016
- Emerging markets, led by Asia, continued to be the main driver of global growth, though growth also picked up in major developed economies
- The euro area saw an acceleration in growth in 2017 of approximately 2.3 per cent, up from 1.8 per cent in 2016, despite concerns about geopolitical risks
- Expectations of fiscal stimulus from the US following the US Presidential election faded and monetary policy remained the main support for US growth
- Major central banks including the US Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of England signalled an end to ultra-easy monetary policy but policy still remained very accommodative

Outlook for 2018

- Global growth is expected to remain strong at 3.9 per cent in 2018
- Growth will remain faster in emerging markets, with Asia continuing to grow at a robust 6.1 per cent
- Major central banks are expected to continue to tighten monetary policy very gradually, removing some of the extraordinary support for the global economy. This is expected to keep the market risk environment benign and supportive for emerging markets
- Recovering oil prices are also expected to support the recovery of growth in commodity-dependent countries in Africa, the Middle East and Latin America

Regional trends and outlooks

Actual and projected growth by economy in 2017 and 2018



Medium- and long-term view

See our long-term market trends on page 14

- Ongoing global growth recovery is cyclical in nature and therefore vulnerable; structural challenges remain. Productivity growth is weak, especially in developed countries
- Long-term growth in the developed world is constrained by high levels of indebtedness and ageing populations
- There is reason to be more optimistic on long-term growth prospects for emerging markets. Unencumbered by old infrastructure, many of these countries can adopt the latest technologies and the associated infrastructure, boosting productivity growth
- Relatively younger populations in many emerging markets, as well as adoption of digital technology, will allow emerging markets to become increasingly more important for the global growth story
- Rising nationalism, anti-globalisation and protectionism are a threat to long-term global growth prospects, including emerging markets

The market environment report has been produced by our Global Research team. The forecasts for 2018 reflect its projections, and not necessarily those of the Board.

Trends and outlook for our four regions

Greater China & North Asia

See our regional performance on page 23

- China's economy has benefited from healthy demand for its exports, a risk-averse political backdrop and recovering industrial profits
- While real activity may decelerate moderately in H1 2018, as property tightening measures and an end to inventory build limit investment growth, we expect a solid economic performance, with growth of 6.5% expected in 2018
- China's authorities are increasingly focusing on the quality of growth and addressing medium-term vulnerabilities including corporate debt
- Hong Kong's expected growth of 3.0% will be moderate compared to the 3.7% growth seen in 2017 as the cyclical recovery in trade fades
- Growth in Japan is likely to be at 1.2% aided by still easy monetary policy and fiscal policy, and a supportive external demand environment

ASEAN & South Asia

See our regional performance on page 24

- ASEAN is set to remain one of the fastest-growing regions in 2018
- Growth in economies with proactive government investment in infrastructure projects – including Indonesia, the Philippines and Thailand – should be supported, even if external demand is softer than in 2017
- Inflation has remained low in the region, allowing central banks to keep monetary conditions loose. The possibility of further rate cuts, however, is low as inflation starts to pick up on the back of higher commodity prices
- India is likely to start recovering from the slowdown accompanying reforms in 2017. At 7.2%, India's growth will be one of the strongest in the emerging market space

Africa & Middle East

See our regional performance on page 25

- Growth across Africa will continue to rebound in 2018 compared to 2017. The expected recovery will be driven by large economies that emerged from recession in 2017, namely oil producers Angola and Nigeria, and by South Africa, where external demand has lifted mining and manufacturing
- For oil importers, the boost to growth from lower oil prices has likely run its course
- 2018 should bring a pick-up in headline growth in the Middle East
- GDP related to oil production is likely to be flat, while non-oil economic growth will be constrained by geopolitical worries that will weigh on consumer and business confidence

Europe & Americas

See our regional performance on page 26

- Growth in the US and euro area is likely to exceed 10-year averages with growth exceeding 2.0% in both regions
- Political risk will remain in Europe, led by Italy's elections. UK Brexit talks with the European Union have been positive, with a transition deal likely beyond 2019 until a trade deal is finalised
- The ECB will continue to taper its quantitative easing purchases, even though inflation is likely to take time to move back to the close-to-but-lower-than-2% target
- In the US, tax reform and increased fiscal expenditure will lend support to the growth outlook for 2018 and 2019
- The US Fed rate is likely to reach 2.5% by end-2018

Business model

A business model
built on long-term relationships

We have a sustainable approach to business and strive to achieve the highest standards of conduct. Our business model and strategy are built on capturing the opportunities inherent in our unique footprint by developing deep relationships with clients across our network and in local markets

Developing these relationships means using both our tangible and intangible resources in a sustainable and responsible manner, deploying them to maximum impact on our profitability and returns

Our resources

We aim to use resources in a sustainable way, to achieve our long-term strategic objectives

Human capital

Our diverse colleagues are our greatest asset. Being part of the local fabric of our markets means we understand our clients' needs and aspirations, and how these can be achieved

86,000 employees

15,000 non-employed

46% female

Strong brand

We are a leading international banking group with over 150 years of history and in many of our markets we are a household name

International network

We have an unparalleled international network, connecting companies, institutions and individuals to, and in some of the world's fastest-growing and most dynamic regions

Financial strength

With over $600 billion in assets on our balance sheet, we are a strong, trusted partner for our clients

Local expertise

We have a deep knowledge of our markets and a privileged understanding of the drivers of the real economy, offering us insights that can help our clients achieve their ambitions

Our purpose makes us different

Our purpose is what sets us apart: we drive commerce and prosperity through our unique diversity. Our strategy helps us achieve our purpose

We drive commerce and prosperity through our unique diversity

Client focus

Our clients are our business. We build long-term relationships with them

5,300 corporations, governments, banks and investors

260,000 business banking clients

40,000 commercial banking clients

9m individual clients

7,000 private banking clients

Robust risk management

We are here for the long term. Effective risk management allows us to grow a sustainable business

Distinct proposition

Our unique understanding of our markets and our extensive international network allow us to offer a truly tailored proposition to our clients, combining global expertise grounded in local knowledge

Sustainable approach to business

We promote social and economic development by contributing to sustainable economic growth through our core business of banking, by being a responsible company and by investing in our communities

For more details on how we deliver on our business model, see our Strategy section on page 14

What we deliver

We deliver an extensive set of solutions, products and services, adapted to the needs of our clients

Global

Clients in our global businesses are supported by relationship managers with a global reach

Corporate & Institutional Banking

Private Banking

Local

Country-level relationship managers support clients in our regional businesses. To ensure efficiency and consistency, and to enable greater investment, we have a global oversight of our systems and products

Retail Banking

Commercial Banking

See our client segment reviews on pages 18 to 21

Products and services

Retail Products
- Deposits
- Savings
- Mortgages
- Credit cards
- Personal loans

Wealth Management
- Investments
- Portfolio management
- Insurance and advice
- Planning services

Transaction Banking
- Cash management
- Payments and transactions
- Securities services
- Trade finance products

Corporate Finance
- Structured and project financing
- Strategic advice
- Mergers and acquisitions

Financial Markets
- Investment
- Risk management
- Debt capital markets

Financial performance

Income
- Net interest income
- Fee income
- Trading income

Profits
Income gained from providing our products and services minus expenses and impairments

Return on equity
Profit generated relative to equity invested

The value we create

We aim to create long-term value for a broad range of stakeholders, in a sustainable manner

Clients
We enable individuals to grow and protect their wealth. We help businesses to trade, transact, invest and expand. We also help a variety of financial institutions – including banks, public sector clients and development organisations – with their banking needs

Regulators and governments
We engage with relevant authorities to play our part in supporting the effective functioning of the financial system and the broader economy

Investors
We aim to deliver robust returns and long-term sustainable value for our investors

Colleagues
We offer colleagues opportunities to learn and progress. We encourage them to improve, innovate, take ownership of their careers and succeed together

Society
We strive to operate as a responsible and sustainable company, driving prosperity through our core business, and collaborating with local partners to promote social and economic development

More detail can be found in our stakeholders and responsibilities section on page 38

Our strategy

A strategy addressing long-term trends

Our strategy was developed against the backdrop of six long-term trends, which will continue to significantly shape the economies and broader landscape in the markets in which we operate. We believe that each of these long-term trends presents opportunities that we are uniquely positioned to capture

1 Rise of urban middle class

Markets in our footprint are urbanising rapidly and becoming more consumption-led, driving rapid growth in demand for wealth and financing solutions

Our strategic response: Focus on the affluent and wealth offerings

2 Digital revolution

Digital adoption in our markets is often ahead of otherwise more developed Western markets. Digitisation offers an opportunity for us to deliver more convenient and efficient solutions to clients and thus to increase our client reach and engagement in a cost-effective manner

Our strategic response: Accelerate pace of our digitisation

3 Increasing regional connectivity

Despite a rise in anti-globalisation sentiment in several parts of the world, we are witnessing in the long term the emergence of complex supply chains, combined with new frameworks for cooperation, such as the Belt and Road initiative and the ASEAN Economic Community. With our long history in the markets that are driving these trends, we are uniquely positioned to capture the benefits they bring

Our strategic response: Leverage our network capabilities

4 Financial deepening and evolving regulation

Clients are increasingly looking for innovative cross-border funding, cash management and investment solutions, coupled with local hedging instruments to better manage risks. This, along with the growing sophistication of the financial services sector, and ongoing government-led reform, is driving the deepening and internationalisation of local capital markets in our footprint

Our strategic response: Strengthen our capital markets capabilities

5 The rise of renminbi (RMB)

The launch of the Cross-Border Interbank Payment System and the inclusion of RMB in the International Monetary Fund's Special Drawing Rights basket of currencies are major landmarks on the RMB's path to internationalisation. We expect that by 2020, 5 per cent of global international payments could be settled in RMB

Our strategic response: Maintain leadership in RMB

6 The growth of Africa

Backed by a large workforce and a growing, connected urban middle class, there are many growth opportunities across African economies. This is particularly the case in sectors such as agriculture, fast-moving consumer goods and infrastructure

Our strategic response: Focus on urban Africa

Within this context, we continue to believe in the inherent value and strength of the Standard Chartered franchise and its ability to deliver financial performance

Our strategy
is focused on capturing the existing growth opportunities in our footprint, by developing deep, long-term relationships with our clients and helping them connect across our markets

Our strategy continued

Delivering against our strategic objectives

Well positioned to capture the opportunities in our markets

We are in a strong position to capture the opportunities in our markets, while being aware of potential threats and areas where we need to improve

We take external risk factors into account as part of our strategy and ensure that we are always prepared adequately. These include macro and geopolitical changes globally and in countries where we operate, pressure on profitability, and disruption from new uses of technology. We believe that we are in a unique position to capture the growth in our markets through strengths like our cross-border proposition, comprehensive product range and high standards for the way we do business. At the same time, we are addressing areas that will further strengthen the Group, such as continuing to focus on conduct and fighting financial crime, shifting the mix in our client and product books towards our target segments and businesses, improving and digitising our processes, and strengthening our areas of competitive differentiation.

Since 2015, we have made significant progress against the Group's three strategic objectives. We have tracked progress against these through our Group scorecards, which contain a mix of quantitative performance indicators, such as return on equity, loan impairment and capital adequacy, and qualitative performance indicators, such as the shift in our portfolio mix towards different client profiles and returns-accretive businesses, as well as client sentiment metrics such as the net promoter score. Some selected indicators are highlighted below.

	Progress in 2017	Focus for 2018
1 Secure the foundations We have substantially completed this objective, putting us in a position of strength from which to drive business growth confidently	**CET1: 13.6%** (2016: 13.6%)	Maintain a strong capital position
	Loan impairment: $1.2bn (underlying) (2016: $2.4bn)	Continue efforts to further strengthen risk controls and conduct
2 Get lean and focused We have continued the restructuring of our businesses and the shift towards sustainable, profitable growth	**Profit before tax: $3.0bn (underlying)** (2016: $1.1bn)	Drive income within our desired risk appetite, and contain costs, leveraging technology
	Return on equity: 3.5% (underlying) (2016: 0.3%)	Focus on driving sustainable momentum in capital and returns-accretive businesses
3 Invest and innovate We have invested to improve the way we serve our clients and the way we collaborate. Examples include significant investments in automation and a revamped learning offering for colleagues	**Digitisation and analytics** driving efficiency and superior client service	Ambitious investment plan in technology to drive business
		Invest in our colleagues and culture
	Retail Banking digital adoption: 44.7% of clients (2016: 39.6%)	Leverage our unique diversity to serve our clients better

For more insights on strategy-related risks see our Group Chief Risk Officer's review on pages 33 to 35

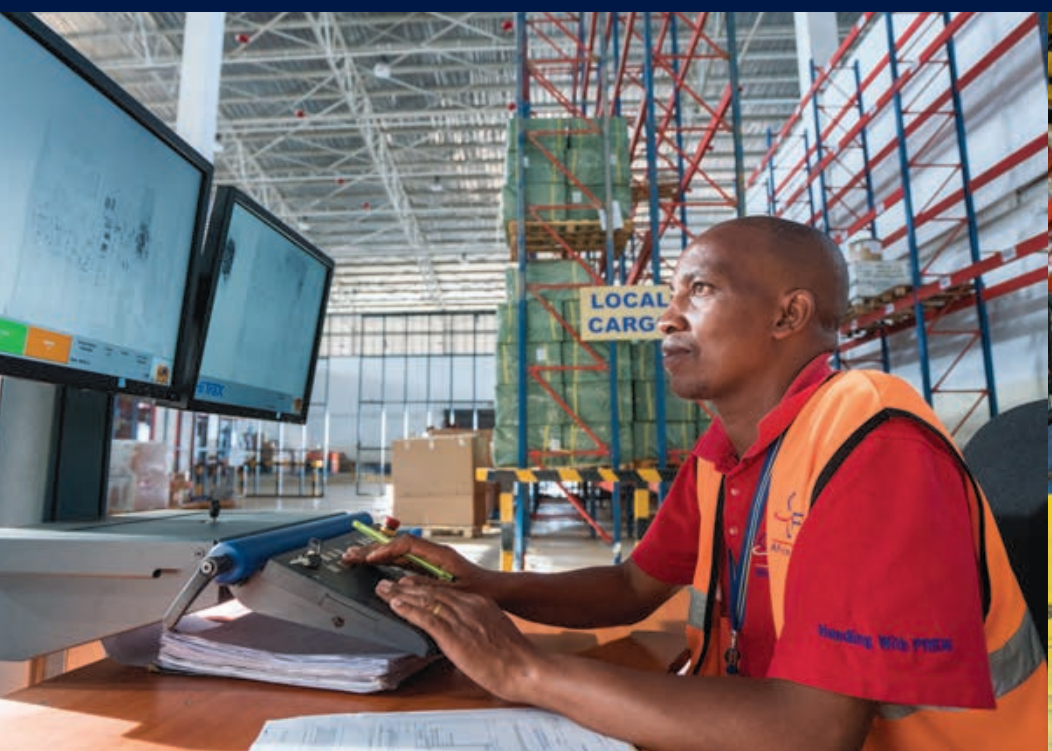
For more information on progress in 2017 and focus for 2018 see our Group Chief Financial Officer's review on pages 28 to 32

Driving commerce and prosperity through innovation

Innovative solutions in Kenya

For over 20 years, we have provided tailored solutions and expert advice to meet the unique requirements of Africa Flight Services, a leading provider of logistical and ground handling services in Kenya

We've helped Africa Flight Services (AFS) develop its expansion programmes by utilising our global footprint and experience in the field of corporate finance. AFS, which owns and operates the largest transit hub in the East and Central Africa region, has unique requirements that are met with bespoke financial solutions by our experienced relationship managers. This, combined with our competitive product portfolio and personalised service, has allowed our partnership with AFS to span over 20 years. Standard Chartered has been the primary banker and financial services partner for the company since 1994.



Corporate & Institutional Banking

Profit before taxation

$1,261m

underlying basis

$986m

statutory basis

Risk-weighted assets

$147bn

Return on risk-weighted assets

0.9%

underlying basis

Segment overview

Corporate & Institutional Banking supports clients with their transaction banking, corporate finance, financial markets and borrowing needs across more than 60 markets, providing solutions to over 5,300 clients in some of the world's fastest-growing economies and most active trade corridors.

Our clients include large corporations, governments, banks and investors headquartered, operating or investing in Asia, Africa and the Middle East. Our strong and deep local presence across these markets enables us to facilitate trade, capital and investment flows in and for our footprint, including across China's Belt and Road initiative.

We collaborate increasingly with other segments: introducing Commercial Banking services to our clients' ecosystems – their networks of buyers, suppliers, customers and service providers – and offering our clients employee banking services through Retail Banking.

Strategic priorities

- Deliver sustainable growth for clients by understanding their agendas, providing trusted advice, and strengthening leadership in flow solutions
- Manage our balance sheet to grow income and returns by driving balance sheet velocity, improving funding quality and maintaining strengthened risk controls
- Improve our efficiency, innovate and digitise to enhance the client experience

Progress

- Completed on-boarding of 91 new OECD clients, and delivered strong growth from the next generation of priority clients
- Improved balance sheet quality, with investment-grade clients now representing 57 per cent of customer loans and advances (2016: 52 per cent) and high quality operating account balances now comprising 48 per cent of Transaction Banking customer accounts (2016: 44 per cent)
- Launched focused workstreams to drive efficiency and innovation, and increase talent diversity

Performance highlights

- Underlying profit before taxation of $1,261 million more than doubled year-on-year primarily driven by lower impairment. While operating expenses were higher, business efficiency improvements created capacity for increased investments
- Underlying income of $6,496 million was stable year-on-year. However, excluding Principal Finance losses, income declined 3 per cent, impacted by a decline in market volatility and spreads in Financial Markets and margin compression in financing businesses. This more than offset the volume growth and margin improvement in Cash Management
- Good balance sheet momentum with loans and advances to customers up 8 per cent year-on-year and customer accounts up 9 per cent
- The difference of $275 million between statutory and underlying profit represents restructuring costs

LEADING DIGITAL CHANNELS

A single gateway for payments in China

In February 2017, we became the first international bank to launch a mobile wallet collection service in China. Having worked closely with national and international businesses and banking institutions in China we recognised the need for a single digital gateway to connect and consolidate multiple payment channels. Within six months, we implemented solutions for 17 corporates across China and have assisted them with more than 26,000 payment transactions. That number is growing daily.

