



Standard Chartered is a leading international banking group

Our heritage and values are expressed in our brand promise, Here for good. Our operations reflect our purpose, which is to drive commerce and prosperity through our unique diversity.

We offer banking services that help people and companies prosper across Asia, Africa, Europe, the Americas and the Middle East.

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About this report

Sustainability reporting

We adopt an integrated approach to corporate reporting, embedding non-financial information throughout our Annual Report. More information is also available in our Sustainability Summary at sc.com/sustainabilitysummary

Alternative performance measures

The Group uses a number of alternative performance measures in the discussion of its performance. These measures exclude certain items which management believes are not representative of the underlying performance of the business and which distort period-on-period comparison. They 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

Belt & Road Relay

The photographs on the cover of this Annual Report were taken during our Belt & Road Relay, which took place over 90 days from February 2019. Eight employees, representing our four regions, ran across 44 markets in the world's first global running event of its kind. Read more on page 58.

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 Mainland 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 Angola, Bahrain, Botswana, Cameroon, Côte d'Ivoire, Egypt, The Gambia, Ghana, Iraq, Jordan, Kenya, Lebanon, Mauritius, Nigeria, Oman, Pakistan, Qatar, Saudi Arabia, Sierra Leone, South Africa, Tanzania, the United Arab Emirates (UAE), Uganda, Zambia and Zimbabwe.

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

Delivering our strategy

We have continued to execute our refreshed strategic priorities, which were announced in February 2019. We have made good progress in the year and we are on track to deliver our objectives. We gauge our annual progress against a set of Group key performance indicators (KPIs), a selection of which are shown below, as well as client segment KPIs, some of which are shown on pages 22 to 25. Our Group KPIs include non-financial measures reflecting our continued commitment to integrate sustainability across our business by focusing on sustainable finance, being a responsible company and promoting inclusive communities.

Our 11 Sustainability Aspirations, aligned to the UN Sustainable Development Goals, provide tangible targets to drive sustainable business outcomes.

Throughout this report, we use these icons to represent the different stakeholder groups for whom we create value.



Clients

Regulators &
governments

Investors



Suppliers



Society



Employees

Read more on page 17 and 43-56

FINANCIAL KPIs

Return on tangible equity

6.4% 130bps
Underlying basis

4.8% 320bps
Statutory basis

Read more on page 7

Common Equity Tier 1 ratio

13.8% 39bps
Within our 13-14% range

Read more on page 7

Total shareholder return

20.2%

Read more on page 7

NON-FINANCIAL KPIs

Diversity and inclusion: women in senior roles

28.5% 0.8%

Read more on page 48

Sustainability Aspirations met or on track

93.1% +2%

Read more on page 43

OTHER FINANCIAL MEASURES

Operating income

\$15,271m 2%
Underlying basis

\$15,417m 4%
Statutory basis

Read more on page 30

Profit before tax

\$4,172m 8%
Underlying basis

\$3,713m 46%
Statutory basis

Read more on page 30

Earnings per share

75.7 cents 14.3 cents
Underlying basis

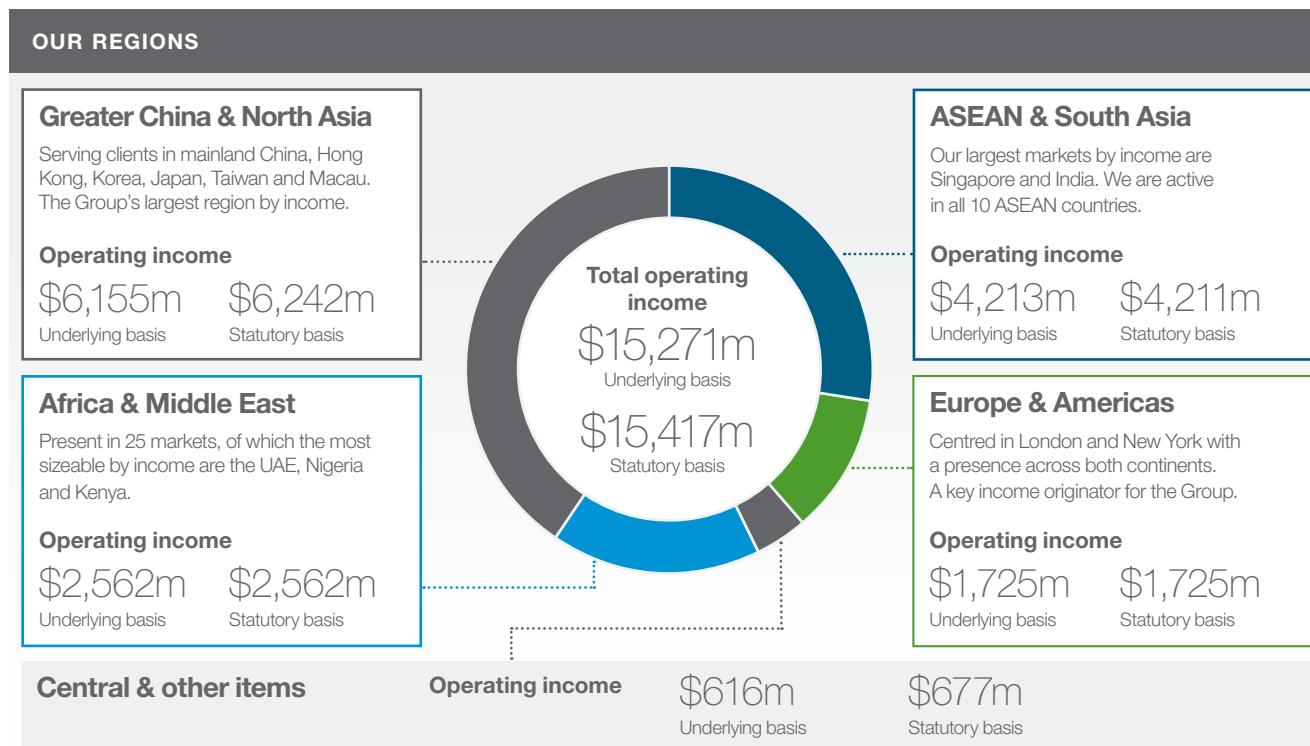
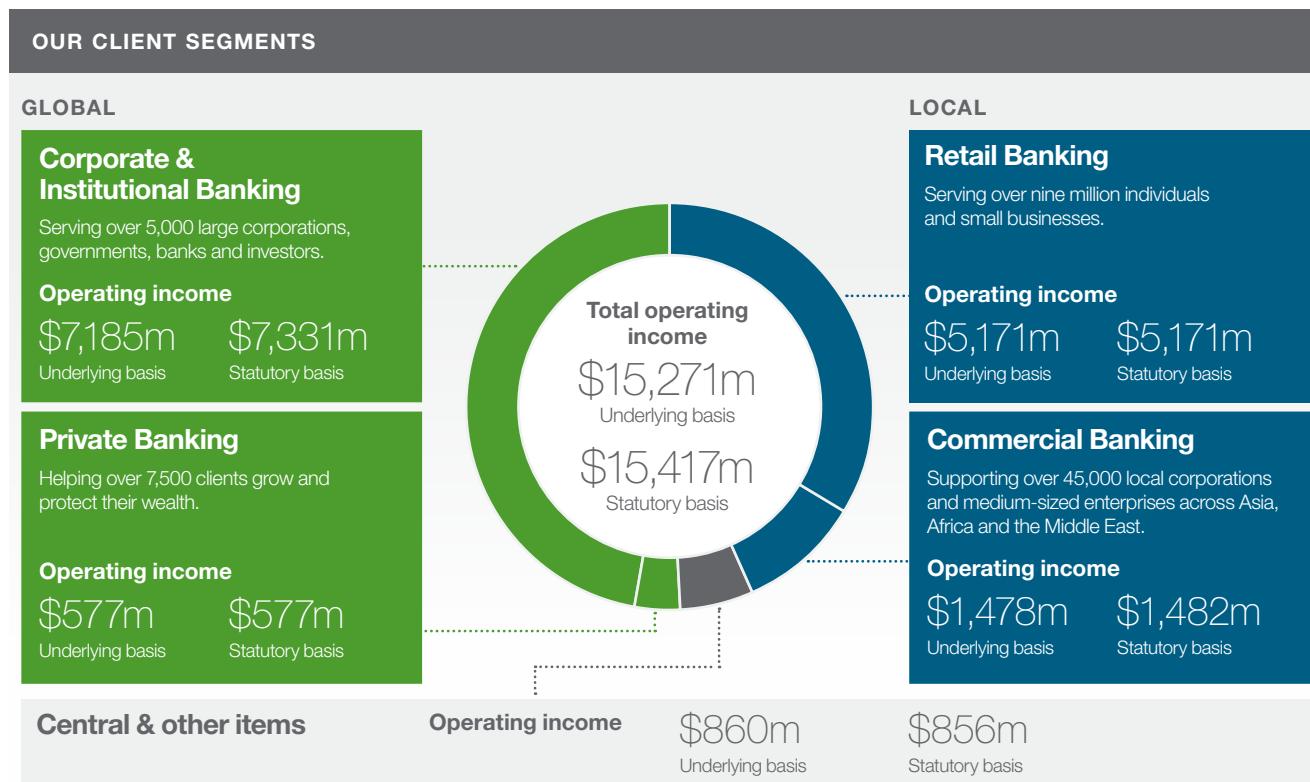
57.0 cents 38.3 cents
Statutory basis