KPIs

Proportion of low returning client risk-weighted assets

Aim Reduce the proportion of risk-weighted assets deployed in Corporate & Institutional Banking that are delivering low returns.

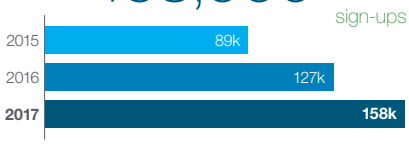
16.8% ↑ of RWAs

Analysis Proportion of low returning client risk-weighted assets has increased from 15.6 per cent in 2016 to 16.8 per cent in 2017, driven by conscious client actions, market pressures, credit migration and model changes.

Collaboration with other client segments

Aim Increase collaboration with other client segments to generate cross-segment business opportunities.

158,000 ↑ new sign-ups



Analysis Increasing trend in Employee Banking account sign-ups from Corporate & Institutional Banking clients with an increase of 24 per cent year-on-year from 127,000 to 158,000.

Retail Banking

Profit before taxation

$873m

underlying basis

$854m

statutory basis

Risk-weighted assets

$44bn

Return on risk-weighted assets

2.0%

underlying basis

UNDERSTANDING CLIENTS' BANKING NEEDS

Building relationships through technology

We are constantly enhancing our products and services to take advantage of digital advances. This includes our new voice recognition platforms and cross-border payment options on mobile and tablet devices for clients who need to bank anytime, anywhere. Every innovation is based on insights: we spend time getting to know our clients and understanding their banking needs and financial goals.

Segment overview

Retail Banking serves over nine million individuals and small businesses, with a focus on affluent and emerging affluent in many of the world's fastest-growing cities. We provide digital banking services with a human touch to our clients across deposits, payments, financing products and Wealth Management, as well as supporting their business banking needs.

Retail Banking represents approximately one-third of the Group's operating income and operating profit. We are closely integrated with the Group's other client segments, for example offering employee banking services to Corporate & Institutional Banking clients, and we are also an important source of high quality liquidity for the Group.

Increasing levels of wealth across Asia, Africa and the Middle East support our opportunity to grow the business sustainably. We aim to improve productivity and client experience through increasing digitisation, driving cost efficiencies and simplifying our processes.

Strategic priorities

- Continue to focus on affluent and emerging affluent clients and their wealth needs in core cities and capture the significant rise of the middle class in our markets
- Continue to build on our client ecosystem and alliances initiatives
- Improve our clients' experience through an enhanced end-to-end digital offering, with intuitive platforms, best-in-class products and service responding to the change in digital habits of clients in our markets

Progress

- Increased share of income from Priority clients to 45 per cent, up from 29 per cent in 2014, supported by adding more than 100,000 Priority clients during 2017
- Our major strategic alliances, with partners such as Asia Miles, Shinsegae and Disney, and our Employee Banking initiatives, have together delivered over 50 per cent of new clients in the year
- Investment in technology is showing results, with nearly 45 per cent of clients now actively using online or mobile banking

Performance highlights

- Underlying profit before taxation of $873 million was up 14 per cent year-on-year as income growth and lower loan impairment offset increased expenses
- Retail Banking income in Greater China & North Asia grew 10 per cent year-on-year; income in ASEAN & South Asia grew 4 per cent excluding the impact of business exits in Thailand and the Philippines; and income in Africa & Middle East was flat
- Strong momentum from Wealth Management and Deposits drove the improved income performance, more than offsetting continued margin compression across asset products
- Good balance sheet momentum, with both loans and advances to customers and customer accounts up 10 per cent during the year
- The difference of $19 million between statutory and underlying profit represents restructuring costs

KPIs

Digital adoption

Aim Align the Group's service to how clients want to interact and increase efficiency by reducing the amount of manual processing.

44.7% ↑ of clients

Analysis Online applications have continued to grow year-on-year with the proportion of Retail Banking clients that are digital-active up from 39.6 per cent in 2016 to 44.7 per cent at the end of 2017.

Priority client focus

Aim Increase the proportion of income from Priority clients, reflecting the strategic shift in client mix towards affluent and emerging affluent clients.

44.8% ↑ of income

Analysis The share of Retail Banking income from Priority clients increased to 44.8 per cent in 2017 from 39.0 per cent in 2016, supported by more than 100,000 new-to-bank Priority clients in the year.

Commercial Banking

Profit before taxation

$282m

underlying basis

$269m

statutory basis

Risk-weighted assets

$33bn

Return on risk-weighted assets

0.9%

underlying basis

CROSS-BORDER RELATIONSHIPS

Helping clients grow their businesses

We are constantly increasing our global footprint and supporting clients to grow their businesses locally and internationally. In 2017, we helped more than 80 per cent of our clients engage in business outside the markets they already operated in, and almost half of them now have offices overseas. The markets we operate in and the relationships we have developed underpin the 20 per cent year-on-year growth of our network business and drives our ambition of helping small and mid-sized companies capture international opportunities.

Segment overview

Commercial Banking serves over 40,000 local corporations and medium-sized enterprises in 26 markets across Asia, Africa and the Middle East. We aim to be our clients' main international bank, providing a full range of international financial solutions in areas such as trade finance, cash management, financial markets and corporate finance.

Through our close linkages with Retail Banking and Private Banking, our clients can access additional services they value including employee banking services and personal wealth solutions. We also collaborate with Corporate & Institutional Banking to service their clients' end-to-end supply chains.

Our clients represent a large and important portion of the economies we serve and are potential future multinational corporates. Commercial Banking is at the heart of our shared purpose to drive commerce and prosperity through our unique diversity.

Strategic priorities

- Drive quality sustainable growth by deepening relationships with our existing clients and attracting new clients that are aligned with our strategy, with a focus on rapidly growing and internationalising companies in our footprint
- Improve client experience, through investing in frontline training, tools and analytics
- Continue to enhance credit risk management and monitoring and maintain a high bar on operational risk

Progress

- Improved client experience materially, with client satisfaction as measured by our annual 'client intelligence survey' having improved meaningfully year-on-year
- On-boarded over 4,500 new-to-bank clients in the year, of which 830 came from our clients' international and domestic networks of buyers and suppliers
- Significantly strengthened the foundations in credit risk management through a series of actions which resulted in lower loan impairments in 2017

Performance highlights

- Returned Commercial Banking to profitability, with an underlying profit before taxation of $282 million reflecting significantly lower impairment, reduced expenses and higher income
- Underlying income of $1,333 million was up 3 per cent year-on-year, driven by positive momentum across regions, with income up 5 per cent in ASEAN & South Asia, up 2 per cent in Africa & Middle East, and up 1 per cent in Greater China & North Asia, led by Cash Management and Financial Markets products
- Strong balance sheet growth, with loans and advances to customers up 17 per cent year-on-year and customer accounts up 4 per cent
- The difference of $13 million between statutory and underlying profit represents restructuring costs

KPIs

New-to-bank ecosystem clients

Aim Bank our clients' international and domestic networks of suppliers and buyers (the ecosystem).

28.3% increase in clients

Analysis The number of clients on-boarded through our 'banking the ecosystem' initiative increased 28.3 per cent in 2017.

Straight2Bank utilisation

Aim Improve client experience and minimise manual transactions and the reliance on branches for cash, trade and FX, thereby reducing the cost of servicing.

44.7% of clients

Analysis Straight2Bank utilisation increased 13 per cent in 2017. By the end of 2017, 44.7 per cent of active Commercial Banking clients are using the capability, up from 42.4 per cent in 2016.

Private Banking

Loss before taxation

$(1)m

underlying basis

$(16)m

statutory basis

Risk-weighted assets

$6bn

Return on risk-weighted assets

0.0%

underlying basis

BUILDING SKILLS FOR THE FUTURE

Mentoring the next generation of leaders

At Standard Chartered, we believe the next generation will play a critical role in shaping the world's future. Our Future Global Leaders' Programme, part of our offering to Private Banking clients, is designed to harness the skills of tomorrow's influencers. The programme brings together future leaders aged between 20-35 to help them connect as a global community, and develop leadership, philanthropy, sustainability and entrepreneurship skills, so that they can maximise their potential and enable others to do the same. In 2017, we held the programme in London, Cape Town, Delhi and Singapore.

Segment overview

Private Banking offers a full suite of investment, credit and wealth planning solutions to grow and protect the wealth of high-net worth individuals across our footprint.

Our investment advisory capabilities and product platform are independent from research houses and product providers, allowing us to put client interests at the centre of our business. This is coupled with an extensive network across Asia, Africa and the Middle East, which provides clients with relevant market insights and cross-border investment and financing opportunities.

As part of our universal banking proposition, clients can also leverage our global Commercial Banking and Corporate & Institutional Banking capabilities to support their business needs. Private Banking services can be accessed from six leading centres: Hong Kong, Singapore, London, Jersey, Dubai and India.

Strategic priorities

- Instil a culture of excellence by improving the expertise and enhancing the skills of senior relationship management teams
- Improve client experience by enhancing our advisory proposition and reducing turnaround time of the investment process
- Balance growth and controls by simplifying the business model through implementation of a rigorous controls enhancement plan

Progress

- Strengthened relationship management teams with almost 60 new frontline hires globally. Launched Private Banking Academy in partnership with INSEAD and Fitch to deliver an industry leading frontline training programme across key markets
- Enhanced our open architecture platform through digitisation, enabling real-time price discovery across equity derivatives and fixed income, and halving preparation time for investment proposals
- Sharpened our client coverage model with the completion of the country coverage initiative and continuous shift to focus on the above $5 million assets under management client segment

Performance highlights

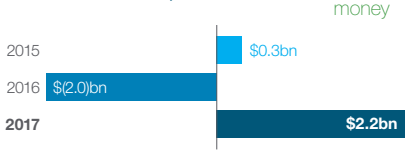
- Private Banking generated an underlying loss before taxation of $1 million compared to a profit of $32 million in 2016, due to higher expenses as we continued to invest significantly in the business
- Underlying income of $500 million was up 1 per cent year-on-year, impacted by the non-recurrence of an insurance recovery. Excluding this, income improved 6 per cent driven by Wealth Management, Treasury and Funds products, and improved Deposit margins
- Assets under management increased by $10.2 billion or 18 per cent since 31 December 2016 driven by positive market movements and $2.2 billion of net new money
- The difference of $15 million between statutory and underlying loss represents restructuring costs

KPIs

Net new money

Aim Grow and deepen client relationships, improve investment penetration and attract new clients.

$2.2bn ↑ of net new money

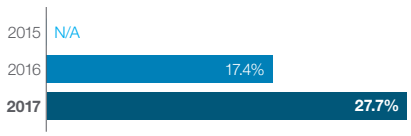


Analysis We added $2.2 billion of net new money in 2017, after seeing outflows in 2016 when investor sentiment was impacted by volatility in equity and other markets, coupled with our actions taken to improve our risk profile.

Net client score for ease of doing business

Aim Holistically improve the Private Banking client experience through all touch points with the Group.

27.7% ↑ more clients



Analysis Launched in 2016, the annual Private Banking client satisfaction survey reviews multiple dimensions of client sentiment and measures our progress in putting client needs at the heart of everything we do. In 2017, significantly more clients rated us very easy to do business with than those that rated us difficult to do business with.

Driving commerce and prosperity through our unique diversity

Developing partnerships to deliver financial inclusion

Working together with the Asian Development Bank (ADB), we are helping to drive prosperity for people traditionally excluded from the financial system

We have extended a unique risk participation deal – the first of its type for the microfinance sector in Asia when launched in 2013 – with the ADB to increase the flow of credit to microfinance institutions (MFIs) across Asia. By increasing the capital available, partner MFIs are able to reach more unbanked individuals and finance additional microenterprises.

Originally, we aimed to originate and service a $150 million portfolio of MFI loans across Asia by the end of 2018, with the ADB sharing 50 per cent of the risk on the portfolio. Due to the programme's success, the ADB increased its risk participation ceiling from $75 million to $120 million, allowing us to increase the total programme size to $240 million outstanding at any given time. The programme has now been recognised as part of the ADB's mainstream operations with no specified end date.

Together, Standard Chartered and ADB have provided approximately 125 loans totalling $325 million to 13 MFIs in Bangladesh, Indonesia and India, with the potential to expand to additional markets in Asia.

Greater China & North Asia

Highlights of 2017

Profit before taxation

$1,942m

underlying basis

$1,977m

statutory basis

Risk-weighted assets

$85bn

Loans and advances to customers

Greater China & North Asia
44% of Group

Income split by key markets

Hong Kong
60%

Others
40%

Region overview

Greater China & North Asia is the Group's largest region, representing approximately 40 per cent of the Group's income, and includes our clients in Hong Kong, Korea, China, Taiwan, Japan and Macau. Of these, Hong Kong remains the Group's largest market, underpinned by a diversified franchise and deeply rooted presence.

The region is highly interconnected, with China's economy at its core. Our regional footprint, distinctive proposition and continued investment positions us strongly to capture opportunities as they arise from the continuing opening up of China's economy.

We are building on the region's ongoing economic growth, the rising wealth of its population, the increasing sophistication and internationalisation of Chinese businesses and the resulting increased usage of the renminbi internationally.

Strategic priorities

- Leverage our network strength to serve the inbound and outbound cross-border trade and investment needs of our clients
- Capture opportunities arising from China's opening, including the renminbi, Belt and Road initiative, onshore capital markets and mainland wealth, as well as from our digital capabilities
- Strengthen market position in Hong Kong, and improve Retail Banking performance in China and Korea

Progress

- Added overseas China desks across the Group's footprint, helping to grow income and increase the number of Belt and Road initiative projects we were involved in by over 25 per cent
- Strong progress in Retail Banking in Hong Kong, adding more than 43,300 new-to-bank Priority clients through alliances such as Asia Miles and our enhanced digital on-boarding platform
- Retail Banking in both China and Korea have seen a significant improvement in performance, driven by cost efficiencies and focused client acquisition

Performance highlights

- Underlying profit before taxation of $1,942 million was 45 per cent higher year-on-year, reflecting income growth and lower impairment
- Underlying income of $5,616 million was 8 per cent higher year-on-year, with all markets and client segments contributing. Retail Banking and Private Banking income both grew 10 per cent year-on-year driven by Wealth Management, improving margins and strong balance sheet growth. Corporate & Institutional Banking income rose 9 per cent year-on-year, due to Cash Management, Corporate Finance and Capital Markets. Commercial Banking income grew 1 per cent year-on-year, driven by Cash Management and Corporate Finance
- Strong balance sheet momentum with loans and advances to customers up 15 per cent year-on-year and customer accounts up 10 per cent
- The difference of $35 million between statutory and underlying profit represents restructuring costs

ASEAN & South Asia

Highlights of 2017

Profit before taxation

$492m

underlying basis

$350m

statutory basis

Risk-weighted assets

$97bn

Loans and advances to customers

ASEAN & South Asia
29% of Group

Income split by key markets

Singapore	India	Others
37%	**26%**	**37%**

Region overview

The Group has a long-standing and deep franchise across the ASEAN & South Asia region. We are the only international bank with a presence in all 10 ASEAN countries and we also have meaningful operations in all key South Asian markets. Our two largest markets in the region by income are Singapore and India, where we have had a deep-rooted presence for over 150 years.

The region contributes over a quarter of the Group's income. Within the region, Singapore is home to the majority of our global business leadership and our technology organisation as well as SC Ventures, our innovation hub.

The strong underlying economic growth in the ASEAN & South Asia region supports our opportunity to grow and sustainably improve returns. The region is benefiting from rising trade flows, including from the Belt and Road initiative, continued strong investment and a rising middle class which is driving consumption growth and improving digital connectivity.

Strategic priorities

- Optimise geographic portfolio by selectively reshaping sub-scale unprofitable markets and prioritising larger or more profitable markets
- Shift the income mix towards 'asset-light' businesses, such as network and flow opportunities in Corporate & Institutional Banking and Commercial Banking, and towards Wealth and Priority clients in Retail Banking
- Deploy differentiating digital capabilities in key markets to improve client experience and productivity

Progress

- Exited Retail Banking in the Philippines and Thailand in 2017, and our stake in Asia Commercial Bank in early 2018. investments in Singapore, India and Vietnam are showing early positive impact
- The business 'mix shift' is starting: 6 per cent year-on-year cash liabilities growth, global subsidiaries up 13 per cent, new Priority clients grew 18 per cent, wealth assets under management up 25 per cent
- Encouraging early signs of digital adoption in key markets, with a faster pace of improving digital sales penetration

Performance highlights

- Underlying profit before taxation of $492 million declined 22 per cent year-on-year due to negative operating leverage impacted by low volatility in Financial Markets and higher costs as we invested for future growth
- Underlying income of $3,833 million fell 5 per cent year-on-year driven by the decisions to exit Retail Banking in Thailand and the Philippines, and from the impact of low volatility on Financial Markets. Retail Banking income, excluding the impact of exits, rose 4 per cent year-on-year, and Commercial Banking income was up 5 per cent year-on-year
- Client activity was positive with 13 per cent growth in loans and advances to customers and 8 per cent growth in customer accounts since December 2016
- The difference of $142 million between statutory and underlying profit represents restructuring costs of $161 million, which are offset by gains on sale of business of $19 million

Africa & Middle East

Highlights of 2017

Profit before taxation

$642m

underlying basis

$609m

statutory basis

Risk-weighted assets

$56bn

Loans and advances to customers

Africa & Middle East
10% of Group

Income split by key markets

UAE	Others
27%	**73%**

Region overview

We have a deep-rooted heritage of over 150 years in Africa & Middle East and are present in 25 markets, of which the UAE, Nigeria, Pakistan and Kenya are the largest by income. Among international banks we have the broadest presence across sub-Saharan Africa by number of markets.

A rich history, deep client relationships and a unique footprint in the region and across key origination centres in Asia, Europe and the Americas enable us to seamlessly support our clients. Africa & Middle East is an important part of global trade and investment corridors, including those on the Belt and Road initiative and we are well placed to facilitate these flows. Demand for capital remains robust, with favourable demographics, urbanisation and infrastructure investment.

While the economic challenges in Africa & Middle East were severe in 2015 and 2016, our business stabilised in 2017 and we remain confident that the opportunities in the region will support long-term sustainable growth for the Group. We continue to invest selectively and drive efficiencies.

Strategic priorities

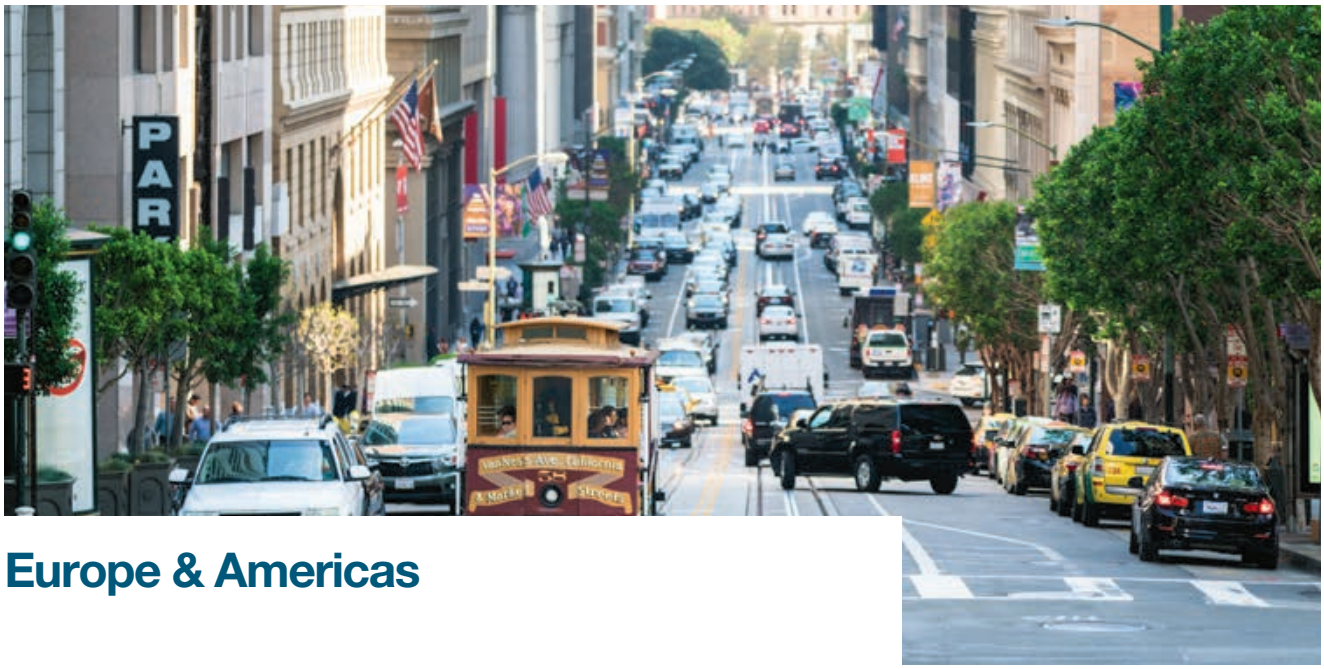
- De-risk and improve the quality of income, and maintain a stable platform for sustainable growth
- Build income momentum in Corporate & Institutional Banking by providing best-in-class structuring and financing solutions and driving origination through client initiatives
- Continue investing in market-leading digitisation initiatives in Retail Banking to protect and grow market share in core markets

Progress

- The UAE, a key market, has turned around and Commercial Banking in the region has stabilised
- Reinforced our strong market presence through a number of marquee deals from sovereigns, financial institutions and corporate clients
- On track to deliver digital solutions across key countries in Africa during 2018

Performance highlights

- Underlying profit before taxation of $642 million rose 49 per cent year-on-year, driven by a reduction in loan impairment
- Despite economic challenges in the region, underlying income of $2,764 million was up 1 per cent year-on-year driven by Africa up 4 per cent while Middle East, North Africa and Pakistan were down 2 per cent. Strong Transaction Banking and Wealth Management performance was offset by the impact of lower volatility in Financial Markets and lower margins in Retail Products
- Loans and advances to customers were up 5 per cent year-on-year and customer accounts grew 6 per cent
- The difference of $33 million between statutory and underlying profit represents restructuring costs



Europe & Americas

Highlights of 2017

Profit before taxation

$71m
underlying basis

$46m
statutory basis

Risk-weighted assets

$45bn

Loans and advances to customers

Europe & Americas
16% of Group

Income split by key markets

UK **46%**
US **42%**
Others **12%**

Region overview

The Group supports clients in Europe & Americas through hubs in London and New York as well as a presence in several European and Latin American markets. We offer our clients rich network and product capabilities through our knowledge of working in and between Asia, Africa and the Middle East. We also have a Private Banking business, focused on serving clients with linkages to our Asia, Africa and Middle East footprint markets.

The region is a major income origination engine for the Group's Corporate & Institutional Banking business. Clients based in Europe & Americas generate over one-third of Corporate & Institutional Banking income, with two-thirds of that income booked in the Group's other regions where the service is provided.

The region is home to the Group's two biggest payment clearing centres and the largest trading room. Over 80 per cent of the region's income derives from Financial Markets and Transaction Banking products. Given this mix, the business we do across the Group with clients based in Europe & Americas generates above average returns.

Strategic priorities

- Continue to attract new international corporate and financial institutions clients and deepen relationships with existing clients by banking them across more markets in our network
- Enhance capital efficiency, maintain strong risk oversight and further improve the quality of our funding base
- Grow our Private Banking franchise and assets under management in London and Jersey

Progress

- Good progress made in attracting new clients and broadening relationships with existing clients; 79 new multinational corporate clients on-boarded in the region in 2017
- Underlying returns from Corporate & Institutional Banking clients continue to improve along with the improved risk profile
- Assets under management for Private Banking clients grew by 17 per cent in 2017

Performance highlights

- The region returned to profitability with an underlying profit for the year of $71 million, supported by a substantial reduction in loan impairment following earlier management actions. Expense growth reflects the continued investment in people and globally driven investments in systems and product capabilities
- Underlying income of $1,601 million was 4 per cent lower year-on-year impacted by a decline in market volatility in Financial Markets which was only partly offset by an improvement in Cash Management income. Income generated by our clients that is booked in other markets grew by 17 per cent in 2017
- Loans and advances to customers were up 6 per cent year-on-year and customer accounts grew 9 per cent
- The difference of $25 million between statutory and underlying profit represents restructuring costs

Driving commerce and prosperity through our unique diversity

Supporting expansion in Sri Lanka

MAS Intimates Unichela, one of the largest apparel organisations in South Asia, has been working with us to expand its operations and commercial footprint

We used our strong presence in South Asia, as well as our international banking experience, to help MAS Intimates Unichela grow into an industry leader in the region. From payments and settlements to trade facilities and financing, our services have helped the company expand into countries such as Indonesia and Bangladesh and trade internationally. Our Relationship Managers have been pivotal in providing expert advice to benefit not only MAS Intimates Unichela, but also other businesses across South Asia.

Group Chief Financial Officer's review

Significant improvement in the Group's profitability

Performance summary

The significant improvement in the Group's profitability in 2017 was a direct consequence of the many operational and financial actions taken since 2015 and provides a solid base off which to improve return on equity further over the coming years.

- Statutory profit before tax of $2.4 billion is stated after restructuring and other items of $595 million and was a significant improvement compared to the previous year. All commentary that follows is on an underlying basis unless otherwise stated and a reconciliation between statutory and underlying profit is provided in note 2 of the financial statements in the full Annual Report
- Underlying profit before tax of $3.0 billion was 175 per cent higher year-on-year and 71 per cent higher excluding losses in 2016 in Principal Finance
- Underlying operating income of $14.3 billion was up 3 per cent year-on-year with good momentum across a range of products partly offset by industry-wide low volatility that affected Financial Markets
- Underlying operating expenses of $9.9 billion excluding the UK bank levy were 3 per cent higher year-on-year primarily resulting from the implementation of some significant regulatory programmes and higher variable pay arising from the Group's improved financial performance
- Gross cost efficiencies were delivered ahead of plan and used to fund investments and offset inflation
- The UK bank levy of $220 million was $163 million lower after updating estimates made in previous years. The UK bank levy in 2018 is expected to be around $310 million
- Underlying impairment of loans and advances and other credit risk provisions of $1.2 billion was half the level it was in 2016 reflecting management actions to improve the quality of the Group's portfolios
- Profit from associates and joint ventures of $210 million was significantly higher than in 2016
- The Group incurred net restructuring charges of $353 million taking the total since November 2015 to $3.1 billion with the exit of Principal Finance and the remaining exposures in the liquidation portfolio left to complete
- Other items include goodwill impairment of $320 million following an increase in the discount rate applied to the Group's subsidiary in Taiwan and a $78 million net gain on the disposal of equity investments
- Changes to the US tax regime caused a reduction in the Group's deferred tax assets of $220 million. The underlying effective tax rate excluding the impact of these reforms and tax on other normalised items was 32.0 per cent
- The Group is well capitalised with a Common Equity Tier 1 (CET1) ratio of 13.6 per cent and is highly liquid. Customer loans and advances grew 12 per cent in the year, and liabilities 9 per cent
- The impact of adopting IFRS 9 on 1 January 2018 is an increase in credit provisions of $1.2 billion and, in line with the Group's previous guidance, an estimated decrease in the Group's CET1 ratio by around 15 basis points. Under transitional rules the day-one impact on the CET1 ratio is negligible
- Based on the 2017 balance sheet the Group's early assessment of the impact of final Basel III reforms to be implemented in 2022 is an increase in the Group's risk-weighted assets (RWAs) of 10-15 per cent
- The Board has recommended resuming a dividend given improving financial performance and strong capital starting with a full year dividend for 2017 of 11 cents per ordinary share. The intent is to increase the dividend per share over time as the Group's performance improves

Andy Halford
Group Chief Financial Officer

Underlying profit before tax 175% higher year-on-year

$3.0bn

	2017 $million	2016 $million	Better/(worse) %
Operating income	**14,289**	13,808	3
Other operating expenses	**(8,599)**	(8,465)	(2)
Regulatory costs	**(1,301)**	(1,127)	(15)
UK bank levy	**(220)**	(383)	43
Operating expenses	**(10,120)**	(9,975)	(1)
Operating profit before impairment losses and taxation	**4,169**	3,833	9
Impairment losses on loans and advances and other credit risk provisions	**(1,200)**	(2,382)	50
Other impairment	**(169)**	(383)	56
Profit from associates and joint ventures	**210**	25	nm
Underlying profit before taxation	**3,010**	1,093	175
Restructuring	**(353)**	(855)	nm
Other items	**(242)**	171	nm
Statutory profit before taxation	**2,415**	409	nm
Taxation	**(1,147)**	(600)	(91)
Profit/(loss) for the period	**1,268**	(191)	nm
Net interest margin (%)	**1.6**	1.5	
Underlying return on equity (%)	**3.5**	0.3	
Statutory return on equity (%)	**1.7**	(1.1)	
Underlying earnings per share (cents)	**47.2**	3.4	
Statutory earnings/(loss) per share (cents)	**23.5**	(14.5)	
Dividend per share (cents)	**11**	–	
Common Equity Tier 1 (%)	**13.6**	13.6	

Underlying income

Operating income of $14.3 billion was up 3 per cent year-on-year. Good momentum in Transaction Banking, Wealth Management and Deposits, particularly across Greater China & North Asia, together with higher Treasury income more than offset the impact of industry-wide lower volatility in Financial Markets.

- Corporate & Institutional Banking income was flat year-on-year. Excluding losses incurred in 2016 in relation to Principal Finance, income was 3 per cent lower as the impact of low volatility in Financial Markets more than offset higher income from Transaction Banking
- Retail Banking income was 4 per cent higher year-on-year and 7 per cent higher excluding the impact of exiting Retail Banking in Thailand and the Philippines. The Group's focus on Priority clients resulted in a strong performance in Wealth Management and Deposits. This more than offset the impact of lower margins on unsecured lending to Personal clients
- Commercial Banking income was 3 per cent higher year-on-year with broad based growth in Transaction Banking, Financial Markets and Corporate Finance offsetting lower income from Lending
- Private Banking income was 1 per cent higher year-on-year and 6 per cent higher excluding an insurance recovery booked in the first quarter of 2016. This followed good growth in income from investment products that now account for around 65 per cent of total assets under management
- Income from Central & other items (segment) was 29 per cent higher year-on-year benefiting from a lower interest expense than in 2016. Gains in the first half from active interest rate management and a third quarter dividend from a strategic investment were largely offset by a hedge accounting adjustment in the fourth quarter
- Income from Greater China & North Asia was up 8 per cent year-on-year following a strong performance in Hong Kong and further improvement in Korea
- ASEAN & South Asia income was 5 per cent lower year-on-year. Excluding the impact of Retail Banking business exits, income was 2 per cent lower with improved performances in Retail Banking and Commercial Banking offset by the impact of low volatility in Financial Markets, particularly in Singapore which is a major Financial Markets hub for the region
- Income from Africa & Middle East was broadly stable year-on-year and up 3 per cent on a constant currency basis
- Europe & Americas income was 4 per cent lower year-on-year. The region's status in the Group as a hub for Financial Markets activity meant it was particularly impacted by industry-wide lower volatility. The region is a significant contributor to the Group with around one-third of Corporate & Institutional Banking income originated with clients that are based there

Underlying expenses

Other operating expenses of $8.6 billion were up 2 per cent year-on-year driven primarily by higher variable pay arising from the Group's improved business performance.

Group Chief Financial Officer's review continued

Performance summary continued

Regulatory costs of $1.3 billion were 15 per cent higher year-on-year, reflecting the implementation of a number of significant regulatory programmes.

The UK bank levy of $220 million included a $105 million benefit in relation to changes to estimates made in previous years and as a result was $163 million lower year-on-year. The UK bank levy in 2018 is expected to be around $310 million.

The Group had by the end of 2017 delivered over 85 per cent of its $2.9 billion three-year gross cost efficiency target set in November 2015. This is ahead of plan and has created capacity to fund investments and offset inflation.

Underlying impairment

Loan impairment of $1.2 billion was half the level seen in 2016 benefiting from past actions taken to improve the Group's risk profile. The year-on-year improvement was broad-based by client segment and region. Increases in loan impairment in the fourth quarter related to a small number of Commercial Banking clients the Group had been monitoring for some time and a one-off provision in Retail Banking following a change to regulation in Korea.

Other impairment was lower year-on-year following the Group's decision to exit Principal Finance which in 2017 was reported within restructuring and is therefore excluded from the Group's underlying performance.

Profit from associates and joint ventures

Profit from associates and joint ventures of $210 million reflected an improved performance of the Group's joint venture in Indonesia and the continuing good performance of the Group's associate investment in China.

Profit before tax

As a consequence of the many actions taken since 2015 underlying profit before tax of $3.0 billion was 175 per cent higher year-on-year and 71 per cent higher excluding the impact of Principal Finance losses in 2016. Statutory profit before tax of $2.4 billion which is stated after restructuring and other items was $2.0 billion higher.

These actions have resulted in improved operating profit across most client segments including a significant increase in Corporate & Institutional Banking and good growth in Retail Banking, while Commercial Banking returned to profit. By region, improvement across Greater China & North Asia offset the impact of lower income from the Group's Financial Markets hubs located in ASEAN & South Asia and Europe & Americas. The prior year performance in Central & other items (region) was impacted by Principal Finance losses.

	2017 $million	2016 $million	Better/(worse) %
Corporate & Institutional Banking	**1,261**	435	190
Retail Banking	**873**	766	14
Commercial Banking	**282**	(120)	nm
Private Banking	**(1)**	32	nm
Central & other items	**595**	(20)	nm
Underlying profit before taxation	**3,010**	1,093	175

	2017 $million	2016 $million	Better/(worse) %
Greater China & North Asia	**1,942**	1,340	45
ASEAN & South Asia	**492**	629	(22)
Africa & Middle East	**642**	431	49
Europe & Americas	**71**	(148)	nm
Central & other items	**(137)**	(1,159)	nm
Underlying profit before taxation	**3,010**	1,093	175

Group credit quality and liquidation portfolio

The credit quality of the Group overall has improved year-on-year with the focus on better quality origination within a more granular risk appetite driving improvement across all client segments. The Group remains watchful for emerging risks in view of persistent challenging conditions as well as continued geopolitical uncertainty.

The Group's client exposures are well collateralised, well diversified, and remain predominantly short tenor.

Non-performing loans

Gross non-performing loans (NPLs) in the ongoing business were $573 million higher year-on-year driven by increases related to the downgrade in the fourth quarter of a small number of Corporate & Institutional Banking clients partly offset by write-offs and recoveries in Commercial Banking and lower NPLs in Retail Banking. New inflows into NPLs related primarily to a small number of exposures that the Group had been monitoring for some time in the oil and gas support services sector and in India.