Read more on page 30

Who we are and what we do

At Standard Chartered our purpose is to drive commerce and prosperity through our unique diversity. Our businesses serve four client segments in four regions, supported by nine global functions.

How we are organised



Guiding and supporting our businesses

GLOBAL FUNCTIONS

Our client-facing businesses are supported by our global functions, which work together to ensure the Group's operations run smoothly and consistently with our legal and regulatory obligations, our purpose and our Risk Appetite.

Human Resources

Maximises the value of investment in people through recruitment, development and employee engagement.

Legal

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

Technology & Innovation

Responsible for the Group's systems development and technology infrastructure.

Risk

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.

Operations

Responsible for all client operations, end-to-end, and ensures the needs of our clients are at the centre of our operational framework. The function's strategy is supported by consistent performance metrics, standards and practices that are aligned to client outcomes.

Group CFO

Comprises seven support functions: Finance, Treasury, Strategy, Investor Relations, Corporate Development, Supply Chain and Property. The leaders of these functions report directly to the 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 Internal Audit

An independent function whose primary role is to help the Board and Executive Management to protect the assets, reputation and sustainability of the Group.

Conduct, Financial Crime and Compliance

Enables sustainable business by delivering the right outcomes for our clients and our markets by driving the highest standards in conduct, compliance and fighting financial crime.

VALUED BEHAVIOURS

Our valued behaviours demand that we do things differently, in order for us to succeed. Only then will we realise our potential and truly be Here for good.

Never settle

- Continuously improve and innovate
- Simplify
- Learn from your successes and failures



Better together

- See more in others
- "How can I help?"
- Build for the long term



Do the right thing

- Live with integrity
- Think client
- Be brave, be the change



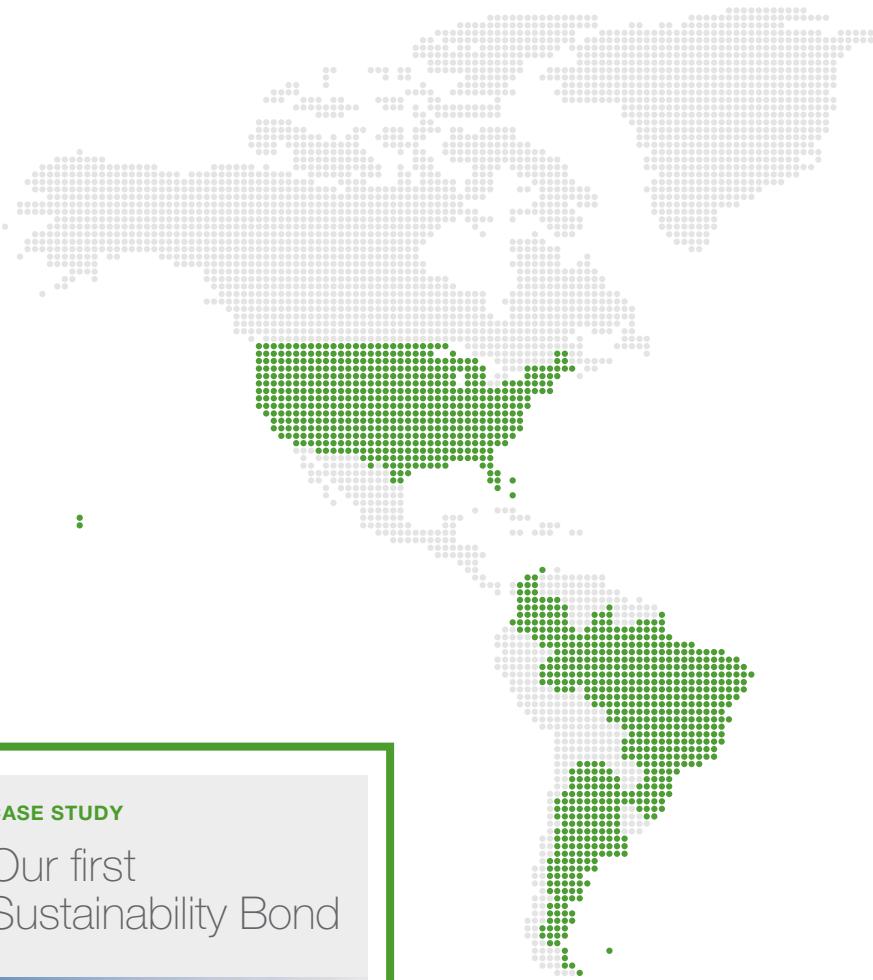
Where we operate

We are present in 59 markets and serve clients in a further 85

We make the most of our deep roots in rapidly developing Asian, African and Middle Eastern local markets to seek out opportunities at every turn.

We have been operating in these markets for more than 160 years, supporting better lives by providing banking where and when it matters most.

We place a particular focus on supporting customers who trade, operate or invest across our unique footprint. What sets us apart is our diversity – of people, cultures and networks.



Europe & Americas

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.

| | |
|------------------|---------|
| Argentina | Ireland |
| Brazil | Jersey |
| Colombia | Sweden |
| Falkland Islands | Turkey |
| France | UK |
| Germany | US |
| Guernsey | |

➤ See more on page 29

CASE STUDY

Our first Sustainability Bond



ASEAN & South Asia

We are the only international bank present in all 10 ASEAN countries. With meaningful operations across many key South Asian markets, we are in a strong position to be the 'go-to' banking partner for our clients.

| | |
|------------|-------------|
| Australia | Myanmar |
| Bangladesh | Nepal |
| Brunei | Philippines |
| Cambodia | Singapore |
| India | Sri Lanka |
| Indonesia | Thailand |
| Laos | Vietnam |
| Malaysia | |