Credit grade 12 accounts

Credit grade 12 accounts were stable year-on-year. Increases in the fourth quarter related to the downgrade of a small number of Commercial Banking exposures in Africa & Middle East to reflect the continued challenging conditions there.

Cover ratio

The cover ratio of NPLs in the ongoing portfolio reduced from 69 per cent at 31 December 2016 to 63 per cent at 31 December 2017. The cover ratio including collateral increased from 74 per cent to 79 per cent over the same period, reflecting the higher degree of collateral held against new inflows into NPLs.

Liquidation portfolio

The Group has made significant progress exiting exposures in the liquidation portfolio having reduced gross NPLs by $1.6 billion since 31 December 2016. The Group has since November 2015 reduced RWAs associated with this portfolio from $20 billion to $815 million. The exposures are 86 per cent covered with net NPLs of $653 million remaining to be exited.

	2017			2016		
	Ongoing business $million	**Liquidation portfolio $million**	**Total $million**	Ongoing business $million	Liquidation portfolio $million	Total $million
Impairment						
Underlying loan impairment	**1,200**	**–**	**1,200**	2,382	–	2,382
Restructuring loan impairment	**42**	**120**	**162**	–	409	409
Statutory loan impairment	**1,242**	**120**	**1,362**	2,382	409	2,791
Loans and advances						
Gross loans and advances	**289,007**	**2,248**	**291,255**	258,396	3,854	262,250
Net loans and advances	**284,878**	**675**	**285,553**	254,463	1,433	255,896
Credit quality						
Gross non-performing loans	**6,453**	**2,226**	**8,679**	5,880	3,807	9,687
Individual impairment provisions	**(3,607)**	**(1,573)**	**(5,180)**	(3,355)	(2,421)	(5,776)
Net non-performing loans	**2,846**	**653**	**3,499**	2,525	1,386	3,911
Credit grade 12 accounts[1]	**1,483**	**22**	**1,505**	1,499	22	1,521
Cover ratio (%)	**63**	**71**	**65**	69	64	67
Cover ratio after collateral (%)	**79**	**86**	**81**	74	80	76
Risk-weighted assets	**278,933**	**815**	**279,748**	265,637	3,808	269,445

1 Includes Corporate & Institutional Banking and Commercial Banking

Restructuring and other items

The Group incurred restructuring charges in 2017 of $353 million relating primarily to the ongoing reduction of the liquidation portfolio and exit of the Principal Finance business as well as redundancy costs. Restructuring charges since November 2015 total $3.1 billion and are in line with guidance with the exit of the Principal Finance portfolio and the remaining exposures in the liquidation portfolio left to complete.

In 2017 as part of its annual assessment the Group incurred goodwill impairment of $320 million related to an increase in the discount rate applied to its subsidiary in Taiwan.

In 2017 the Group realised a $78 million net gain on completion of the disposal of equity investments.

	2017		2016	
	Restructuring $million	**Other items $million**	Restructuring $million	Other items $million
Operating income	**58**	**78**	(85)	337
Operating expenses	**(297)**	**–**	(236)	–
Impairment losses on loans and advances and other credit risk provisions	**(162)**	**–**	(409)	–
Other impairment	**(10)**	**(320)**	(63)	(166)
Profit/(loss) from associates and joint ventures	**58**	**–**	(62)	–
Profit before taxation	**(353)**	**(242)**	(855)	171

Balance sheet and capital

Balance sheet

Net loans and advances to customers were up 12 per cent year-on-year to $285.6 billion with strong and broad-based growth across a range of products including in the fourth quarter. Customer deposits of $411.7 billion were up 9 per cent year-on-year as the Group continued to focus on improving the quality and mix of its liabilities. As a result, the Group's customer advances to customer deposits ratio increased to 69.4 per cent compared to 67.6 per cent as at 31 December 2016.

CET1 ratio

The Group is well capitalised with a CET1 ratio at the end of 2017 of 13.6 per cent. The benefit of profits after a deduction for a dividend was offset by a $10.3 billion increase in RWAs primarily relating to the application of loss given default (LGD) floors for certain exposures to financial institutions. A lower increase is expected in 2018 from the application of LGD floors for certain exposures to corporates.

Group Chief Financial Officer's review continued

Balance sheet and capital continued

IFRS 9

The estimated impact of adopting IFRS 9 on 1 January 2018 is an increase in credit provisions of $1.2 billion and, in line with previous guidance, a reduction in the Group's CET1 ratio by approximately 15 basis points. Under transitional rules some components of IFRS 9 are phased in over five years resulting in a negligible day-one impact on the CET1 ratio. More detail on the impact on loan impairment as well as the classification and measurement of financial instruments is set out in note 41 in the full Annual Report. The Group will publish a transition report ahead of the first quarter 2018 interim management statement.

Final Basel III reforms

In December 2017 the Basel Committee on Banking Supervision published final details of its Basel III reforms. First announced in 2010 as a response to the global financial crisis these reforms seek to restore credibility in the calculation of RWAs and improve the comparability of banks' capital ratios. These reforms that are expected to be implemented in 2022 include changes to the capital calculation methodology for credit and operational risk and introduce constraints on the estimates banks make when they use their internal models for regulatory capital purposes, and, in some cases, remove the use of internal models. National discretion and how these reforms might be transposed into law make it difficult to reliably estimate the impact but based on the 31 December 2017 balance sheet the Group's early assessment is an increase in RWAs of 10-15 per cent.

	2017 $million	2016 $million	Increase / (decrease) $million	Increase / (decrease) %
Loans and advances to banks	**81,325**	74,669	6,656	9
Loans and advances to customers	**285,553**	255,896	29,657	12
Other assets	**296,623**	316,127	(19,504)	(6)
Total assets	**663,501**	646,692	16,809	3
Deposits by banks	**35,486**	37,612	(2,126)	(6)
Customer accounts	**411,724**	378,302	33,422	9
Other liabilities	**164,484**	182,120	(17,636)	(7)
Total liabilities	**611,694**	598,034	13,660	2
Total equity	**51,807**	48,658	3,149	6
Total equity and liabilities	**663,501**	646,692	16,809	3
Advances to deposits ratio (%)	**69.4**	67.6	–	–
Common equity tier 1 ratio (%)	**13.6**	13.6	–	–
Risk-weighted assets	**279,748**	269,445	10,303	4

Summary

We have made encouraging progress transforming the Group with good momentum in key investment areas contributing to significant improvements in both underlying and statutory profits.

Competition remains strong and certain geopolitical tensions are elevated but economic conditions are improving and emerging regulatory clarity has allowed us to resume paying dividends.

It is encouraging to see the improvement in profitability and the increased balance sheet momentum but there is still a long way to go before returns are at acceptable levels. Transitioning to a higher quality income and more sustainable business takes time but we are evidentially heading in the right direction.

We are investing to enhance controls and improve productivity to make us safer and simpler to do business with. Cost efficiencies are funding the investments in systems and processes that will enable us to engage more confidently and effectively with our clients.

The focus now is on ensuring that we share in the natural sectoral growth in our markets through maintaining and developing ever-closer relationships with our clients, further reducing our costs of funds and realising the benefits of our continuing technology investments.

Andy Halford
Group Chief Financial Officer

27 February 2018

Group Chief Risk Officer's review

A refreshed approach to managing risk

2017 was a year of continued progress for the management of risk in the Group. With stronger origination discipline and targeted growth, the Group has seen improved asset quality across our businesses. Loan impairment was lower, and diversification across industry sectors and geographies increased as the Group continued to add new clients selectively. Our focus on embedding a sustainable risk culture and an effective enterprise risk management approach is helping to build a more resilient bank for the benefit of our colleagues, clients and investors.

We have made significant progress in our work to combat financial crime and have increased focus on our cyber risk management capabilities. We recognise that these are continually evolving threats and we cannot stand still in our fight to protect our business and society more generally. In addition we have developed a framework to refine and strengthen our conduct environment, and this will be a key priority in 2018. Risk is a shared responsibility of everyone in the Group, and is an intrinsic part of every decision that we make.

An update on our key risk priorities

Risk management is a dynamic process. Market-wide and company-specific factors constantly reshape our business environment. We have a number of ongoing initiatives that will further enhance the risk management framework and capability of the Group. Here is an update of the progress against our key priorities in 2017.

- **Strengthen the Group's risk culture** – We have made good progress on embedding a strong risk culture and increased focus on frontline ownership of risk, alongside further development of our Enterprise Risk Management Framework. This facilitates more dynamic risk identification and enables us to establish a clear linkage between strategic decision-making and risk management, as well as identifying and managing correlations across risk types
- **Manage and improve information and cyber security** – High-profile security breaches have been a recurring focus in the media headlines and among regulators throughout 2017. We are placing even greater emphasis on improving our defences, creating stronger control frameworks, and expanding intelligence sharing efforts to keep pace with the evolving threats in cyberspace. The Group's deepening network of external partnerships strengthen our own intelligence efforts as well as those across the broader financial services sector. The Group is a founding member of the Cyber Defence Alliance, an external organisation which facilitates information sharing with UK banks and law enforcement; a board member of the Financial Services – Information Sharing & Analysis Center; and a member of the National Cyber-Forensics & Training Alliance, for real-time information sharing and analysis. The Group also operates a Collective Intelligence & Command Centre to coordinate physical and cyber security responses to incidents
- **Enhance the compliance management framework** – We have enhanced our compliance systems and controls, and improved the capability of our compliance resources. We have embedded ownership and responsibility for conduct across our geographic footprint, businesses and functions in a systematic and sustainable manner. We have strengthened our efforts to promote awareness of, and confidence in the Speaking Up Programme including extending our Speaking Up channels to the public

Further details on the Group's Speaking Up Programme can be found in the Directors' report in the full Annual Report

- **Manage financial crime risks** – We are committed to playing our part in the fight against financial crime. We continued to enhance our controls, systems and processes in 2017 as well as continuing to educate and engage all of our people on financial crime risk and the human and social harm of such crimes. The financial crime landscape continues to evolve, and we recognise the need to be vigilant against new and transforming threats as well as adapting to changes in relevant regulation and sanctions regimes. In 2017 we built a dedicated Cyber Financial Intelligence team in the US, and continued our Correspondent Banking Academy initiative across all of the regions in which we operate. This programme seeks to support our clients in enhancing their financial crime controls, and share international best practices and learning materials. In October 2017 we also held our first Financial Crime Risk Management Academy for non-government organisations as part of our 'De-risking through education' initiative. Our collaborative approach enables us

Mark Smith
Group Chief Risk Officer

to continue providing services which are vital to the world economy in a safe and sound way

+ More information about the Group's commitment to fighting financial crime can be found at sc.com/fightingfinancialcrime

→ **Improve the risk and compliance infrastructure** – The Group has multiple initiatives underway to improve infrastructure for compliance risk management, exposure management, data quality, stress testing, operational risk management and reporting. We have also worked to streamline and simplify our processes to serve clients better and drive internal efficiencies

Our risk profile and performance in 2017

The quality of our loan book has improved in 2017, with a focus on better quality new origination driving a stronger portfolio across all business segments, although we remain watchful for any emerging risks. This is aligned to a more granular risk appetite and enterprise-wide risk management approach. Our capital and liquidity positions remain strong, with all metrics above regulatory thresholds. The Group's client exposures remain predominantly short tenor and our portfolio is well diversified across various dimensions.

We have seen a significant decrease in loan impairment across all businesses, with overall loan impairment down 51 per cent to $1.4 billion in the last 12 months.

Overall gross non-performing loans (NPLs) for the Group have reduced as increases in the ongoing book were more than offset by planned reductions in the liquidation portfolio. Gross non-performing loans (NPLs) for the ongoing business increased from $5.9 billion to $6.5 billion in 2017, driven by a small number of exposures in Corporate & Institutional Banking from oil and gas support services and India. The majority of these counterparties were on early alert for an extended period prior to transferring to NPL and do not indicate any new areas of stress for the overall portfolio.

We continue to focus on early identification of emerging risks so that we can manage any areas of weakness on a proactive basis.

The cover ratio of NPLs in the ongoing business reduced from 69 per cent to 63 per cent, and including collateral improved to 79 per cent from 74 per cent.

Global financial markets experienced low volatility and average Group VaR was 19 per cent lower than the previous year at $26 million (2016: $32 million). The largest operational risk loss recognised as at 31 December 2017 relates to the Group's $17.2 million settlement of a United States class action brought against a number of banks concerning foreign exchange benchmark rates.

› Further details of the 2017 risk performance are set out in the Risk update and Risk profile sections in the full Annual Report

An update to our risk management approach

It is critical that our risk management approach continues to evolve and develop to meet the ever-changing risk landscape facing our business, to ensure it remains relevant and effective in generating safe and sustainable performance and growth for the Group. In 2017 we embarked on a key initiative to build out the Enterprise Risk Management function. This allows the Group to identify and manage risks holistically, ensuring the appropriate governance, oversight and information is in place to run a safe, secure and well-controlled organisation. It also strengthens the Group's capabilities to understand, articulate and control the nature and level of risks we take while still effectively serving our clients.

As part of this initiative, a revised Enterprise Risk Management Framework was approved in December 2017, for implementation in 2018. We are continuing to develop a well-defined, healthy risk culture that is understood across the Group, as well as a clear control framework with sharper delineation of responsibilities between the three lines of defence. Further details on the Group's three lines of defence model are set out in the Enterprise Risk Management Framework section in the full Annual Report. We are also formalising the links between our strategy, risk appetite and stress testing to facilitate more dynamic risk identification and develop management processes which clearly integrate risk considerations into strategic decision making.

As part of these changes we have made a number of amendments to our Principal Risk Types. Specifically we have elevated Compliance, Information and Cyber security, Financial crime, and Conduct risk to Principal Risk Types. These were previously incorporated within the risk sub-types under Operational risk. Principal Risk Types are risks that are inherent in our strategy and business model and have been formally defined in the Group's Enterprise Risk Management Framework. The framework provides a structure for the monitoring and control of these risks through the Board-approved Risk Appetite. The Group will not compromise adherence to its Risk Appetite in order to pursue revenue growth or higher returns. The table below shows the Group's Principal Risk Types and how they are managed.

› Further details on Principal Risks are set out in the Risk management approach in the full Annual Report

Principal Risk Types	How these are managed
Credit risk	The Group manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors
Country risk	The Group manages its country cross-border exposures following the principle of diversification across geographies and controls business activities in line with the level of jurisdiction risk
Market risk	The Group controls its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Group's franchise
Capital and liquidity risk	The Group maintains a strong capital position including the maintenance of management buffers sufficient to support its strategic aims and holds an adequate buffer of high quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support
Operational risk	The Group controls operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise
Reputational risk	The Group protects the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight
Compliance	The Group has no appetite for breaches in laws and regulations, recognising that whilst regulatory breaches or non-compliance are unwanted, they cannot be entirely avoided
Conduct	The Group strives to maintain the standards in our Code of Conduct and outcomes of our Conduct Framework, by continuously demonstrating that we "Do The Right Thing" in the way we do business
Information and cyber security	The Group seeks to avoid risk and uncertainty for our critical information assets and systems and has a low appetite for material incidents affecting these or the wider operations and reputation of the bank
Financial crime	The Group has no appetite for breaches in laws and regulations related to Financial crime, recognising that whilst incidents are unwanted, they cannot be entirely avoided

1 Pension risk is now a risk sub-type of Market risk and Strategic risk has been integrated as part of the overall Enterprise Risk Management Framework. Further details of updates to our Principal Risk Types are discussed in the Principal Risks section in the full Annual Report

Principal uncertainties

The revised Enterprise Risk Management Framework will provide a consolidated way of managing risk, and result in more proactive conversations about strategic risk. We have continued to roll out a more granular and well-defined risk appetite which enables our business to grow in a strong and sustainable manner, but we are aware of principal uncertainties on the horizon that are not fully clear and measurable.

Here is a summary of the principal uncertainties that the Group faces, and the steps that we are taking to manage them.

Principal uncertainties[1]	Risk trend since 2016	How these are mitigated/next steps
Geopolitical events, in particular: increase in trade protectionism, Korean peninsula geopolitical tensions, the Middle East political situation and post-Brexit implications	↑	→ We continuously monitor and assess geopolitical events and, where appropriate, manage the impact to the Group and our clients. → We conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible geopolitical events.
Macroeconomic conditions, in particular: moderation of growth in key footprint markets led by China and sharp interest rate rises and asset corrections	↔	→ We have a Business Risk Horizon framework that provides a 12- to 18-month forward view of the economic, business and credit conditions across our key markets, enabling us to take proactive action. → We monitor economic trends and conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible events.
Climate-related physical risks and transition risks[2]	NEW	→ We are developing an approach for assessing energy utilities clients' power generation assets against a range of physical and transition risks, under multiple climate scenarios and a range of time horizons. We are considering how we extend this to other sectors in 2018. → We have made a public commitment to fund and facilitate $4 billion toward clean technology between 2016 and 2020.
Regulatory reviews and investigations, legal proceedings	↔	→ We have invested in improving compliance controls, including increasing the capacity and capability of compliance resources, enhancing systems and controls, and implementing remediation programmes (where relevant). → We are cooperating with all relevant ongoing reviews, requests for information and investigations and we actively manage legal proceedings, including in respect of legacy issues.
Regulatory changes and tax reforms	↔	→ We monitor regulatory initiatives across our footprint to identify any potential impact and change to our business model. → We have established specific regulatory programmes to ensure effective and efficient implementation of changes required by new, or changes in existing, regulations.
New technologies and digitisation	NEW	→ We continuously monitor developments in the technology space affecting the banking sector and the Group Management Team is exploring in more depth our approach to innovation. → We are engaged in a series of initiatives with the aim of building our capabilities to ensure we remain relevant in a position to capitalise rapidly on technology trends.