 See more on page 27

CASE STUDY

Innovating with Castrol India



Greater China & North Asia

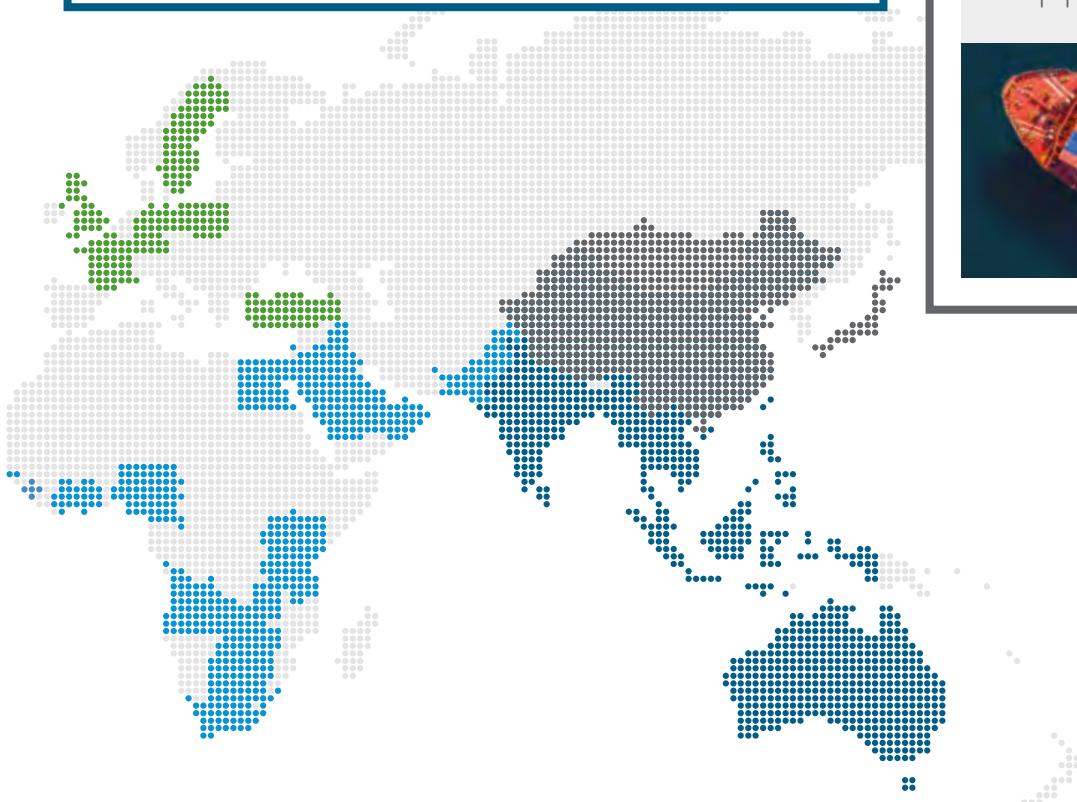
Greater China & North Asia generated the largest share of the Group's income in 2019, at 40 per cent.

| | |
|----------------|--------|
| Mainland China | Korea |
| Hong Kong | Macau |
| Japan | Taiwan |

 See more on page 26

CASE STUDY

Sustainable shipping



Africa & Middle East

We have a deep-rooted heritage of over 160 years in Africa & Middle East and are present in 25 markets. We are present in the largest number of sub-Saharan African markets of any international banking group.

| | | |
|---------------|--------------|--------------|
| Angola | Jordan | Sierra Leone |
| Bahrain | Kenya | South Africa |
| Botswana | Lebanon | Tanzania |
| Cameroon | Mauritius | UAE |
| Côte d'Ivoire | Nigeria | Uganda |
| Egypt | Oman | Zambia |
| The Gambia | Pakistan | Zimbabwe |
| Ghana | Qatar | |
| Iraq | Saudi Arabia | |

 See more on page 28

CASE STUDY

Infrastructure and clean tech



Group Chairman's statement

Driving more profitable and sustainable growth



José Viñals
Group Chairman

"We delivered the Group's fourth consecutive year of improvement in return on tangible equity"

I have been clear since I joined the Group that to increase our returns over the medium term, we need to grow income in a strong, safe and sustainable manner, while maintaining both cost and capital discipline. Together with my Board colleagues, I have also fully supported the Management Team's drive to improve our resilience to external shocks, while helping ensure excellent governance and the highest ethical standards.

The transformation that is underway is creating a more efficient and agile organisation with higher growth potential. As a result, despite the challenging global macroeconomic and geopolitical environment in 2019 we continued to make progress and delivered the Group's fourth consecutive year of improvement in our key performance measure: return on tangible equity.

We are on track to digitise our business and form strategic collaborations: we launched digital banking platforms in a further eight markets in Africa; received a coveted licence to launch a standalone virtual bank in Hong Kong; and boosted our corporate banking capabilities through a series of partnerships with Linklogis, IBM and SAP Ariba.

We are making big strides in sustainable banking by pioneering new products and delivering several world firsts, including blue bonds to help protect our oceans and

deposits designed to finance sustainable development. Not only are we offering investors access to dynamic markets, but giving them an opportunity to put their money to work addressing some of the world's biggest long-term threats including climate change, health, financial inclusion and education.

We are living our Here for good promise and continue to stand behind the communities we operate in, not just giving back but also in building a better tomorrow for the next generations:

- We rolled-out Futuremakers by Standard Chartered to tackle inequality and promote economic inclusion in our communities. We contributed \$9 million through fundraising and Group donations in this first year, which sets us on our way towards achieving our \$50 million target by 2023
- Our innovative Belt & Road Relay, through 44 markets across our unique network, was a great success. Some of the girls involved in Goal, our girls' empowerment programme, joined the runs taking place in our Africa & Middle East region, and the relay leg in Saudi Arabia was the first ever mixed gender race in the country – an historic event that reflects our support for gender balance around the globe

"We are making big strides in sustainable banking by pioneering new products and delivering several world firsts"

Improving our potential

The Group's longer-term growth potential has continued to improve. After having secured our foundations, we have resolved legacy conduct and control issues, allowing full focus on executing the strategic priorities that we refreshed last year. We are starting to convert our potential into real, sustainable growth, which our positive results across all segments and regions demonstrate.

We of course still have much to do. As an organisation we have become more open to change but need to press on; and our productivity and cost of funds could be improved further. But the refreshed priorities include clear plans which are addressing these issues.

More resilient

There were several reminders in 2019 as well as in the first weeks of this year of the importance of the progress we have made improving our resilience to external shocks. Just to name the most significant ones: the ups and downs in the US-China trade negotiations, the social unrest in Hong Kong and the recent novel coronavirus (Covid-19) outbreak.

Geopolitics and societal change – often interlinked – have become more uncertain than ever, often conducted via social media. This means that instability and rapid change are becoming the new normal. We must constantly assess and adapt to significant change – a skill I see as being core to the Group's DNA. We have a long track record in serving the areas of the globe that have undergone the most radical changes over the past 100 years.

I am very proud of how our team in Hong Kong dealt with the social unrest there last year; and am equally proud of how colleagues in that region and globally are pulling together currently to respond to the impact of the coronavirus outbreak.

Our risk management framework that includes non-financial risks has been fundamentally overhauled in recent years, and we have built strong capital and liquidity positions. This means we can face an uncertain future confidently, while we continue to expand our capabilities to keep pace with evolving threats such as cyber and financial crime.

It is easy to dwell on the negatives, but it is important not to forget the incredible opportunities that exist in our footprint. For example, while the US-China trade dispute rumbles on, many of our clients have learned to live with – and in some cases benefit from – the uncertainty. We have seen supply chains move and adapt to the new realities, often to our benefit as China trades

and invests more within Asia, Africa and the Middle East.

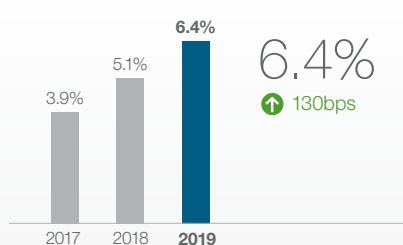
Our markets have plenty of growth potential, reflecting rapid industrialisation and relatively young and hard-working populations. Against this backdrop, our strength and the opportunity will come from continuing to focus on what we can control, and what we do best.

Enhanced governance and culture

I commissioned an externally facilitated Board effectiveness review in the middle of the year, which concluded that overall we continue to demonstrate good governance and our Board is operating effectively.

Financial KPIs

Underlying return on tangible equity (RoTE)

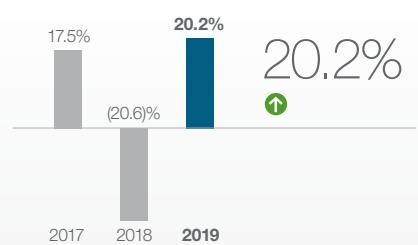


Aim Deliver sustainable improvement in the Group's profitability as a percentage of the value of shareholders' tangible equity.

Analysis Underlying RoTE of 6.4 per cent in 2019 was an improvement on 5.1 per cent in 2018 but further progress is required.

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

Total shareholder return (TSR)*



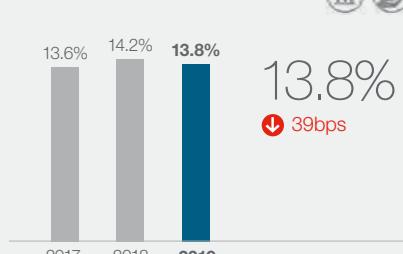
Aim Deliver a positive return on shareholders' investment through share price appreciation and dividends paid.

Analysis The Group's TSR in the full year 2019 was positive 20.2 per cent, compared to negative 20.6 per cent in 2018.

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

* In our 2018 Annual Report, we incorrectly stated our 2017 and 2018 TSR figures. These have been corrected in the above chart

Common Equity Tier 1 ratio



Aim Maintain a strong capital base and Common Equity Tier 1 (CET1) ratio.

Analysis The Group's CET1 ratio was 13.8 per cent, within our 13-14 per cent target range. The decrease in the ratio is predominantly due to the share buy-back of \$1bn completed in 2019.

The components of the Group's capital are summarised on page 236

Group Chairman's statement continued

Recognition Awards 2019

The annual Standard Chartered Recognition Awards put the spotlight on colleagues who bring our valued behaviours – Never settle, Better together, Do the right thing – to life, delivering outstanding outcomes for the business. The awards reinforce that driving our performance depends as much on how we do things as what we do.

In 2019, 38 finalists from across the Group joined the Group Chairman and the Management Team at a two-day event in Kenya, where they had the opportunity to share more details about

their inspiring stories. Their achievements really impressed the judging panel, and showcased individuals and teams who showed passion, drive, courage, and leadership. Obstacles and challenges were overcome by a determination to do something important for the benefit of our clients, communities, business, or all three.

It was an extremely tough decision to choose the winners, but the judges did settle on three outstanding examples of Never settle, Better together and Do the right thing.

Winners



Putting a client's need first

Prince Ofori Nyarko



Never settle



Syndicated Letters of Credit Programme

Better together



From left:
Fretta DeSilva, Filipe Mossmann, Thiago Gama, Daniel Guiotti, Clara Souza



Women in Tech Incubator Programme **Do the right thing**

From left:
Helen Nangonzi, Khadija Hashimi, Sarah Oyungu, Sumeet Singla, Dayo Aderugbo



While in Kenya the finalists also participated in a Futuremakers values workshop for girls involved in our Kenya Goal education programme.



Of course, there are always areas for improvement, and these are detailed in the Directors' report section of the Annual Report.

I continue to visit many markets across our network, and it is clear to me that we have some of the most dedicated, diverse, inspiring and creative individuals in the industry who uphold our valued behaviours and endeavour to deliver the very best for our clients and the Group.

Dividend and share buy-backs

As Andy will explain later in this report, our results in 2019 show good progress on the medium-term financial objectives that he and Bill laid out at the start of the year. The Board has accordingly declared a final ordinary dividend of 20 cents per share, which would result in a full-year dividend for 2019 of \$863 million or 27 cents per share, a 29 per cent improvement on 2018.

This return to shareholders is in addition to the \$1 billion of surplus capital that we used to buy and cancel existing ordinary shares last year. And with our common equity tier 1 capital ratio back near the top end of our 13-14 per cent target range, we are pleased to announce the decision to purchase a further \$0.5 billion worth of ordinary shares starting shortly.

Moving forward

The Group continued to move forwards and upwards in 2019 despite the external uncertainties. The team has stayed on track to deliver a solid performance and through it all, has exhibited great focus, discipline and resilience.

There is still much to be done and while external conditions are likely to be more challenging in the near-term we remain excited by the opportunities that lie ahead.

The Board will continue to oversee the task of striking the right balance between maximising opportunities on the one hand and maintaining appropriate risk controls on the other. I am convinced this will allow us to improve returns in a strong, safe and sustainable manner.

José Viñals
Group Chairman

27 February 2020

Group Chief Executive's review

Delivering on our commitments



This time last year, I said that Standard Chartered stood at an inflection point, poised for sustainable and higher-returning growth. Guided by the refreshed strategic priorities we set for ourselves in 2019, we are now delivering on that promise.

By maintaining discipline on the things within our control and keeping a sharp focus on the areas in which we are most differentiated, we grew underlying earnings per share 23 per cent and generated a further significant improvement in our return on tangible equity (RoTE). This is despite volatile geopolitics and lower interest rates.

We also passed several strategic milestones, demonstrating our ability to execute at pace. Highlights include obtaining one of the first virtual bank licences in Hong Kong, successful completion of the Group's first ever share buy-back – our next will start shortly – and agreeing to sell our stake in our Indonesian joint venture, Permata. We also resolved in April our previously disclosed investigations in the US and UK into historical sanctions and financial crime controls issues.

From turnaround to transformation

Every client segment and region grew income last year on a constant currency basis and each managed to do so at a faster rate than costs, but the numbers only tell part of the story. In parallel, we made tangible progress against each of our strategic priorities.

- We are supporting trade and investment by delivering our global network to our corporate and institutional clients
- We are growing our affluent client business, helping our individual clients prosper
- We have stepped up our digitisation and innovation efforts, transforming how we serve our customers and – in the process – being recognised at the Global Finance Awards as the World's Best Consumer Digital Bank
- We made encouraging progress and in aggregate grew operating profits in four large markets where we are focused on optimising returns
- We have launched several initiatives to improve productivity that are delivering positive results. For example, our new legal entity structures in Hong Kong and Singapore are already allowing us to better deploy our strong capital and liquidity to generate income more efficiently

Bill Winters
Group Chief Executive

"We passed several strategic milestones, demonstrating our ability to execute at pace"

Group Chief Executive's review continued

Culture and sustainability

Last year, we articulated an aspiration to drive an inclusive, innovative performance culture that emphasises sustainability and conduct.

We are making good progress improving the day-to-day experience of our customers, our colleagues and the communities in which we operate. And we have set out how we can lead the way on many globally important issues, leveraging the unique diversity of our people, products, and network.

Emerging markets will be the most affected by climate change and have the greatest opportunity to leapfrog to new low-carbon technology, but there has not been sufficient investment into this sector across emerging markets in Asia, Africa and the Middle East. We are part of the solution in bridging what the UN estimates to be a \$2.5 trillion a year funding gap.

Our refreshed Sustainability Aspirations reinforce our commitment to the UN's Sustainable Development Goals (SDGs). We are taking bold and ambitious actions in a number of areas:

- Having met our previous \$4 billion target early, we increased our aspiration for funding and facilitating renewable energy to \$35 billion from 2020 to the end of 2024
- We will only support clients who actively transition their business to generate less than 10 per cent of their earnings from thermal coal by 2030, and will review our activities within other industries generating substantial CO₂ emissions
- We are targeting net zero emissions and to use only renewable energy sources by 2030
- We have launched a number of innovative sustainable finance products linked to the SDGs

These themes speak directly to that for which Standard Chartered stands: we are Here for good.

Conclusion and outlook

We improved our RoTE by 130 basis points to 6.4 per cent in 2019. This is decent progress, especially considering an increasingly challenging external environment:

- Interest rates continue to fall, putting pressure on our net interest income despite ongoing efforts to improve our cost of funding
- The global economy is still driven disproportionately by markets in our footprint, but is growing at a slower pace than before
- China and the US only recently passed the first phase of what is likely to be a drawn-out process to resolve their differences
- Our largest market, Hong Kong, tipped into recession, driven by a combination of the extended US-China trade dispute, slower economic growth in China and local social unrest
- And more recently, the outbreak of the novel coronavirus (Covid-19) comes with unpredictable human and economic consequences

These external challenges will mean that income growth in 2020 is likely to be lower than our anticipated 5-7 per cent medium-term range, and that it will take longer to achieve our 10 per cent RoTE target than we previously envisaged. I want to be clear, though, that we continue to target RoTE above 10 per cent; this remains the minimum hurdle rate we use to run the business and is the least I expect from this franchise. However, it is important that we do not jeopardise our recently secured foundations. Nor will we sacrifice achieving our medium-term objectives to satisfy shorter-term financial targets. We remain sensitive to external conditions generally and recognise that these could as easily recover as worsen. We are prepared for moves in either direction.

"We are in the right markets guided by the right strategy"

We will continue to invest in areas of our competitive strength in 2020 and will not compromise on the quality of the income we generate. If the external environment means our top-line grows more slowly then so will our costs, and if there are fewer opportunities to effectively deploy surplus capital to fuel incremental high-returning growth then we will have more to return to shareholders. We have improved our RoTE every year since 2015 and we are focused on doing so again this year through maintaining positive income-to-cost jaws and disciplined capital deployment.