↑ Risk heightened in 2017 ↔ Risk remained consistent with 2016 levels

1 Principal uncertainties refer to unpredictable and uncontrollable outcomes from certain events and circumstances which may have the potential to impact our business materially

2 Physical risks refer to the risk of increased extreme weather events while transition risks refer to the risk of changes to market dynamics due to governments' response to climate change

Cyber risk now forms part of our Principal Risk Types which we control and mitigate through distinct risk type frameworks, policies and risk appetite.

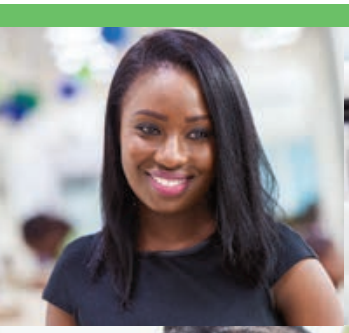
Further details on Principal uncertainties, including key changes in respect of 2016, are set out in the RIsk Management Approach in the full Annual Report

Conclusion

We continue to make strides in building a sustainable franchise in the interests of all our stakeholders. In order to drive commerce and prosperity, our organisation must take a long-term view by putting the needs of our clients first, supported by the right culture, people and practices. Though there will be headwinds along the way, we will continue with our mission to be an industry leader championing trust, integrity and quality.

Mark Smith
Group Chief Risk Officer

27 February 2018



OUR COLLEAGUES

Improving practices in ship recycling

Roger Charles | Director, Environment Social Risk Management | Singapore

Having spent over 15 years working with oil and gas tankers as an engineer, Roger Charles, now a colleague at Standard Chartered, is working to improve practices in one of the world's most hazardous industries: ship recycling.

> "The easy thing would be for Standard Chartered to walk away, but we want to improve conditions."

Ship recycling employs an estimated 200,000 workers in Bangladesh, with around a million people directly or indirectly related to the industry. While it's an important economic growth driver in emerging markets, we recognise that there are environmental and social challenges associated with the industry, including hazardous environments for workers. As a large international bank, we want to do what we can to help improve the industry.

"The easy thing would be for Standard Chartered to walk away, but we want to improve conditions, and we understand that, with industries such as this, it's not going to happen overnight," says Roger.

In return for our lending, the shipyards we work with have agreed to follow internationally recognised environmental, health and safe working practices. This includes providing safety training programmes, protective clothing, fair working hours and regular health checks.

So that we can monitor progress, an independent environmental consultancy audits clients annually, and Roger visits clients at least twice a year. His industry experience means he knows what safety and environmental aspects to look out for and, having once forged a career in building ships, he knows his way around one.

One of our clients, PHP, has just achieved compliance with the Hong Kong Convention, a set of internationally recognised ship recycling standards. It's the first step for Bangladesh to become compliant and Roger sees this as a game changer. "I'm proud to be a part of this team of industry experts. The fact that Standard Chartered employs people like me shows it understands that environmental social management underpins good business."

Stakeholders and responsibilities

Our stakeholders

To drive commerce and prosperity across our footprint, we need to take a long-term view. Listening and responding to stakeholder issues or concerns is critical to achieving this. We strive to maintain open and constructive relationships with a wide range of stakeholders to help us operate as a responsible and sustainable business

We engage in regular dialogue with stakeholders, and track and assess long- and short-term issues based on their impact on our business and level of stakeholder concern. Stakeholder feedback is shared with the senior leaders within the Group and progress is communicated annually through channels such as this report. This helps inform our business strategy and build sound relationships in the markets where we operate.

Our stakeholders

Clients

How we serve and engage

We enable individuals to grow and protect their wealth. We help businesses to trade, transact, invest and expand. We also help a variety of financial institutions – including banks, public sector and development organisations – with their banking needs

Our strategy is dependent on our ability to develop deep, long-term relationships with our clients. We aim to deliver fair outcomes for clients by designing products and delivering services that meet their needs and are appropriate to their circumstances. Where issues arise, we aim to deal with complaints in a fast, fair and efficient way. We have sector-specific procedures and processes in place to handle client complaints in each business segment.

Engagement with clients in 2016, through surveys, client experience forums and third-party studies, identified a need to simplify our processes. As a result, in 2017, we improved the customer experience across our businesses through continued investment in technology innovation and streamlined processes. Client feedback on this indicates we are moving in the right direction.

For more information about our clients, read the Client segment reviews on pages 18 to 21

Regulators and governments

How we serve and engage

We engage with relevant authorities to play our part in supporting the effective functioning of the financial system and the broader economy

We are committed to complying with all legislation, rules and other regulatory requirements applicable to our businesses and operations in the jurisdictions within which we operate. Our compliance with legal and regulatory frameworks across our markets ensures that the Group meets its obligations. In turn, this supports the resilience and effective functioning of the Group and the broader financial system and economy. On a day-to-day basis, our Compliance and Public Affairs functions are responsible for identifying changes to financial services regulation, ensuring that we comply with all requirements, and help to manage relationships.

We actively engage with governments, regulators and policymakers at a global, regional and national level to share insights and technical expertise on key policy issues. This engagement supports the development of best practice and the adoption of consistent approaches across our markets. We comply with all relevant transparency requirements and engage with governments and regulators in many ways, including through ongoing dialogue, submission of responses to formal consultations and by joining and participating in industry working groups.

In 2017, we engaged with policymakers at all levels to exchange information on topics such as prudential rules, Brexit and trade promotion, Fintech, cyber security and fighting financial crime.

COMMUNITY ENGAGEMENT

Empowering girls and young women

More than 130 delegates from the public, private and not-for-profit sectors attended our first Beyond Girls' Education Summit in South Africa in 2017. The event provided insights from advocacy, technology and education programmes including Goal, our programme to empower girls through sports and life-skills training, and generated 45 new commitments to help young women move from education to employment.

Investors

How we serve and engage

We aim to deliver robust returns and long-term sustainable value for our investors

The Group receives capital from equity and debt investors. This supports the execution of our business model. Our investor base includes active traders and long-term stakeholders, those interested solely in financial returns and those who are also concerned with environmental and social issues. As such, we engage with investors about all aspects of our financial, environmental and social performance. Whatever the nature of the investor, we treat them equally and aim to balance their diverse interests and expectations.

We communicate with investors in several ways, including presenting scheduled results and via ad hoc media releases. We also meet investors at the Annual General Meeting and at investor meetings and conferences, while our inclusion in sustainability indices, such as the Dow Jones Sustainability Index and the FTSE4Good, provides investors with independent benchmarking data on our performance in these areas.

During 2017, acting on investor feedback for more access to the people running our businesses, we hosted two investor seminars at our London office. These seminars presented an opportunity to understand better the strategy for our largest geographic region, Greater China & North Asia, and our largest client segment, Corporate & Institutional Banking, and to hear directly from the teams managing them.

For more information about Board engagement with shareholders in 2017, see the Corporate governance section in the full Annual Report

Colleagues

How we serve and engage

We offer colleagues opportunities to learn and progress. We encourage them to improve and innovate, to take ownership of their careers and succeed together

The strength of our diversity

With more than 86,000 colleagues in 63 markets, we are proud to represent the broad range of cultures across the communities we serve. Harnessing the inherent diversity of thoughts, views and experiences across the Group is critical to our business success and fundamental to our purpose. We are committed to creating a work environment that enables our colleagues' diverse strengths to impact our clients and communities.

Our vision is to create a culture of inclusion where talents and individuality are valued and respected, and we are working hard to realise this. Our global Diversity and Inclusion Council ensures we continue our collective focus on creating an organisation where everyone feels supported and empowered.

In 2017, we introduced a standard flexible working practice to ensure all colleagues have the opportunity to choose how they work, whether that is part-time, flexible time, or working from home.

We increased the benefits we offer new parents globally, fully paid maternity leave from a minimum of 40 days to a minimum of 20 weeks, and increasing fully paid parental leave for the spouse or partner increasing from a minimum of two days to two weeks. We also support over 50 country-based employee networks and three Global Networks (Women, Disability and LGBT & Allies). These networks raise awareness and offer professional development, mentoring, networking and connections to our communities.

In 2017, the Board Remuneration Committee agreed a Fair Pay Charter, which sets out the principles that guide all of our reward and performance decision making. One of these principles is our ongoing commitment to rewarding colleagues in a way that is free from discrimination on the basis of diversity, including gender. Full details of our Fair Pay Charter are set out in the Directors' remuneration report in the full Annual Report.

Gender pay gap

We have analysed our gender pay gap for the UK and for four of our major markets. The gender pay gap compares the average pay of men and women, without taking into account some of the key factors which influence pay, including different roles, skills, seniority and market pay rates. Our gender pay gap is caused by the lower number of women in senior roles and in business areas where market rates of pay (both fixed and variable) are highest.

When adjusting the hourly pay gap for men and women carrying out roles at the same level in the same business area across the same markets, the gender pay gap is significantly smaller – ranging from no discernible gap to three per cent.

Equal pay is a more detailed measure of pay equality than the gender pay gap. We also analyse equal pay as part of the annual performance and pay review process globally.

Download our gender pay gap report at sc.com/genderpaygap

	UK	Hong Kong	Singapore	UAE	US
Mean hourly pay gap	30%	33%	39%	31%	24%
Mean bonus pay gap	57%	56%	55%	64%	53%

	UK	Hong Kong	Singapore	UAE	US
Jobs at same level and business area	3%	-1%	2%	0%	3%

Stakeholders and responsibilities continued

Our stakeholders

Colleagues continued

The Group does not discriminate based on gender and we have made progress in addressing the gender pay gap, but we are clear that we have more to do. We have a range of actions in place.

We have signed the UK HM Treasury Women in Finance Charter and are committed to women occupying 30 per cent of our senior leadership roles by 2020. Since signing the Charter, we have seen an increase in female representation in our senior management from 25.5 per cent to 25.7 per cent during 2017. At Board level, 30.8 per cent of members are women and our Management Team is comprised of 42.9 per cent women. Two of our four regions and five of our largest markets – Hong Kong, Singapore, India, China and Nigeria – are run by female CEOs.

Alongside improving our flexible working practices and parental leave, we have built requirements into our policies and processes to ensure that managers are making objective and fair decisions, including gender balanced candidate lists for hiring. We review promotion lists and succession plans to ensure we have adequate diverse representation.

We have also introduced training for managers with the objective of minimising unconscious bias. Beyond gender, we are also committed to ensuring our colleagues are reflective of the communities we serve, including nationality, ethnicity, disability, generations and sexual orientation.

All our diversity and inclusion initiatives, including the management focus on increasing the number of women in senior roles in line with our Women in Finance Charter commitment, implementing flexible working practices globally, providing leadership development and mentoring, and extending our parental leave benefits will help us to improve our diversity in senior management roles and across all our business areas.

Transforming our culture

In 2016, we began the process of transforming our culture – ensuring we become truly focused on our clients, more innovative and efficient in a sector undergoing profound change, as well as being an employer of choice across our markets. In 2017, we engaged with over 70,000 colleagues to determine the valued behaviours that clearly set out how we achieve these goals, and ultimately our purpose to drive commerce and prosperity through our unique diversity. In 2018, we will fully embed these valued behaviours in how we select, on-board, recognise and reward people, beginning with integrating them into our performance management process.

Our aim is to create a truly differentiated working environment and we are committed to measuring progress against this goal. We aim to increase the engagement and retention of our colleagues and mitigate against our key people risk of attrition. We have developed a culture dashboard to track progress against these measures.

Developing colleagues

We continue to focus on the development, engagement and wellbeing of our colleagues and we have maintained a strong focus on talent and succession management.

In 2017, we introduced a talent evaluation tool which was completed for over 22,000 of our colleagues and used as an input to mid-year performance and career conversations. At senior levels, we completed succession plans for 16 roles at Management Team level and their direct reports, and development plans are in place for all individuals appearing on these plans. We successfully completed a regional talent development programme for our Africa & Middle East region, which will act as a blueprint for our development of country, region and global business talent pools.

In 2018, our focus is on building line manager capabilities and developing role-based learning curricula, as well as developing our assessment tools to hire more people internally, with an internal target of filling 70 per cent of Band 4 – Grade 7 roles with internal candidates.

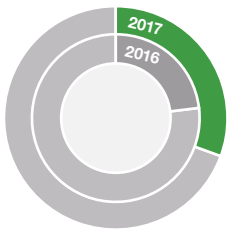
Our efforts to increase the development and career opportunities of our colleagues are reflected in an improvement in our employee Net Promoter Score, which is four percentage points higher year-on-year. We have also started to track satisfaction with development opportunities through our engagement survey and realise there is potential to make more improvements this year.

In 2018, as part of the commitments in our Fair Pay Charter, we will be rolling out a new benefits platform which will empower our colleagues to choose the benefits which most suit their needs. This will accompany our Wellbeing programme, which supports the physical, mental, social and financial health of our colleagues. We have a strong belief that if we treat our colleagues well by looking after all aspects of their wellbeing, they will be happier and more productive at work.

Female representation

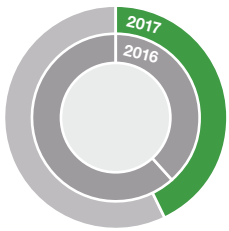
Board

Female 30.8% (2016: 23.1%)



Management Team

Female 42.9% (2016: 38.5%)

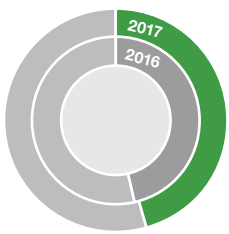


Senior management (Bands 1-4)

Female 25.7% (2016: 25.5%)

All employees

Female 45.8% (2016: 46.4%)



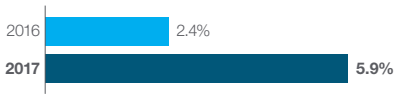
Society

Employee engagement KPI

Employee Net Promoter Score (eNPS)

Aim Increase engagement across the Group by creating a better working environment for our colleagues, that should translate into an improved client experience.

5.9% +146%



The proportion of participating colleagues that are promoters (would recommend the Group as a great place to work) compared to detractors

Analysis In 2017, the first year that the Group introduced this measure, the eNPS was 5.9 per cent, meaning that more participating colleagues would promote the Group than would not.

Diversity and inclusion KPI

Gender diversity in senior roles

Aim Improve gender diversity in the Group's top levels of management by supporting, developing, promoting and retaining senior women colleagues.

25.7% +0.8%

The total number of women in the most senior (band 1-4) roles expressed as a percentage of total band 1-4 roles

Analysis In 2016, we signed the UK HM Treasury Women in Finance Charter and announced an overall target of having women occupy 30 per cent of our top four levels of management by December 2020. The 25.7 per cent result in 2017 was an improvement on 2016 and takes us closer to our target.

How we serve and engage

We strive to operate as a responsible and sustainable business, collaborating with local partners to promote social and economic development

Responsible and sustainable business

This section outlines our response to reporting requirements on environmental and social matters, human rights, and anti-bribery and corruption. We will continue to enhance our reporting on these issues over time.

Our sustainability priorities – contributing to sustainable economic growth, being a responsible company and investing in communities – provide a framework for how we respond to the social and environmental concerns of our stakeholders, and create opportunities to improve livelihoods.

These are supported by 11 Sustainability Aspirations, which set out measurable actions to achieve sustainable outcomes. Aligned to the UN Sustainable Development Goals, the Aspirations were launched in 2017 to help address environmental and social matters identified by stakeholders and colleagues in our key markets. We report progress against the Aspirations in our separate Sustainability Summary.

+ Download our Sustainability Aspirations at sc.com/sustainabilityaspirations

Contributing to sustainable economic growth

We use our core business of banking to promote sustainable development in our markets. This means managing environmental and social risks associated with our lending, and financing key sectors that drive sustainable economic growth.

Our approach to managing environmental and social risks is set out below. Additional information on how we finance the opportunities associated with sustainable development are captured in our Aspirations. They include targets to expand digital and financial inclusion, support infrastructure and clean technology development, and support microfinance institutions.

Managing environmental and social risks

Our most significant environmental and social (E&S) impact comes from the businesses we finance. We have E&S risk management procedures that guide how we identify, assess and manage the risks impacting our clients' operations. We apply sector-specific standards, which draw on the IFC Performance Standards, Equator Principles and global best practice, to the financial services we provide to clients. These are set out in 17 sectoral and three thematic Position Statements that are embedded through our core banking processes.

Mechanisms in our origination and credit processes enable us to identify and assess environmental and social risks in accordance with our Position Statements. In 2017, our dedicated Environmental and Social Risk Management team reviewed 487 transactions that presented potential specific risks against our Position Statements. For all risks identified, we seek to develop effective mitigating measures. Where this is not possible, transactions have been, and will continue to be, turned down.

We work collaboratively with clients, other financial institutions, industry bodies, and civil society groups, to promote, develop and encourage leading E&S standards. In 2017, we engaged with these stakeholders primarily on palm oil and climate change. This dialogue contributed to the update of our Palm Oil Position Statement in 2017.

We continued to advance the commitments set out in 2016 in our Climate Change Position Statement. This includes work with the University of Oxford to develop and implement a framework for assessing energy utilities clients' power generation assets against a range of physical and transition risks, under different climate scenarios and time horizons.

Stakeholders and responsibilities continued

Our stakeholders

Society continued

Additionally, we welcomed the recommendations by the Financial Stability Board's Taskforce on Climate-related Financial Disclosures. We joined a United Nations Environment Programme for Financial Institutions' initiative to develop analytical tools and indicators to strengthen assessment and disclosure of climate-related risks and opportunities.

In 2017, we started a review of all our Position Statements, with updated and revised statements due to be published during 2018.

+ Read our Position Statements at sc.com/positionstatements

Being a responsible company

Being a responsible company is about how we manage our business and promote the behaviours, values and principles that enable us to make the right decisions.

Good conduct management practices are embedded across the Group through our conduct management framework, which sets out our approach to identifying, controlling and governing conduct-related risks. The framework aims to ensure we have appropriate governance in place with a transparent business model, robust infrastructure and exemplary business practices. This creates an environment that supports ethical behaviour. Governance measures support leaders in hiring and recognising colleagues with good conduct, while performance objectives and reward mechanisms for colleagues are directly linked to behaviours and values. Managing the business in this way helps us to achieve fair outcomes for clients, and to operate effective markets.

Colleagues participate in mandatory training on the Group Code of Conduct and in 2017, 99.4 per cent reconfirmed their commitment to the Code as part of our annual process. Failure to adhere to the Code can result in disciplinary action and potentially dismissal.

Our whistleblowing channels are available to anyone – colleagues, contractors, suppliers and members of the public – to raise concerns confidentially and anonymously. Following the re-launch of our Speaking Up programme in late 2016, we have seen an increase in the number of concerns raised, which were investigated accordingly. In 2017, we also introduced Speaking Up Advocates in three pilot countries to help raise awareness and ensure Speaking Up is culturally relevant across our diverse geographic footprint.

+ Download our Group Code of Conduct at sc.com/codeofconduct

Fighting financial crime

Financial crime hinders economic progress and harms communities. We are committed to building and maintaining robust defences to combat money-laundering, terrorist financing, sanctions compliance breaches, bribery, and other forms of corruption.

Our financial crime risk management activities, which include adherence to anti-money laundering and sanctions policies and the application of core controls such as client due-diligence screening and monitoring, are led by a dedicated Financial Crime Compliance (FCC) team. Our anti-bribery and corruption (ABC) policies aim to prevent colleagues, or third parties working on our behalf, from participating in active or passive bribery or corruption, or from making facilitation payments.

In 2017, we strengthened our ABC policies around employing referred candidates, screening suppliers, third-party payments, gifts and entertainment, sponsorship and donations, and risk management of intermediaries. We also extended training for FCC country heads to equip them with better knowledge, skills and tools to manage and oversee ABC risk mitigation activities.

In 2017, 99.3 per cent of colleagues completed ABC training and 99.2 per cent completed anti-money laundering training.

+ For more, visit sc.com/fightingfinancialcrime

Respecting human rights

We are committed to respecting human rights and seek to ensure they are not adversely impacted in our role as an employer, financial services provider and procurer of goods and services. We recognise that our footprint and supply chain give us the opportunity to raise awareness of human rights and modern slavery in a wide range of markets and industries.

Our Position Statement outlines our approach to human rights, reflecting international standards including the International Bill of Human Rights, the UN Guiding Principles, and the UK Modern Slavery Act. This is then embedded across a range of policies and risk management frameworks, including our Group Code of Conduct and Supplier Charter.

In 2017, we reviewed our exposure to modern slavery risks via a cross-function working group, and assessed how these are addressed by our existing controls for colleagues, suppliers and clients. Our 2017 Modern Slavery Statement details the actions we are taking as a result. These include updating contractual language to strengthen supplier obligations to address modern slavery, and incorporating modern slavery awareness into our Correspondent Banking Academy training programme.

+ Read our Supplier Charter at sc.com/supplierscharter and our 2017 Modern Slavery Statement at sc.com/modernslavery

Colleagues who committed to the Group Code of Conduct in 2017

99.4%

Employees who completed anti-money laundering training in 2017

99.2%

Employees who completed anti-bribery training in 2017

99.3%

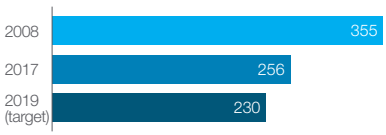
ENVIRONMENTAL PERFORMANCE

Managing our footprint

Our office in Nairobi, Kenya, is trialling a carbon-neutral biofuel for its on-site diesel generators that is made from the abundant, but inedible croton nut. It is one of several initiatives to boost the building's environmental efficiency; others include LED lights and solar photo-voltaic panels to offset power usage, and a water recycling plant to reduce resource use.

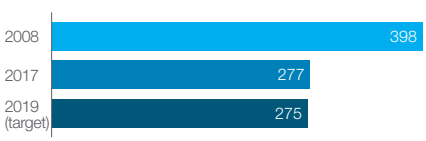
Annual energy use of our property
(kWh/m²/year)

Tropical climate[1]



28% since 2008

Temperate climate[1]



30% since 2008

1. Tropical energy usage relates to cooling; temperate energy usage relates to both heating and cooling

Managing our environmental footprint

We aim to minimise the environmental impact of our operations. Our major impact comes from the resources we consume in serving clients – energy, water and paper – to allow our offices and branches to function, and as such we measure our energy, water, paper and (non-hazardous) waste performance.

We have targets against which we measure and manage our greenhouse gas emissions, and reduction targets for water and energy use. Our reporting criteria sets out the principles and methodology, and our Scope 1 and 2 emissions are independently audited by The Carbon Trust.

Between 2008 and 2017, we reduced energy consumption by 34 per cent by introducing LED lighting, more efficient plant, and by increasing on-site solar generation across our properties. In 2017, greenhouse gas emissions for fuel combustion fell by 42 per cent as we reduced our reliance on diesel generators in those countries with limited access to mains electricity.

We take a responsible approach to sourcing and using water, especially given that its availability is a growing challenge facing our markets. Across the Group, between 2008 and 2017, we reduced water use by 36 per cent by installing low-flow water devices and where appropriate, boreholes and water recycling plants.

We are committed to reducing waste and in 2017 a 'reusable cup' initiative in the Singapore and London offices cut single-use plastic cup use by 100,000 in six months. We avoid sending non-recyclable waste to landfill, instead composting it or using it in energy generation, where possible.

Investing in communities

We seek to promote sustainable economic and social development in our communities. Our programmes focus on health and education. In 2017, we invested $49.8 million in the communities in which we operate. All of our donations are guided by our Sponsorship and Donations Policy.

Seeing is Believing, our flagship global programme to treat avoidable blindness and visual impairment, raised $5.6 million in 2017 through employee fundraising and matching by the Bank. Between 2003 and 2017, Seeing is Believing raised $98.4 million and reached 163.5 million people through medical intervention, screening, training and education.

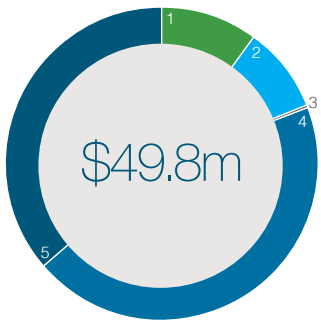
Goal, our programme to empower girls and young women through sport and life-skills training, reflects our belief that education is the foundation for economic opportunity. In 2017, more than 95,000 girls and young women participated in Goal, and the programme reached more than 381,000 girls between 2006 and 2017.

We encourage colleagues to effect positive change in their communities by providing three volunteering days per year, and in 2017, colleagues contributed more than 66,000 days. Through our financial education programmes, we trained more than 117,000 young people and just over 1,500 entrepreneurs in 2017, of whom 90 per cent were women.

Our community expenditure 2017 (%)

1. Leverage[1]	10.0%
2. Management costs	9.0%
3. Gifts in kind (non-cash item)	0.2%
4. Cash contributions	44.5%
5. Employee time (non-cash item)	36.3%

1. Leverage data relates to the proceeds from staff and other fundraising activity



Driving commerce and prosperity through our unique diversity

Building long-lasting relationships in Brazil

One of our biggest success stories in Brazil is our long-standing relationship with LGEBR Treasury Management. They specialise in financial services including: international payments, digital banking, import financing, market trading and legal expertise

How our local market knowledge has helped us build our partnership with LGEBR

We have always used our knowledge of local markets to support LGEBR in developing their brand and grow their customer base in an increasingly competitive market. Over the past 10 years our relationship has strengthened into a strategic partnership built on trust, understanding and an appreciation of local and international economies. Our competitively priced products and services, experienced employees and commitment to a seamless banking experience are just a few of the reasons why LGEBR remain one of our most loyal and valued clients.

Viability statement

Viability

The directors are required to issue a viability statement regarding the Group, explaining their assessment of the prospects of the Group over an appropriate period of time and state whether they have reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due.

The directors are to also disclose the period of time for which they have made the assessment and the reason they consider that period to be appropriate.

In considering the viability of the Group, the directors have assessed the key factors likely to affect the Group's business model and strategic plan, future performance, solvency and liquidity taking into account the principal uncertainties as well as the principal risks.

The assessment has been made over a period of three years, which the directors consider adequate as it is within both the Group's strategic planning horizon and the basis upon which its regulatory capital stress tests are undertaken. The directors will continue to monitor and consider the appropriateness of this period.

The directors have reviewed the corporate plan, the output of the Group's formalised process of budgeting and strategic planning. The corporate plan is evaluated and approved each year by the Board with confirmation from the Group Chief Risk Officer that the Plan is aligned with the Enterprise Risk Management Framework and Group Risk Appetite Statement and considers the Group's future projections of profitability, cash flows, capital requirements and resources, liquidity ratios and other key financial and regulatory ratios over the period, where projections allow. The corporate plan details the Group's key performance measures, of forecast profit, CET1 capital ratio forecast, return on equity forecasts, cost to income ratio forecasts and cash investment projections. The Board has reviewed the ongoing performance management process of the Group by comparing the statutory results to the budgets and corporate plan.

The Group performs enterprise-wide stress tests using a range of bespoke hypothetical scenarios that explore the resilience of the Group to shocks to its balance sheet and business model.

To assess the Group's balance sheet vulnerabilities and so capital and liquidity adequacy, severe but plausible macro-financial scenarios explore shocks that trigger one or more of:

- Global slowdowns, including a China hard landing
- Sharp falls in world trade volumes
- Material and persistent declines in commodity prices
- Financial market turbulence

Under this range of scenarios, the results of these stress tests demonstrate that the Group has sufficient capital and liquidity to continue as a going concern and meet regulatory minimum capital and liquidity requirements.

To assess the Group's business model vulnerabilities, extreme and unlikely scenarios are explored that, by design, result in the Group's business model no longer being viable. Insights from these reverse stress tests can inform strategy, risk management and capital and liquidity planning.

Further information on stress testing is provided in the Risk management approach section in the full Annual Report.

The Board Risk Committee (BRC) exercises oversight of prudential risks on behalf of the Board, including amongst others credit, market, capital, liquidity and funding and operational risks.

It reviews the Group's overall risk appetite and makes recommendations thereon to the Board.

The BRC receives regular reports that inform them of the Group's key risks, as well as updates on the macroeconomic environment, geo-political outlook, market developments, and regulatory updates in relation to capital, liquidity and risk. In 2017, the Committee had deeper discussions on a number of key topics including Principal Finance, Aviation Finance, Funds Transfer Pricing, Credit Risk and Control Mitigants, Financial Markets Strategy Risk Management and Controls and Information and Cyber Security.

Based on the information received, the directors considered the principal uncertainties as well as the principal risks in their assessment of the Group' viability, how these impact the risk profile, performance and viability of the Group and any specific mitigating or remedial actions necessary.

For further details of information relevant to the directors, assessment can be found in the following sections of this report, and in the full Annual Report:

- The Group's Business model (pages 12 to 13) and Strategy (pages 14 to 16)
- The Group's current position and prospects including factors likely to affect future results and development, together with a description of financial and funding positions are described in the client segment reviews and regional reviews (pages 18 to 26)
- An update on the key risk themes of the Group is discussed in the Group Chief Risk Officer's review (pages 33 to 35)
- The BRC section of the Directors' report (pages 69 to 72 in the full Annual Report)
- The Group's Principal uncertainties, sets out the key external factors that could impact the Group in the coming year can be found in the full Annual Report). Note 26, which can be found in the full Annual Report, sets out information relating to legal and regulatory matters
- The Group's Enterprise Risk Management Framework details how the Group identifies, manages and governs risk. It can be found in the full Annual Report
- The Group's Risk profile provides an analysis of our risk exposures across all major risk types. It can be found in the full Annual Report
- The capital position of the Group, regulatory development and the approach to management and allocation of capital are set out in the Capital Review in the full Annual Report

Having considered all the factors outlined above, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment up to 31 December 2020.

Our Strategic report from pages 01 to 45 has been reviewed and approved by the Board

Bill Winters
Group Chief Executive

27 February 2018

Ahmed Nizar

Abhijit Sinha

Jitesh Vijay Bulani

Lama Yammine

Vijay Anand

Wil Thimister

ANNUAL REPORT 2017 PHOTO COMPETITION

Purpose in pictures

Recently, we launched our new purpose statement: Driving commerce and prosperity through our unique diversity. We held a photography competition to encourage our colleagues around the globe to interpret this in their own creative ways, and to celebrate that diversity.

We received over 800 high-quality submissions. After an extremely difficult selection process, six outstanding photographs were selected for the final shortlist. Those six images appear on this page.

The winner of the competition is Wil Thimister, with his entry Fisherman in Banyuwangi, which can be found on the front/back cover of this report along with entries from Jitesh Vijay Bulani and Lama Yammine.

Thank you to everybody who took part in the photography competition. The full list of shortlisted photographers is: **Vijay Anand, Jitesh Vijay Bulani, Ahmed Nizar, Abhijit Sinha, Wil Thimister, Lama Yammine**

On how his entry relates to our purpose, Wil says:

"During the years I have been living in Southeast Asia, I have travelled to many places photographing human interest. The region has a fascinating mix of diverse cultures, religions and people. In my photography, I try to portray their daily lives, their labour, their communities and their beliefs.

Many people from our markets participate in small-scale economic activities, right at the foundation of their societies. My photo, of fishermen at a beach near Banyuwangi in East Java, Indonesia, is an example of this. Once the catch is pulled ashore, it will find its way to the local fish market where middlemen will take care of distribution to other businesses and customers. The money they earn will allow the workers to save for a new fishing net, their children's education or maybe even to invest in a boat.

To me, our purpose statement refers to the fact that we can make a difference to those communities by providing them with a finance infrastructure to support their trade. By doing that, we can help them to build a better life."

Governance overview

"It is incumbent on the Board to ensure that the Group's unique culture and values are further strengthened"

This year we have made positive steps on our journey to improve our financial strength, culture and conduct agenda and ensure these remain on a sustainable footing for the future. This work is ongoing as the external trends impacting the banking sector continue to evolve. The Board has maintained its oversight of the execution of the Group's strategy throughout the year and we remain confident that it will deliver sustainable shareholder value and a stronger organisation for our clients, colleagues, regulators and the communities in which we operate. As part of those discussions the Group's purpose and values were considered and further shaped which has led to our invigorated purpose statement 'Driving commerce and prosperity through our unique diversity'. I believe this typifies the essence of what we stand for and who we are. I remain convinced that Standard Chartered is a force for good in the countries and regions in which we operate and it is therefore incumbent on the Board to ensure that the Group's unique culture and values are further strengthened.

Along with other members of the Board I have continued to travel extensively across our markets during the year, visiting many parts of the network, listening to the views and aspirations of our clients and other stakeholders and seeing first-hand the extent to which the Group is so deeply rooted in the real economy, supporting trade and finance across our many dynamic markets. The opportunities which exist across these markets are substantial and we remain well placed to deliver for our clients, and wider stakeholders. We held four of our Board meetings this year in our markets, Hong Kong, New York, Singapore and Dubai, providing an opportunity for the Board to see how the strategy is translating on the ground and engage directly with our employees, shareholders, clients, regulators and others.

Code Compliance

During 2017 Standard Chartered PLC complied with all of the provisions set out in the UK Corporate Governance Code 2016 and the Hong Kong Corporate Governance Code contained in Appendix 14 of the Hong Kong Listing Rules.

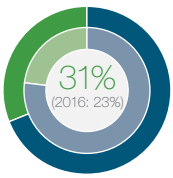
Copies of the UK and Hong Kong Codes can be found at frc.org.uk and hkex.com.hk respectively

BOARD COMPOSITION

Gender diversity

Board

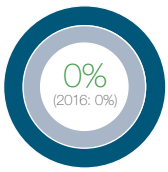
Female 4



Male 9

Executive

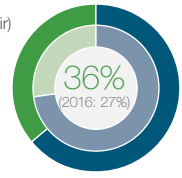
Female 0



Male 2

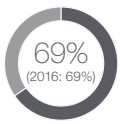
INED (incl Chair)

Female 4

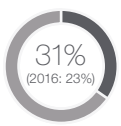


Male 7

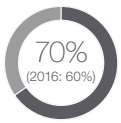
Experience



International experience

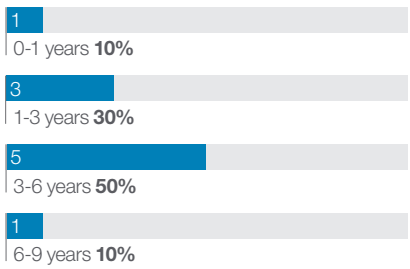


Representation from key markets



Banking, risk, finance, accounting experience amongst INEDs

INED tenure



Further details on the work of the Governance and Nomination Committee can be found in the Directors' report in the full Annual Report

Governance in action

Maintaining the highest standards of corporate governance supports effective decision making and delivery of the strategy.