We have taken significant steps to reshape our business and we are prepared to take further action if the dampening external factors turn out to be more structural or long-lasting. But I believe the factors that are likely to create economic headwinds in 2020 will turn out to be transitory. The synchronised global policy easing that started earlier in 2019 should stimulate growth but there is always a lag. And on top of this monetary support, China and India – by far the two biggest drivers of global growth – have fiscal levers to deploy to underpin growth.

As we continue to transform Standard Chartered this year, we will welcome challenge, adapt swiftly and be uncompromising in our pursuit of high performance. A perfect example of this in 2019 was how colleagues adapted to the disruption in Hong Kong to maintain their client focus in the second half of the year; truly exemplifying our valued behaviours.

We are in the right markets, guided by the right strategy and united through our purpose to drive commerce and prosperity. I am confident that we have set ourselves up for lasting success.



Bill Winters
Group Chief Executive

27 February 2020

Invested in 2019¹**\$1.6bn**

2018: \$1.6bn 2017: \$1.5bn

¹ Regulatory, strategic, cyber and system investments**Proportion of Retail Banking income generated from Priority clients****48%**

2018: 47% 2017: 45%

Proportion of Retail Banking clients that are digitally active**54%**

2018: 49% 2017: 45%

Management Team

- | | | | |
|---|---|---|---|
| 1. Bill Winters, CBE Group Chief Executive | 5. David Fein Group General Counsel | 8. Judy Hsu Regional CEO, ASEAN & South Asia | 11. Tracey McDermott, CBE Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime & Compliance |
| 2. Andy Halford Group Chief Financial Officer | 6. Dr Michael Goriz Group Chief Information Officer | 9. Tanuj Kapilashrami Group Head, Human Resources | 12. Mark Smith Group Chief Risk Officer |
| 3. Tracy Clarke Regional CEO, Europe & Americas and CEO, Private Bank | 7. Benjamin Hung Regional CEO, Greater China & North Asia and CEO, Retail Banking, and Wealth Management | 10. Sunil Kaushal Regional CEO, Africa & Middle East | 13. David Whiteing Group Chief Operating Officer |
| 4. Simon Cooper CEO Corporate, Commercial and Institutional Banking | | | 14. Alison McFadyen* Group Head, Internal Audit |



* Alison represents Group Internal Audit as an invitee at Management Team meetings

Market environment

Macroeconomic factors affecting the global landscape

Global macro trends



Trends in 2019

- Global growth slowed in 2019, likely growing at 3.0 per cent, weaker than the 3.8 per cent growth witnessed in 2018
- Asia continued to be the main driver of global growth though growth slowed here as well
- Amongst the majors, the US was an outperformer, supported by a strong labour market though growth slowed as the impact of earlier fiscal stimulus faded
- The euro-area economy growth likely eased to 1.1 per cent in 2019 from 1.9 per cent in 2018 on the back of global trade slowdown and Brexit uncertainty
- Major central banks eased policy to guard against rising recession risks



Outlook for 2020

- Global growth is expected to stabilise around 3 per cent in 2020, the slowest pace of growth since the 2008-09 global financial crisis (GFC) though well above growth seen in the GFC years
- Asia will remain the fastest growing region in the world and will continue to drive global growth, expanding by more than 5 per cent
- Our core scenario is that the novel coronavirus (Covid-19) outbreak will be contained by late March, paving the way for a Q2 recovery. However, the evolution of the coronavirus situation globally remains a key uncertainty
- Monetary and fiscal policy support will cushion the negative coronavirus impact but will not be able to fully compensate for the deadweight loss to growth that is likely in Q1
- There are several downside risks to this outlook including escalation of US-China trade tensions or a geopolitical event risk resulting in an oil price spike

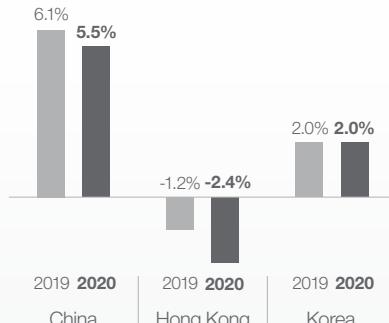


Medium-term and long-term view

- 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
- 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 growth prospects for emerging markets
- Emerging countries will have to focus on education and upskilling to meet the threat of rising joblessness due to automation

Greater China & North Asia

Actual and projected growth by country in 2019 and 2020

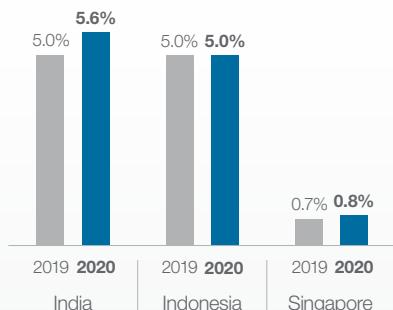


- China's economy grew by 6.1 per cent in 2019, we expect it to slow to 5.5 per cent for 2020 due to the drag on production and consumption from the coronavirus outbreak
- The US-China trade tensions and the property sector are sources of downward pressure on China's economy
- A few positive factors should help offset these headwinds. These include government infrastructure spending, a recovery in the industrial inventory cycle and the lagged impact of a pick up in total social financing
- The People's Bank of China (PBoC) is expected to further cut the required reserve ratio (RRR) to support growth, in addition to the fiscal stimulus such as tax benefits and subsidies for SMEs
- Hong Kong is likely to see a deeper recession of -2.4 per cent in 2020 after the -1.2 per cent growth in 2019. The deeper recession will reflect the impact of the coronavirus outbreak and a slowdown in China on an economy already hurt by social unrest
- We expect South Korea's economy to grow by 2 per cent in 2020 as growth is hurt by the coronavirus outbreak especially in the first quarter. Monetary and fiscal policy is likely to be eased from Q2 to support growth

➤ See our regional performance on page 26

ASEAN & South Asia

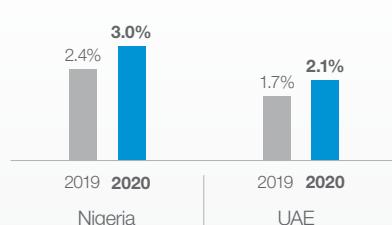
Actual and projected growth by country in 2019 and 2020



- ASEAN growth will be hurt by the coronavirus outbreak but will still be one of the fastest growing regions in 2020
- We expect Singapore to grow by 0.8 per cent in 2020, unchanged compared to 2019. Growth will stay weak due to the impact of the coronavirus outbreak. We expect the central bank to ease policy to support growth
- The growth outlook remains supported by domestic demand – especially government infrastructure spending – in some countries such as Indonesia and the Philippines
- India witnessed a broad-based slowdown in 2019, with growth likely slipping from 6.1 per cent in 2018 to 5.0 per cent in 2019
- India is likely to see a gradual recovery to 5.6 per cent in 2020 given challenges in the financial sector, sluggish private investment and limited policy levers domestically

Africa & Middle East

Actual and projected growth by country in 2019 and 2020



- Growth in Sub-Saharan Africa (SSA) is likely to accelerate in 2020 from a weak base, despite global headwinds
- Non-oil growth will support a strong recovery in Nigeria
- Renewed US-Iran tensions have raised the geopolitical stakes in MENAP with likely spill-overs into the rest of 2020
- OPEC+ cuts constitute a downside risk to oil exporters' recovery in growth in 2020. A sustained expansion in the non-oil economy will depend on fiscal support
- We expect Dubai's hosting of EXPO 2020 to provide a one-off boost to UAE's growth by helping lift UAE's non-oil growth to c3 per cent
- Unlike other regions, there is not much of a dovish wave in SSA. Amid greater risk aversion, central bankers are increasingly wary of capital outflows

Europe & Americas

Actual and projected growth by country in 2019 and 2020



- US growth is likely to weaken towards trend growth in 2020. Domestic growth is likely to be sluggish given a slowdown in China, the Boeing shutdown and uncertainty related to the US presidential elections. Growth will be supported by a strong labour market and consumer spending
- Fed easing in 2019 is also likely to support growth in 2020. We expect the Fed to remain on hold through 2020 though it could cut rates early if necessary depending upon the evolution of the coronavirus situation
- In 2020, political risks may intensify as the US heads into elections
- For the euro-area, weaker China demand due to the coronavirus outbreak will be a drag on growth while lower oil prices will be growth-supportive
- The European Central Bank is likely to stay on hold in 2020, though it could ease if the coronavirus outbreak continues in Q2
- As risks of an imminent Brexit crisis has eased, UK growth is likely to stabilise. Fiscal stimulus is likely to offset some of the headwinds likely to emerge from the post-Brexit UK-EU relationship

See our regional performance on page 27

See our regional performance on page 28

See our regional performance on page 29

Business model

Built on long-term relationships

What makes us different

OUR PURPOSE

To drive commerce and prosperity through our unique diversity – is underpinned by our brand promise, **Here for good.**



Client focus

Our clients are our business. We build long-term client relationships through trusted advice, expertise and best-in-class capabilities.