Full details on the work of the Board and its committees as well as the activities and decisions which they took during the year, can be found in the full Annual Report. These included:

- Undertaking a tender for the Group's statutory auditor. Led by the Audit Committee and in compliance with statutory requirements and guidance issued by the Financial Reporting Council, the tender resulted in the Board's intention to appoint Ernst & Young LLP (EY) as the Group's statutory auditor for the year ending 31 December 2020, subject shareholder approval at the AGM in 2020
- Commissioning an independent externally facilitated review of the Board and its committees, providing an external input into their functioning and identifying areas to enhance their overall effectiveness. The evaluation of the Board and committee effectiveness was conducted in accordance with the UK Corporate Governance Code and the PRA's expectations. It was facilitated by Ffion Hague of Independent Board Evaluation (IBE). Neither Ffion Hague nor IBE has any other connection with Standard Chartered
- Hosting the Group's first Global Chairmen's Conference, creating an opportunity for the Board and the Management Team to hear directly from the Group's subsidiary Chairmen and independent directors on a range of issues important to them, with the aim of jointly developing initiatives that will lead to the strengthening of linkages between the Board and its subsidiaries
- A continued focus on succession planning at a Board and senior management level. The Board's composition was strengthened further with Ngozi Okonjo-Iweala's appointment as an independent non-executive director. Ngozi is an internationally renowned economist and a prominent African leader with experience and expertise at a national governmental level and within international organisations
- Discussions on the structure of the Board led to the decision to separate the roles of Deputy Chairman and Senior Independent Director and the subsequent appointment of Christine Hodgson as Senior Independent Director on 1 February 2018, in addition to her role as Chair of the Remuneration Committee. She took over the role from Naguib Kheraj, who remains as Deputy Chairman and Chair of the Audit Committee

José Viñals
Group Chairman

Board of Directors

Committee Key

- Committee Chair shown in green
- (A) Audit Committee
- (Ri) Board Risk Committee
- (V) Brand, Values and Conduct Committee
- (N) Governance and Nomination Committee
- (C) Board Financial Crime Risk Committee
- (R) Remuneration Committee

José Viñals (63)
Group Chairman

Appointed: October 2016 and Group Chairman in December 2016

Experience: José has substantive experience in the international regulatory arena and has exceptional understanding of the economic and political dynamics of our markets and of global trade, and a deep and broad network of decision-makers in the jurisdictions in our footprint.

Career: José began his career as an economist and as a member of the faculty at Stanford University, before spending 25 years at the Central Bank of Spain, where he rose to be the Deputy Governor. José has held many other board and advisory positions including Chair of Spain's Deposit Guarantee Fund, Chair of the International Relations Committee at the European Central Bank, member of the Economic and Financial Committee of the European Union, and Chair of the Working Group on Institutional Investors at the Bank for International Settlements. José joined the International Monetary Fund (IMF) in 2009 and stepped down in September 2016 to join Standard Chartered PLC. He was the Financial Counsellor and the Director of the Monetary and Capital Markets Department and was responsible for the oversight and direction of the IMF's monetary and financial sector work. He was the IMF's chief spokesman on financial matters, including global financial stability. During his tenure at the IMF, José was a member of the Plenary and Steering Committee of the Financial Stability Board, playing a key role in the reform of international financial regulation.

Committees: (N)

Bill Winters, CBE (56)
Group Chief Executive

Appointed: June 2015

Experience: Bill is a career banker with significant frontline global banking experience and a proven track record of leadership and financial success. He has extensive experience of working in emerging markets and a proven record in spotting and nurturing talent.

External appointments: Bill is an independent non-executive director of Novartis International AG.

Bill Winters also sits on the Management Team

Career: Bill began his career with JP Morgan, where he went on to become one of its top five most senior executives and later co-chief executive officer at the investment bank from 2004 until he stepped down in 2009. Bill was invited to be a committee member of the Independent Commission on Banking, established in 2010, to recommend ways to improve competition and financial stability in banking. Subsequently, he served as an advisor to the Parliamentary Commission on Banking Standards and was asked by the Court of the Bank of England to complete an independent review of the bank's liquidity operations. In 2011, Bill founded Renshaw Bay, an alternative asset management firm, where he was chairman and CEO. He stepped down on appointment to the Standard Chartered PLC Board. Bill was previously a non-executive director of Pension Insurance Corporation plc and RIT Capital Partners plc. He received a CBE in 2013.

Andy Halford (58)
Group Chief Financial Officer

Appointed: July 2014

Experience: Andy has a strong finance background and deep experience of managing complex international businesses across dynamic and changing markets.

External appointments: Andy is a non-executive director at Marks and Spencer Group plc and a member of the Business Forum on Tax and Competitiveness.

Andy Halford also sits on the Management Team

Career: Andy was finance director at East Midlands Electricity plc prior to joining Vodafone in 1999 as financial director for Vodafone Limited, the UK operating company. Andy was later appointed financial director for Vodafone's Northern Europe, Middle East and Africa region, and later the chief financial officer of Verizon Wireless in the US. He was a member of the board of representatives of the Verizon Wireless Partnership. Andy was appointed chief financial officer of Vodafone Group plc in 2005, a position he held for nine years. As Group Chief Financial Officer at Standard Chartered, Andy is responsible for Finance, Corporate Treasury, Group Corporate Development, Group Investor Relations, Property and Supply Chain Management functions.

Naguib Kheraj (53)
Deputy Chairman

Appointed: January 2014 and Deputy Chairman in December 2016

Experience: Naguib has significant banking and finance experience.

External appointments: Naguib is Chairman of Rothesay Life, a specialist pensions insurer, a member of the investment committee of the Wellcome Trust and a member of the Finance Committee of the Oxford University Press. Naguib spends a substantial amount of his time as a senior advisor to the Aga Khan Development Network and serves on the boards of various entities within its network.

Career: Naguib began his career at Salomon Brothers in 1986 and went on to hold senior positions at Robert Fleming, Barclays, JP Morgan Cazenove and Lazard. Over the course of 12 years at Barclays, Naguib served as group finance director and vice-chairman and in various business leadership positions in wealth management, institutional asset management and investment banking. Naguib was also a Barclays' nominated non-executive director of ABSA Group in South Africa and of First Caribbean International Bank. He also served as chief executive officer of JP Morgan Cazenove. Naguib is a former non-executive director of NHS England and served as a senior advisor to Her Majesty's Revenue and Customs and to the Financial Services Authority in the UK.

Committees: A Ri R N C

David Conner (69)
Independent Non-Executive Director

Appointed: January 2016

Experience: David has significant global and corporate, investment and retail banking experience, strong risk management credentials and an in-depth knowledge of Asian markets.

External appointments: David is a non-executive director of GasLog Ltd.

Career: David spent his career in the financial services industry, living and working across Asia for 37 years, for both Citibank and OCBC Bank. He joined Citibank in 1976 as a management trainee and went on to hold a number of Asia-based senior management roles, including chief executive officer of Citibank India and managing director and marketing manager at Citibank Japan, before leaving Citibank in 2002. David joined OCBC Bank in Singapore as chief executive officer and director in 2002. He implemented a strategy of growth and led the bank through a period of significant turbulence. David stepped down as chief executive officer in 2012 but remained as a non-executive director on the board of OCBC Bank, before leaving the group in 2014.

Committees: Ri A N C
David is also a member of the Combined US Operations Risk Committee of Standard Chartered Bank

Christine Hodgson (53)
Senior Independent Director

Appointed: September 2013 and Senior Independent Director in February 2018

Experience: Christine has strong business leadership, finance, accounting and technology experience.

External appointments: Christine is chair of Capgemini UK plc, sits on the board of The Prince of Wales' Business in the Community and is chair of The Careers & Enterprise Company Ltd, a government-backed company established to help inspire and prepare young people for the world of work.

Career: Christine held a number of senior positions at Coopers & Lybrand and was corporate development director of Ronson plc before joining Capgemini in 1997, where she held a variety of roles including chief financial officer for Capgemini UK plc and chief executive officer of technology services for North West Europe. Christine was previously a trustee of MacIntyre Care and was a non-executive director of Ladbrokes Coral Group plc before stepping down in May 2017.

Committees: R A V N C

Jasmine Whitbread (54)
Independent Non-Executive Director

Appointed: April 2015

Experience: Jasmine has significant business leadership experience as well as first-hand experience of operating across our markets.

External appointments: Jasmine is chief executive of London First and a non-executive director of BT Group plc.

Career: Jasmine began her career in international marketing in the technology sector and joined Thomson Financial in 1994, becoming managing director of the Electronic Settlements Group. After completing the Stanford Executive Program, Jasmine set up one of Oxfam's first regional offices, managing nine country operations in West Africa, later becoming international director responsible for Oxfam's programmes worldwide. Jasmine joined Save the Children in 2005, where she was responsible for revitalising one of the UK's most established charities. In 2010, she was appointed as Save the Children's first international chief executive officer, where she led the merger of 14 separate organisations into one management line of 15,000 people across seven regions and 60 countries, while aligning the federation behind a single mission and strategy. Jasmine stepped down from Save the Children in December 2015.

Committees: V R N

Gay Huey Evans, OBE (63)
Independent Non-Executive Director

Appointed: April 2015

Experience: Gay has extensive banking and financial services experience with significant commercial and UK regulatory and governance experience.

External appointments: Gay is a non-executive director of ConocoPhillips and Bank Itau BBA International plc and is deputy chair of the Financial Reporting Council.

Career: Gay spent over 30 years working within the financial services industry, the international capital markets and with the financial regulator. Gay spent seven years with the Financial Services Authority from 1998 to 2005, where she was director of markets division, capital markets sector leader, with responsibility for establishing a market-facing division for the supervision of market infrastructure, oversight of market conduct and developing markets policy. From 2005 to 2008, Gay held a number of roles at Citibank, including head of governance, Citi Alternative Investments, EMEA, before joining Barclays Capital where she was vice chair of investment banking and investment management. She was previously a non-executive director at Aviva plc and the London Stock Exchange Group plc. She received an OBE for services to financial services and diversity in 2016.

Committees: C Ri

Om Bhatt (66)
Independent Non-Executive Director

Appointed: January 2013

Experience: Om has extensive commercial and retail banking experience, financial services and leadership acumen, with deep knowledge and experience of India, one of our largest markets.

External appointments: Om is an independent non-executive director of Hindustan Unilever Ltd, Tata Consultancy Services, Tata Steel Ltd, Tata Motors and Chairman of Greenko Energy Holdings.

Career: Om had a career spanning 38 years with the State Bank of India (SBI), India's largest commercial bank, where he held a number of roles beginning with the lead bank department, which pioneered financial inclusion. He led the project team that pioneered SBI's technology initiative in the 1990s, undertook assignments at SBI's Washington and London offices and held general management roles between 2004 and 2006, becoming managing director of SBI in 2006, culminating in his appointment as chairman of the State Bank Group until he stepped down in 2011. Om was chairman of the Indian Banks' Association and was previously an independent non-executive director of Oil and Natural Gas Corporation.

Committees: Ri V

Dr Louis Cheung (54)
Independent Non-Executive Director

Appointed: January 2013

Experience: Louis has a wide breadth of knowledge and experience of financial services, particularly in a Greater China context.

External appointments: Louis is managing partner of Boyu Capital Advisory Co, a China-focused private equity investment firm, independent non-executive director of Fubon Financial Holding Company and a Fellow and Council Member of the Hong Kong Management Association.

Career: Louis was a global partner of McKinsey & Company and a leader in its Asia Pacific financial institutions practice prior to joining Ping An Insurance Group in 2000. Louis worked in several senior roles at Ping An, including chief financial officer, before becoming group president in 2003 and executive director from 2006 to 2011.

Committees: R

Dr Byron Grote (69)
Independent Non-Executive Director

Appointed: July 2014

Experience: Byron has broad and deep commercial, financial and international experience.

External appointments: Byron is a non-executive director of Anglo American plc, Tesco PLC and is deputy chairman of the supervisory board at Akzo Nobel NV. He is also a member of the European Audit Committee Leadership Network.

Career: From 1988 to 2000, Byron worked across BP in a variety of commercial, operational and executive roles. He was appointed as chief executive of BP Chemicals and a managing director of BP plc in 2000 and had regional group-level accountability for BP's activities in Asia from 2001 to 2006. Byron was chief financial officer of BP plc from 2002 until 2011, subsequently serving as BP's executive vice president, corporate business activities, from 2012 to 2013 with responsibility for the group's integrated supply and trading activities, alternative energy, shipping and technology. Byron was a non-executive director at Unilever plc and Unilever NV before stepping down in 2015.

Committees: (A) (R)

Dr Han Seung-soo, KBE (81)
Independent Non-Executive Director

Appointed: January 2010

Experience: Dr Han is a distinguished economist and has a strong geopolitical background, with valuable knowledge of Asia and its economies.

External appointments: Dr Han sits on a number of advisory boards and is currently the UN Secretary-General's special envoy for Disaster Risk Reduction and Water, special advisor to the High Level Panel on Water co-convened by the UN and World Bank, chair of the High-Level Experts/Leaders Panel on Water and Disaster, chair of the Water Advisory Group at the Asian Development Bank and co-chair of the International Finance Forum of China. Dr Han is non-executive director at Doosan Infracore Co Ltd and Senior Advisor with the Kim & Chang law firm in Korea.

Career: Dr Han is a former Prime Minister of the Republic of Korea. He has a distinguished political, diplomatic and administrative career, serving as deputy prime minister and minister of finance, foreign affairs and industry and trade before serving as prime minister from 2008 to 2009. He also served as Korean ambassador to the US, chief of staff to the president, president of the 56th Session of the United Nations (UN) General Assembly, special envoy of the UN Secretary-General on Climate Change and chairman of the 2009 Organisation for Economic Cooperation and Development Ministerial Council Meeting.

Committees: (V)

Dr Ngozi Okonjo-Iweala (63)
Independent Non-Executive Director

Appointed: November 2017

Experience: Ngozi has significant geopolitical, economic, risk and development experience and expertise at a governmental and intergovernmental level.

External appointments: Ngozi holds a number of prestigious international advisory positions including Lazard and the Asian Infrastructure Investment Bank. She is Chair of GAVI, the Global Alliance for Vaccines and Immunisations. In addition she holds advisory panel and chair positions at a range of global institutions, including charitable foundations, non-governmental organisations and inter-governmental organisations. Ngozi is a member of the G20 Eminent Persons Group reviewing Global Financial Governance and is an ambassador of the Open Government Partnership.

Career: A development economist, Ngozi spent 25 years working at the World Bank in various positions. After leaving in 2003, she served as the Finance Minister of Nigeria from 2003 to 2006. She returned to the World Bank in 2007, serving as a Managing Director until 2011, when she was appointed to the role of Minister of Finance and Coordinating Minister of Economy in the Nigerian government, a position she held until 2015. During her time in government she spearheaded Nigeria's successful programme to obtain debt relief and is credited with developing reforms that helped improve governmental transparency to stabilise and grow the Nigerian economy.

Committees: (V)

Liz Lloyd, CBE (46)
Group Company Secretary

Appointed: Liz was appointed Group Company Secretary in January 2016.

Liz joined Standard Chartered in 2008, initially within Group Compliance, focused on regulatory risk and regulatory relationships, before being appointed as Group Head of Public Affairs, responsible for coordinating the Group's policies and positioning on all political and regulatory matters. In 2013, she was appointed Chief Executive Officer of Standard Chartered Bank Tanzania, a position she held until October 2015. She received a CBE in 2008.

Directors' remuneration report overview

"Recognising continued progress on the execution of our strategy and enhancing fair pay for all of our colleagues"

Key highlights

- Financial and strategic performance in 2017 delivered a Group scorecard outcome of 66 per cent of the maximum
- Executive directors' annual incentives were 61 per cent of fixed remuneration
- 2017 Group discretionary incentives were $1,146 million
- We have developed a Fair Pay Charter to support our objective of delivering fair and competitive remuneration to all colleagues globally

We are making good progress against our strategy, securing the foundations to reposition the Group and improve our financial performance. Capital and liquidity are strong and the Group has delivered an increase of $1,917 million in underlying Profit Before Tax. Overall, the Group scorecard was assessed at 66 per cent of the maximum and is set out in detail in the full Annual Report.

When determining the 2017 remuneration outcomes, the Committee has continued to recognise both the importance of rewarding and incentivising employees to execute the long-term goals and of taking a global approach to remuneration. We are an international employer with wage inflation pressures in many of the emerging markets in which the Group operates.

Group-wide remuneration in 2017

The Committee determined that total discretionary incentives in 2017 should be $1,146 million. This includes annual incentives, long-term incentives and incentives paid to eligible leavers, representing an increase of 10 per cent on 2016. The increase reflects improved financial performance and progress against the Group's strategic objectives as set out in the scorecard. Incentive awards are based on Group and business area performance, assessed using balanced scorecards, and individual performance, which is determined based on each employee's individual achievement, conduct, values and behaviour. The total incentives of the Group are 5 per cent lower than in 2013.

Directors' remuneration in 2017

In May 2016 shareholders approved a new directors' remuneration policy, which is aligned to the Group strategy. Under the policy, executive directors were eligible in 2017 for a maximum annual incentive of 80 per cent of fixed remuneration and a maximum long-term incentive award of 120 per cent of fixed remuneration. The Committee determined that Bill Winters and Andy Halford should receive total annual and long-term incentives of 181 per cent of fixed remuneration (178 per cent in 2016).

The annual incentive outcome for both Bill and Andy was 61 per cent of fixed remuneration based on an assessment of the scorecard and personal performance against their objectives. Long-term incentive plan (LTIP) awards will be granted in March 2018 to Bill and Andy, delivered in ordinary shares with a value of 120 per cent of fixed remuneration at the time of award. These awards will be subject to the satisfaction of long-term performance measures, which are assessed after three years.

During the year, feedback was received from shareholders on the targets in the 2017-19 LTIP. The Committee recognises that the return on equity (RoE) target range in the 2017-19 LTIP is not an acceptable end goal but a staging point in the planned improvement. Target setting is thoroughly reviewed every year. The performance measures for 2018-20 LTIP awards will remain one-third RoE (plus Common Equity Tier 1 (CET1) underpin), one-third relative total shareholder return (TSR) and one-third strategic measures. The targets for the 2018-20 LTIP awards were considered carefully, to ensure they are realistic, challenging and relevant to the Group's strategy over the three-year performance period. The RoE target range for the 2018-20 LTIP is 6 per cent to 9 per cent. More detail on the 2018-20 LTIP awards can be found on page 89 of the full Annual Report.

LTIP awards and underpin shares granted to Andy Halford in March 2015 will not pay out in March 2018 as the performance measures have not been met. Bill Winters did not participate in the March 2015 LTIP.

Directors' remuneration in 2018

After a review of fixed remuneration for 2018, it was determined that there will be no change for Bill Winters. For Andy Halford it was noted there had been no change to his fixed remuneration since his appointment in June 2014. Taking into account his development in the role over that time and benchmarking data for global peers, the Committee awarded a salary increase to Andy of just under 5 per cent, from £850,000 to £890,000 with effect from 1 April. No change was made to his fixed pay allowance (FPA). There is therefore an increase to his fixed remuneration of 3 per cent. In making the decision, the Committee also took into account the average salary increase made to the broader employee population since 2014, which was, on average, 4 per cent each year. The Committee will continue to review fixed remuneration annually.

The structure of directors' remuneration will remain unchanged in 2018. We will propose a new remuneration policy to shareholders at the 2019 AGM. I look forward to meeting with shareholders during 2018 and hearing your views.

Christine Hodgson
Chair of the Remuneration Committee

Our Fair Pay Charter

Attracting, retaining and incentivising high-quality employees is essential to delivering on our purpose and executing the strategy. In support of this the Committee has overseen the development of a Fair Pay Charter during 2017. The Charter sets out the principles we will use to determine and deliver pay for all employees globally, including senior management and executive directors.

1. We commit to pay a living wage in all our markets by 2020 and seek to go beyond compliance with minimum wage requirements
2. We provide an appropriate mix of fixed and variable pay and a core level of benefits to ensure a minimum level of earnings and security to colleagues and to reflect the Group's commitment to wellbeing
3. We support colleagues in working flexibly, in ways that balance both business needs and their personal circumstances, and provide colleagues with the opportunity to select the combination and level of benefits that is right for them
4. Pay is well administered with colleagues paid accurately, on time and in a way that is convenient
5. We provide a competitive total fixed and variable pay opportunity that enables us to attract, motivate and retain colleagues based on market rates for their role, location, performance, skills and experience
6. The structure of pay and benefits is consistent for colleagues based on their location and role, with a clear rationale for exceptions
7. We are committed to rewarding colleagues in a way that is free from discrimination on the basis of diversity, as set out in our Group Code of Conduct
8. We ensure pay decisions reflect the performance of the individual, the business they work in and the Group, and recognise the potential, conduct, behaviours and values demonstrated by each individual
9. We set clear expectations for how colleagues are rewarded and the principles guiding decisions, including clear personal objectives and feedback
10. We provide clear communication of pay and performance decisions, and seek feedback and input from colleagues on our pay structures and outcomes

In developing the Charter the Committee has sought to create a framework which supports our objective of delivering fair and competitive remuneration to all colleagues globally. The Charter reflects our existing remuneration approach in many areas, but also sets some new, stretching goals which will take a number of years to reach. The Group has already started work to implement these new objectives and more is planned for 2018:

- During 2017 we introduced a global flexible working policy to support our colleagues in managing the boundaries between home and work life, supporting individuals who sometimes need to work remotely, vary the time of their working day, or consider part-time hours or job shares. We also increased our minimum standards of parental leave globally. These changes have already had an impact in increasing employee engagement and boosting productivity
- In support of our commitment to reward colleagues in a way that is free from discrimination, equal pay assurance is part of our annual performance management and remuneration review. During 2017, we implemented a globally consistent process for conducting equal pay assurance, supported by improved analytics. Outcomes from our 2017 equal pay review by gender were reviewed by the Management Team and the Committee
- Our current approach is to pay colleagues' salaries at a market competitive level for their individual role, skills and experience. In our Charter we commit to ensure that all colleagues receive salaries at or above the living wage in each of our respective markets by 2020. 96 per cent of colleagues are based outside of Europe & Americas, in many locations where living wages are not currently clearly defined. During 2018 we will review our approach to setting living wages in each of our markets to support this Charter commitment
- We currently provide all colleagues with benefits, based on the practice in each local market. In 2018, we will start a four-year programme to redesign our benefits offering in each country. Treating everyone fairly (regardless of seniority, age or personal circumstances) is one of the key aims, as is giving employees more choice on a wide range of benefits to suit their individual needs

Variable remuneration awarded to executive directors in respect of 2017

The annual incentive for 2017 is based on the Group scorecard outcome of 66 per cent of the maximum and the executive directors' personal performance in their respective areas of responsibility. Executive directors will also receive an LTIP award of 120 per cent of fixed remuneration, subject to an RoE target (with CET1 underpin), a relative TSR target and a combination of strategic measures focused on the delivery of the strategy.

	W T Winters		A N Halford	
	2017	2016	**2017**	2016
Annual incentive (£000)	**1,678**	497	**1,039**	308
Annual incentive as a percentage of fixed remuneration	**61%**	18%	**61%**	18%
LTIP award (value of shares subject to performance conditions) (£000)	**3,312**	4,416	**2,051**	2,734
LTIP award as a percentage of fixed remuneration	**120%**	160%	**120%**	160%
Total variable remuneration as a percentage of fixed remuneration	**181%**	178%	**181%**	178%

Executive directors' annual incentive awarded in respect of 2017

The Committee followed a three-step process for determining annual incentive awards. More detail can be found in the Directors' remuneration report in the full Annual Report.

1. Consider eligibility

The Committee considered each executive director's values, behaviour and conduct during 2017. Each director had exhibited an appropriate level of conduct and was deemed to have met the gateway requirement to be eligible for an incentive.

2. Evaluate performance against the Group's scorecard

At the end of 2017, the Committee reviewed both financial performance and achievement against the Group's strategic priorities, as outlined at the start of the year in the 2017 annual incentive scorecard. The Group's performance compares favourably to last year and the Committee noted that significant progress was made in financial returns and in executing the strategy to stabilise and reposition the Group. The scorecard outcome was assessed at 66 per cent, as summarised below.

Performance measures	Weighting	Scorecard outcome
Total income[1]	10%	5%
Operating profit[1]	10%	10%
RoE[2] plus CET1 underpin	20%	20%
Improve customer deposits	10%	5%
Strengthen foundations in risk and control	10%	6%
Focus on clients and growth, and drive cross-bank collaboration	12.5%	4%
Improve efficiency, productivity and service quality	10%	6%
Embed innovation, digitisation and analytics	7.5%	4%
Invest in people, strengthen culture and conduct	10%	6%
Total	**100%**	**66%**

1 Total income and operating profit were based on an underlying basis. Income, costs and impairment and resulting operating profit relating to identifiable business units, products or portfolios from the date that have been approved for restructuring, disposal, wind down or redundancy as a consequence of the Strategy Review announced 3 November 2015 are presented as restructuring and excluded from the underlying results of the Group. This includes realised and unrealised gains and losses from management's decisions to dispose of assets as well as residual income, direct costs and impairment of related legacy assets of those identifiable business units, products or portfolios

2 RoE was based on profit attributed to ordinary shareholders, adjusted, on a tax-effected basis, for profits or losses of a capital nature, restructuring charges, amounts consequent to investment transactions driven by strategic intent and infrequent/exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period. CET1 underpin was set at the higher of 12 per cent or the regulatory minimum

3. Assess personal performance and finalise awards

As outlined in the policy, the Committee has the ability to make an upwards or downwards adjustment to the scorecard outcome for personal performance, consistent with the approach for employees participating in the Group Total Variable Compensation plan. When considering whether such an adjustment is appropriate, the Committee considers the particular areas of responsibility of the executive director together with the specific objectives that they were asked to prioritise for the year and their personal contribution to the scorecard outcome. The adjustment will usually be in the range of +/- 10 percentage points to the scorecard outcome.

The Committee assessed Bill as having outstanding personal performance during 2017 against his objectives and in role modelling the values and behaviour expected by the Board.

Through his leadership the Group has further secured the foundations with significantly improved financial performance and progress on the Group's strategic priorities. Taking this into account alongside the scorecard outcome, the Committee considered an adjustment of 10 percentage points to be appropriate and decided to award an annual incentive of 76 per cent of the maximum, equating to 61 per cent of fixed remuneration.

Key achievements for Bill Winters

- Bill has role modelled the values and behaviour expected, setting a strong tone from the top which has been critical in setting the right culture across the organisation
- Bill personally contributed to the culture refresh, specifically the launch of the new purpose and refresh of the Group's valued behaviours
- Significant progress was made on improving operational excellence, delivering agreed plans to simplify decision making, improve accountability and client centricity in internal processes
- Succession plans in place for the top two tiers of management, and 750 leaders enrolled in the first phase of new leadership development programmes
- Maintained effective and constructive working relationships with our regulators and their representative bodies

The Committee assessed Andy as having excellent personal performance as measured against his objectives and in demonstrating the values and behaviour expected by the Board. His energy and focus have driven a number of operational efficiencies which have positively impacted results. Taking this into account alongside the scorecard outcome, the Committee considered an adjustment of 10 percentage points to be appropriate and decided to award an annual incentive of 76 per cent of the maximum, equating to 61 per cent of fixed remuneration.

Key achievements for Andy Halford

- Andy demonstrated high standards of values and behaviour, which has supported the culture refresh and made a significant contribution to the quality of Board and the Management Team discussions and decision making
- Efficiency targets were exceeded, and excellent progress made in delivering agreed Finance programmes
- Andy integrated the Group's balance sheet, liquidity and capital management activities and delivered Group and business strategy plans in line with the targets set
- Andy has built a strong talent pipeline in 2017 and delivered agreed people targets, with succession plans in place across the top two tiers of management for functions within his portfolio
- Maintained effective and constructive working relationships with our regulators and their representative bodies

Long-term incentive plan awards to be granted in March 2018

LTIP awards for the 2017 performance year will be granted to Bill Winters and Andy Halford in 2018 with a value of 120 per cent of fixed remuneration (£3.3 million and £2.1 million respectively). Recent changes to remuneration regulations for banks mean that dividend equivalent shares are not permitted to be awarded on vesting. The number of shares awarded in respect of the LTIP will take into account the lack of dividend equivalents (calculated by reference to market consensus dividend yield) such that the overall value of the award is maintained. These awards will vest in five annual tranches beginning after the third anniversary of the grant, (i.e. March 2021 to March 2025) subject to meeting the performance measures set out on page 56 at the end of 2020. All vested shares are subject to a 12-month retention period.

Performance measures for the 2018-20 executive director long-term incentive plan

Conduct gateway requirement to be met in order for awards to vest

Appropriate level of individual values and conduct exhibited

Measure	Weighting	Amount vesting (as a % of total award)	Threshold performance target	Maximum performance target
1. RoE[1,2] in 2020 plus CET1 underpin of the higher of 12% or the minimum regulatory requirement	One-third	→ Maximum – 33.3% → Threshold – 8.3% → Below threshold – 0%	6%	9%
2. Relative TSR[3] against peer group	One-third	→ Maximum – 33.3% → Threshold – 8.3% → Below threshold – 0%	Median	Upper quartile
3. Strategic measures a) Strengthen foundations in risk and control b) Focus on clients and growth, and drive cross-bank collaboration c) Improve efficiency, productivity, and service quality d) Embed innovation, digitisation, and analytics e) Invest in people, strengthen culture and conduct	One-third	→ Maximum – 33.3% → Minimum – 0% → Performance against each component of the scorecard will be assessed by the Committee using proof points to determine the percentage of the award that may vest	→ Maintain effective and sustainable anti-money laundering (AML) and sanctions controls → Successfully deliver cyber risk management plan → Improve client satisfaction rating → Deliver client growth in target segments → Improve productivity → Deliver growth in digital volumes → Drive innovation through new products, solutions and services for clients → Improve scores against employee engagement and culture of inclusion metrics → Improve management diversity	

1 RoE will be based on profit attributed to ordinary shareholders, adjusted, on a tax-effected basis, for any fair value changes relating to gains/losses on disposals, exceptional transactions and restructuring gains and losses, expenses, impairments that are significant or material in the context of the Group's normal business for the period. Normalised RoE normally excludes regulatory fines but, for remuneration purposes, this would be subject to review by the Committee

2 If RoE reaches 6 per cent, then 8.3 per cent of the award vests. If RoE reaches 9 per cent then 33.3 per cent of the award vests. If RoE is between the threshold and maximum, vesting is calculated on a straight-line basis between these two points

3 Relative TSR is measured against a comparator group. If the Group's TSR performance is at least equivalent to the median ranked company then 8.3 per cent of the award vests. If the Group's performance is at least equal to the upper quartile ranked company then 33.3 per cent of the award vests. Between these points, the Group's TSR is compared to that of the comparators positioned immediately above and below it and straight-line vesting applies for TSR performance between these set points

Single total figure of remuneration for the executive directors

This table sets out salary, fixed pay allowances (FPA), benefits and pensions received in 2017, annual incentives receivable in respect of 2017 and LTIP awards vesting based on performance periods ending in 2017. All figures are in £000s.

	W T Winters		A N Halford	
	2017	2016	**2017**	2016
Salary	**1,150**	1,150	**850**	850
Fixed pay allowances	**1,150**	1,150	**519**	519
Pension	**460**	460	**340**	340
Benefits	**245**	135	**109**	111
Annual incentive award	**1,678**	497	**1,039**	308
Vesting of LTIP awards	**–**	–	**0**	–
Total	**4,683**	3,392	**2,857**	2,128

Under the terms of his contract and the directors' remuneration policy, Bill Winters is entitled to the use of a car and driver and support with the preparation of his annual tax returns, alongside other benefits stated below. The material increase in Bill Winters' benefits year-on-year is due to the inclusion of the full year benefit of the car and driver and his 2015/16 tax return preparation fees in the 2017 figure. Bill Winters joined the Group on 1 May 2015 so his 2016 benefits figure included part-year use of a car and driver during the 2015/16 tax year and no tax return preparation fees (these fees are a taxable benefit in the tax year following the preparation of the returns).

The year-on-year change in the annual incentive figure is in part due to the change to the mix of incentives as set out in the policy. The annual incentive opportunity in 2017 was 80 per cent of fixed remuneration, compared to 40 per cent in 2016. The remainder of the increase was due to the improvement in the Group's performance and the executive directors' personal performance.

Additional information on the elements of remuneration in the single total figure table

→ FPAs are paid in shares, subject to a retention period and released over five years. The number of shares allocated is determined by the monetary value of the allowance and the prevailing market price of the Group's shares on the date of allocation. FPAs are not variable remuneration

→ Executive directors receive benefits, such as private medical cover, life assurance, permanent health insurance, a cash benefits allowance and the use of a company vehicle and driver for business purposes. Executive directors occasionally use a Group car service for travelling and their partners may travel to attend Board or other similar events. The Group covers any tax liability that arises on these benefits. The 2017 benefits figures shown are in respect of the 2016/17 tax year. This is consistent with the reporting of similar benefits in previous years

→ Executive directors' annual incentive awards in respect of 2017 will be delivered 50 per cent in cash paid in March and 50 per cent paid in shares subject to a minimum 12-month retention period. Any award will be subject to malus and clawback for up to 10 years

Designed and produced by Friend
www.friendstudio.com

Printed by Park Communications on FSC® certified paper.

Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average, 99% of any waste associated with this production will be recycled.

This document is printed on Revive 50 silk, a paper containing 50% recycled fibre (25% post-consumer and 25% pre-consumer) and 50% virgin fibre sourced from well-managed, responsible, FSC® certified forests. The pulp used in this product is bleached using an elemental chlorine free (ECF) process.

This document is fully recyclable.

© Standard Chartered PLC.
All rights reserved.

The STANDARD CHARTERED word mark, its logo device and associated product brand names are owned by Standard Chartered PLC and centrally licensed to its operating entities.

Registered Office: 1 Basinghall Avenue, London EC2V 5DD.
Telephone +44 (0) 20 7885 8888.

Principal place of business in Hong Kong: 32nd Floor, 4-4A Des Voeux Road, Central, Hong Kong.

Registered in England No. 966425.

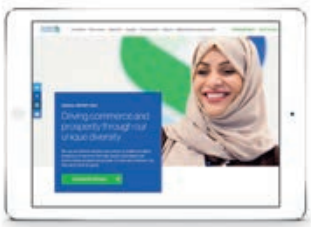
CONTACT INFORMATION

Global headquarters

Standard Chartered Group
1 Basinghall Avenue
London, EC2V 5DD
United Kingdom

telephone: +44 (0)20 7885 8888
facsimile: +44 (0)20 7885 9999

Digital Annual Report and Accounts



sc.com/annualreport

Shareholder enquiries

ShareCare information
investors.sc.com/shareholder
0370 702 0138

ShareGift information
sharegift.org
020 7930 3737

Registrar information

UK
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol, BS99 6ZZ
0370 702 0138

Hong Kong
Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong
computershare.com/hk/investors

Indian Depository Receipts
Karvy Computershare Private Limited
Karvy Selenium Tower B, Plot 31-32
Gachibowli, Financial District
Nanakramguda
Hyderabad 500032, India

Chinese translation

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Register for electronic communications

investorcentre.co.uk

LSE Stock code: STAN.LN
HKSE Stock code: 02888
BSE/NSE Stock code: STAN.IN

Standard Chartered