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 the markets we operate in and our extensive international network allow us to offer a truly tailored proposition to our clients, combining global expertise and local knowledge.



Sustainable and responsible business

We promote social and economic development by supporting sustainable finance, being a responsible company and promoting inclusive communities.

How we're shaping our future

At Standard Chartered, we tailor our business model as needed in order to meet future challenges and opportunities:

- By putting clients at the centre of everything that we do, we make sure that we are developing new products and services that optimally fulfil their needs with the support of state-of-the-art technology
- We help our clients to make the right financial decisions and support them to grow their businesses sustainably
- We strive to remain at the forefront of the fight against financial crime. Achieving the highest standards of conduct is an indispensable part of the sustainability of our business model
- Our unique network and expertise differentiates us from our competition
- We are putting in place the frameworks and guidelines to ensure that our business model is sustainable, enhancing our capabilities and governance for Climate Risk management

The inputs we rely on

OUR RESOURCES

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

Human capital

Our diversity differentiates us. Achieving our strategic priorities hinges on the way we invest, manage and organise our people, the employee experience we curate and the culture we develop.



Strong brand

We are a leading international banking group with more than 160 years of history. In many of our markets we are a household name.



How we're enhancing our resources

- We are building out skills of future strategic value including analytics, digital and cyber capabilities – over 9,500 certifications in skills that support new ways of working were completed by employees in 2019
- We are creating a working environment that supports resilience and creativity – we have wellbeing champions in place who cover 95 per cent of our employees

- Building a strong and consistent narrative on what we stand for as a bank, through impactful, creative and powerful messaging
- Taking more ownership of our narrative through strategic use of digital channels and increased use of digital listening and insights

¹ 'Main bank' net promoter score refers to clients that use Standard Chartered as their main bank

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.



- We continue to leverage our network strength to serve the inbound and outbound cross-border trade and investment needs of our clients
- About two-thirds of the income generated by our Corporate & Institutional Banking business is now from clients using the network, a significant increase compared with 2015

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.



- We facilitate trade and investment in and across our markets, contributing to their rapid economic development
- Our strong local presence enables us to connect our clients to investors, suppliers, buyers and sellers, enabling them to move capital, manage risk, invest to create wealth, and providing them with bespoke financing solutions

Financial strength

With over \$700 billion in assets on our balance sheet, we are a strong, trusted partner for our clients.



- Stronger capital and a much more resilient balance sheet
- CET1 ratio of 13.8 per cent, within the Group's target range of 13-14 per cent



- Providing digital solutions to meet clients' needs, partnering to co-create solutions and experimenting with new business models
- Automating for efficiency and accelerating speed to market

Technology

We possess leading technological capabilities to enable best-in-class customer experience, operations and risk management.

Business model continued

What we deliver

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

 See our client segment reviews on pages 22 to 25

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 local businesses. To ensure efficiency and consistency and to enable greater investment, we have global oversight of our systems and products.

Retail Banking

Commercial Banking

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 tangible equity

Profit generated relative to tangible equity invested

The value we create

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

OUTCOMES

Clients

We enable individuals to achieve their ambitions, 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.

 **8.7%**
total Affluent Client growth year-on-year



Suppliers

We work with local and global suppliers to ensure they can provide the right goods and services for our business, efficiently and sustainably.

 **\$4.0bn**
spent in 2019 with more than 14,600 active suppliers



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.

 **\$1,421m**
in taxes paid in 2019



Society

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

 **\$51.1m**
on community investment



Investors

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

 **\$863m**
in dividends declared in 2019

 **\$1bn**
spent buying back shares



Employees

We believe great employee experience drives great client experience. We want all our people to pursue their ambitions, deliver with purpose and have a rewarding career enabled by great people leaders.

 **63%**
of senior appointments which are internal

 **96%**
of employees are committed to our success





SUSTAINABLE FINANCE

Innovative financing powers solar energy

We believe everyone should have access to safe, reliable and affordable power. Between 2016 and 2019, we financed and facilitated \$24.9 billion for clean technology such as renewable energy.

In 2019, an innovative financing deal with GuarantCo, a Private Sector Infrastructure Development Group company, paved the way for the first, and currently only, operational utility-scale solar power plant in Bangladesh. The project, developed by Technaf Solartech Energy Limited (TSEL), will increase the share of renewables in the country's energy mix and benefit almost 140,000 people. At peak production, the plant at Teknaf in the Cox's Bazar District of Bangladesh will produce up to 80 per cent of the present electricity demand for the entire Teknaf region.

Standard Chartered, working with local banks, provided a 15-year \$13.5 million dual currency financing solution to TSEL. GuarantCo provided a partial credit guarantee and liquidity extension guarantee to mitigate risk and extend the tenor of both USD and Taka loan to 15 years – a first in Bangladesh. GuarantCo mobilises private sector local currency investment for infrastructure projects in lower income countries across Africa and Asia.

+ We recently published a report on how the private sector can play a critical role in meeting the UN's Sustainable Development Goals. For more information on our involvement in TSEL and other projects, visit sc.com/opportunity2030



Image provided by Joules Power Limited

"Standard Chartered, working with local banks, provided a 15-year \$13.5 million dual currency financing solution to TSEL"

Our strategy

Taking Standard Chartered to the next level

Transforming the way we deliver services to meet our clients' needs is at the core of our strategic priorities and critical to our success.

We are executing our refreshed strategic priorities that we announced in February 2019. We have made good progress in the year and we are on track to deliver our objectives. Going forward, we remain committed to these objectives while leading the transformation of the banking industry.

Our strategic priorities



Purpose and People

Understand our responsibilities

We view our experience and expertise in managing risk across complex markets and products as a competitive advantage. We aim to drive up standards of governance, ensure fair outcomes for clients and markets and continue to partner with others in fighting financial crime. We are further developing our Financial Information Sharing Partnership and increasing our Correspondent Banking Academy Programme.

Lead sustainable financing across emerging markets

We are maintaining our focus on supporting sustainable economic growth, expanding renewables financing and investing in sustainable infrastructure where it matters most. We will continue to facilitate the movement of capital to drive positive social and economic impact in our markets. In 2019, we launched our first emerging market-focused Sustainability Bond and the world's first Sustainable Deposit.

Progress in 2019

Employee net promoter score + growth: Year-on-year

+11.5 +0.2pts YoY
2018: +11.3

Employee net promoter score measures the number of promoters who would recommend the Group as a great place to work compared with detractors on a scale from -100 to +100.

Sustainability Aspirations met or on track

93.1% +2% YoY
2018: 90.9%

Measuring progress against the targets set in our 11 Sustainability Aspirations.

Our strategy continued

Deliver
our
network

Grow
our affluent
business

Optimise
low-returning
markets



Leverage our unique footprint

Our unique network is a long-term source of growth and sustainably higher returns. We have continued to deepen our penetration among our core clients to fully realise the revenue potential of our network. Our footprint has enabled us to capture strong client flows as we focus on multinational corporates operating extensively in Asia, Africa and the Middle East, as well as investors and financial institutions that are seeking emerging market solutions. We are also positioned to take advantage of increasing sustainable finance opportunities in emerging markets.

Build on our strength in China

We will continue connecting our clients both within and beyond China. We are increasingly capturing growth opportunities arising from capital market opening, renminbi (RMB) internationalisation, Belt & Road corporate clients, offshore mainland Chinese wealth and the Greater Bay Area.

Grow with Africa

We aim to grow with our clients in Africa, focusing on capturing inbound flows of financial institutions, multinational corporations, and Belt & Road clients. Meanwhile, we have continued our Retail Banking client growth in Africa with our cost-efficient digital bank capabilities. We have now acquired over 150,000 customers on this digital platform (trebling previous client acquisition rates).

[Read more on pages 26 to 29](#)

Progress in 2019

Corporate & Institutional Banking
network income:

\$4.7bn +6% YOY

2018: \$4.4bn

Corporate & Institutional Banking income generated outside of a client group's headquarter country.



Meet the wealth needs of the affluent and emerging affluent

By continuously enhancing our offering for clients, we have been able to grow income as we attract new clients and improve our product mix (income from our Premium, Priority and Private clients increased 6 per cent YoY). In 2019, we launched a forex (FX) derivatives platform and introduced a 'Premium' banking service in 10 markets.

Enhance client experience with data and technology

We will increase our investment in data and analytics capabilities to generate a unique understanding of our clients and their needs, and in turn improve our offerings, deliver a personalised experience and increase client engagement. In 2019, we launched the Trade AI Engine in partnership with IBM to enhance the client experience in trade document processing.

We have been a core part of developing the FEAT (Fairness, Ethics, Accountability and Transparency) framework in Singapore and are embedding these principles in all AI offerings we develop.

Scale the non-affluent segment in a targeted manner

The rise of the emerging affluent is an important growth opportunity for our business. To profitably capture this opportunity, we will implement new business models, harness technology and work with non-bank partners to acquire and serve non-affluent clients with our target profile in a cost-efficient manner.

[Read more on pages 22 to 25](#)

Progress in 2019

Affluent client income:

\$3.5bn +6% YOY

2018: \$3.3bn

Income from Retail Banking Priority, Retail Banking Premium and Private Banking clients.



Improve returns in markets where we are an international bank with trusted local capabilities

In markets where we can utilise our local and international capabilities, we have continued to improve our returns through our sharpened participation in Corporate & Institutional Banking and selectively in Commercial Banking and/or Retail Banking. In particular, we have focused on optimising the performance of four high-potential markets, namely India, Indonesia, Korea and the UAE.

Accelerate growth in our largest and most profitable markets

In markets where we are a top local universal bank and have attractive returns, we will participate in all of our business segments and invest to grow our market share.

Focus on Corporate & Institutional Banking in other markets

In markets where our capabilities are geared towards international business, we will reinforce our focus on originating and facilitating cross-border business with our Corporate & Institutional Banking presence.

Progress in 2019

Underlying operating profit before taxation in India, Indonesia, Korea and the UAE:

\$420m +10% YOY

2018: \$383m

Aggregate underlying profit before taxation in the four markets; excluding Permatex.

Improve productivity



Continue investing in productivity

Our investment in digitisation will continue to support productivity improvements and enhance client experience. We refreshed our digital platform with unified trade and FX capabilities in Corporate & Institutional Banking. In Retail Banking, we launched real-time client on-boarding on digital channels and refreshed wealth and FX platforms with full mobile access (Hong Kong transactions increased 15 per cent YoY).

Organise around client journeys

We are shaping our organisation around the journeys of our clients, to better align our processes and way of working with the needs of our clients and partners. In 2019, we launched journeys in cash management cross-border payments, retail credit card and personal loan on-boarding, FX, wealth lending, Private Banking on-boarding and investment advisory.

Unlock capital and liquidity efficiency

Since making Standard Chartered Bank (Hong Kong) Limited a wholly owned direct subsidiary of Standard Chartered PLC, the Group has moved its China, Korea and Taiwan subsidiaries under the new entity. We also consolidated our activities in Singapore in a new legal entity hub. These actions allow more efficient use of capital and liquidity that will over time result in a lower cost of funds for the Group.

Progress in 2019

Underlying operating income per FTE:

\$182k +5% YoY

2018: \$173k

Underlying operating income over the past 12 months divided by the 12-month rolling average full-time equivalent (FTE) employees.

Transform and disrupt with digital



Transform our Retail Banking business with digital

We have continued our strong momentum in digitising our Retail Banking business. For example, we have rolled out a full-service, cost-efficient digital bank in eight additional markets in Africa, and our joint venture with PCCW, HKT and Ctrip Finance has obtained a virtual bank licence in Hong Kong and will launch a new entity in 2020. Going forward, we aim to adapt and replicate these capabilities as appropriate across our footprint to enhance client experience, improve efficiency, gain market share, disrupt and build a future-proof retail bank.

Consolidate our strong position with corporate clients

We have been leading disruptive innovations in corporate banking. In 2019, we launched an open digital platform for small and medium-sized enterprises in India, we completed our first cross-border letter-of-credit blockchain transaction in the oil industry with PTT Group on the Voltron platform and the first joint deep-tier supply chain financing transaction with Linklogis for Digital Guangdong.

We will continue to invest in cutting-edge digital tools and new corporate banking models.

See case study on page 50

Progress in 2019

Retail Banking digital adoption:

54.4% +500bps YoY

2018: 49.4%

Mobile and online adoption by active clients.

Corporate & Institutional Banking digital volumes:

\$157m +9% YoY

2018: \$144m

Financial markets sales income originated via e-platforms.

Commercial Banking digital adoption:

68% +310bps YoY

2018: 65%

Percentage of Commercial Banking clients active on the Straight2Bank application.

Corporate & Institutional Banking

At a glance

Profit before taxation

\$2,318m  12%

underlying basis

\$2,208m  32%

statutory basis

Risk-weighted assets

\$132bn  \$3bn

Return on tangible equity (RoTE)

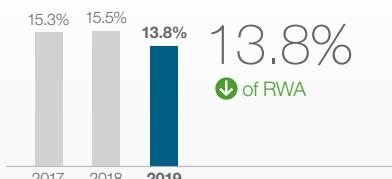
8.5%  110bps
underlying basis

8.1%  210bps
statutory basis

KPIs



Proportion of low-returning client risk-weighted assets (RWA)



Aim: Reduce perennial sub-optimal RWA¹ and bring down the proportion of low returning client RWA.

Analysis: Our perennial sub-optimal RWA has reduced 46 per cent year-on-year. The proportion of low returning client RWA decreased from 15.5 per cent in 2018 to 13.8 per cent in 2019 driven by a reduction in overall total RWA and margin compression.

Collaboration with other client segments



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

Analysis: Added 132,000 new Employee Banking account sign-ups from Corporate & Institutional Banking Clients.

Segment overview

Corporate & Institutional Banking supports clients with their transaction banking, corporate finance, financial markets and borrowing needs across more than 50 markets, providing solutions to over five thousand clients in some of the world's fastest-growing economies and most active trade corridors.

Our clients include large corporations, governments, banks and investors operating or investing in Asia, Africa, the Middle East, Europe and Americas. Our strong and deep local presence across these markets enables us to connect our clients multilaterally to investors, suppliers, buyers and sellers to enable them to move capital, manage risk, invest to create wealth, and co-create to provide bespoke financing solutions.

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

Finally, we are committed to sustainable finance, delivering on our ambitions to increase support and funding for financial products and services that have a positive impact on our communities and environment.

Strategic priorities

- Deliver sustainable growth for clients by leveraging our network to facilitate trade, capital and investment flows across our footprint markets
- Generate high-quality returns by growing capital-lite income, driving balance sheet velocity and improving funding quality while maintaining risk controls
- Partner with strategically selected third parties to expand capabilities and to access new clients
- Deliver a true frictionless cross-product digital banking experience to our clients through our integrated client portal, open banking and API solutions
- Accelerate Sustainable Finance products to our clients through product innovation and enabling transition to a low carbon future

- Proportion of low returning client RWA at 13.8 per cent (2018: 15.5 per cent)
- Underlying RoTE up 110 bps to 8.5 per cent

1 Perennial sub-optimal clients are clients who have returned below 3 per cent RoRWA for the past three years

2 Capital-lite income refers to products with low RWA consumption or of a non-funded nature. This mainly includes Cash Management and FX products

3 Our next generation transaction banking digital platform

DRIVING INNOVATION

Co-created a Ready to Trade (RTT) Bot with Blackrock Inc.

During the year, we co-created RTT chatbot, an industry-leading and award-winning solution, built on the Symphony platform to address the challenges of highly manual processes that complicate client onboarding. The Bot responds to fundamental pre-trade questions, eliminating the need for labour-intensive resources whilst reducing turnaround time. The solution positions Standard Chartered at the forefront of the digital transformation across the industry while equipping clients and staff with tools that make doing business with us faster and easier.



Performance highlights

- Underlying operating profit before taxation of \$2,318 million was up 12 per cent, primarily driven by higher income and prudent cost management
- Underlying operating income of \$7,185 million was up 5 per cent primarily driven by Financial Markets and Cash Management
- Good balance sheet momentum with loans and advances to customers up 7 per cent

Retail Banking

At a glance

Profit before taxation

\$1,083m  5%

underlying basis

\$1,020m  6%

statutory basis

Risk-weighted assets

\$44bn  \$2bn

Return on tangible equity (RoTE)

12.6%  80bps

underlying basis

11.8%  80bps

statutory basis

KPIs



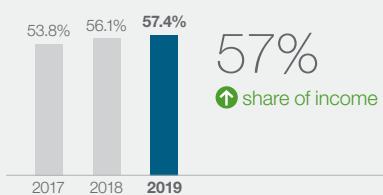
Digital adoption



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

Analysis: Online applications have continued to grow year-on-year with the proportion of Retail Banking clients that are digitally active up from 49 per cent in 2018 to 54 per cent at the end of 2019.

Priority & Premium client focus



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

Analysis: The share of Retail Banking income from Priority and Premium clients increased from 56 per cent in 2018 to 57 per cent in 2019, supported by over 110,000 new-to-bank Priority clients in the year.

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 with services spanning 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 one-quarter of the Group's 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 Retail Banking provides a high-quality liquidity source 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 by driving digitisation and cost efficiencies, and simplifying processes.

Strategic priorities

- ➔ Invest in our affluent and emerging affluent clients with a focus on Wealth Management and Deposits to capture the significant rise of the middle class in our markets
- ➔ 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
- ➔ Underlying RoTE improved to 12.6 per cent from 11.8 per cent

Progress

- ➔ Increased the share of income from Premium and Priority clients from 56 per cent in 2018 to 57 per cent as a result of strong Wealth Management and Deposit income growth and increasing client numbers
- ➔ Launched the Côte d'Ivoire digital banking model across eight other markets in the Africa & Middle East region: Kenya, Uganda, Tanzania, Ghana, Botswana, Zambia and Zimbabwe and Nigeria
- ➔ Successful application for HK digital bank licence in partnership with PCCW, HKT and Ctrip Finance which will redefine customer experience of banking services
- ➔ Launched real-time on-boarding (RTOB) for Credit Cards and Personal Loans (CCPL) in India in addition to saving account launch a year earlier, enabling more efficient credit cards and personal loan applications with significantly improved customer experience. RTOB launched in three new markets: Singapore, Malaysia and UAE
- ➔ Driving affluent growth with Priority Private launched in five markets: Singapore, Malaysia, Taiwan, China and Hong Kong, which is a key lever to accelerate Priority Banking growth
- ➔ Premium Banking, which serves emerging affluent clients and serves as feeder to Priority growth, now launched in 10 markets: Hong Kong, Korea, China, Singapore, India, Malaysia, UAE, Kenya, Pakistan and Taiwan
- ➔ A further improvement in digital adoption, with 54 per cent of clients now actively using online or mobile banking compared with 49 per cent in 2018

Performance highlights

- ➔ Underlying operating profit before taxation of \$1,083 million was 5 per cent higher, as higher income more than offset higher credit impairment
- ➔ Underlying operating income of \$5,171 million was up 3 per cent (up 5 per cent on a constant currency basis). Growth of 4 per cent (up 6 per cent on a constant currency basis) in Greater China & North Asia, 6 per cent (up 8 per cent on

a constant currency basis) in ASEAN & South Asia and a 9 per cent decline (down 3 per cent on a constant currency basis) in Africa & Middle East

- ➔ Strong income momentum growth of 12 per cent from Deposits with improved margins and balance growth. Together, Wealth Management and Deposits income, representing 64 per cent of Retail Banking income, grew 7 per cent

DIGITAL TRANSFORMATION

Making digital leaps and bounds in South Korea

We chose South Korea, one of the most advanced markets in terms of digital technology adoption, as our test bed for a new mobile platform concept. After extensive research and user testing, we brought together global, regional and local teams to collaborate with select partners to develop the next generation of our mobile application. We became the first bank in the market to use open banking, which enables clients to view their finances from 19 other banks in one place in our application. The response from clients has been extremely positive – mobile adoption increased by 28 per cent and digital sales were up by more than 50 per cent in the first six months. We will now roll out the application across our top markets.



Commercial Banking

At a glance

Profit before taxation

\$448m  100%

underlying basis

\$437m  106%

statutory basis

Risk-weighted assets (RWA)

\$28bn  \$2bn

Return on tangible equity (RoTE)

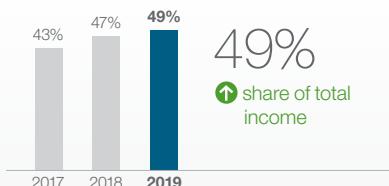
7.3%  390bps
underlying basis

7.2%  400bps
statutory basis

KPIs



Capital-lite income



Aim: Reshape the income mix towards capital-lite income.

Analysis: Share of capital-lite income increased from 43 per cent in 2017 to 49 per cent in 2019 driven by Cash Management. We have set up dedicated liabilities team in key markets and continue to focus on cash rich sectors, non-borrowing clients and FX cross-sell opportunities.

New to bank clients on-boarded ('000)



Aim: Building scale by on-boarding new to bank clients.

Analysis: We maintain strong momentum in the on-boarding of new to bank clients, while monetising clients on-boarded in prior years. Clients on-boarded in the past two years helped us generate c.\$190 million additional income on approximately \$5 billion additional liabilities in 2019.

Segment overview

Commercial Banking serves over 45,000 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 existing clients and on-boarding new clients, focusing on rapidly growing and internationalising companies
- Improve balance sheet and income mix, accelerating utilisation of growth in Cash Management and FX products
- Continue to enhance capital allocation discipline and Credit Risk management
- Improve client experience, leveraging technology and investing in frontline training, tools and analytics

Progress

- Delivered 6 per cent income growth while reducing RWA consumption (down 8 per cent) and maintaining cost discipline (down 2 per cent)
- Onboarded over 6,400 new clients in 2019, which helped generate \$75 million additional income and \$3 billion additional Cash liabilities
- Grew Network income 18 per cent year-on-year, notably from clients in India and China, as we continue to help our Commercial Banking clients capture international opportunities
- Continued to reshape business mix towards capital-lite products: Cash Management and FX income up 8 per cent year-on-year accounting for 44 per cent of total income, while Cash operating account balances grew 11 per cent year-on-year
- Strengthened origination discipline and improved asset quality: RWA efficiency¹ improved to 68 per cent in 2019 from 74 per cent in 2018; impairments reduced 50 per cent primarily from lower stage 3 assets
- Continued to improve client experience: reduced client turnaround time from eight days to five days
- Leveraging partnerships with Linklogis and SAP Ariba (world's largest digital business network) to make our supply chain financing solutions easily accessible to new clients

Performance highlights

- Underlying operating profit before taxation of \$448 million was up 100 per cent driven by income growth combined with lower costs and impairments
- Underlying operating income of \$1,478 million was up 6 per cent mainly from growth in Cash Management, Financial Markets and Lending
- ASEAN & South Asia and Africa & Middle East income was up 7 per cent and 14 per cent respectively, partially offset by subdued income growth in Greater China & North Asia, up 2 per cent, impacted by lower trade
- Underlying RoTE improved from 3.4 per cent to 7.3 per cent

INNOVATIVE FINANCING

Harnessing offshore wind in Taiwan

We are committed to supporting the renewable energy market in Taiwan. In 2019, we facilitated the financing of the landmark Yunlin Offshore Wind Farm, the largest offshore wind farm in Asia-Pacific. We were able to draw on our experience in export financing, the Taiwanese dollar financial markets and the wind farm sector in Taiwan to support the transaction. The 80-turbine, 640 MW farm represents our first financing deal for a greenfield offshore wind farm. It will prevent 31 million tonnes of carbon emissions over its 25-year life and support Taiwan's shift away from coal towards renewable energy.



¹ RWA efficiency is derived as credit RWA divided by assets and contingents

Private Banking

At a glance

Profit before taxation

\$94m  nm
underlying basis

\$83m  nm
statutory basis

Risk-weighted assets (RWA)

\$6bn  \$1bn

Return on tangible equity (RoTE)

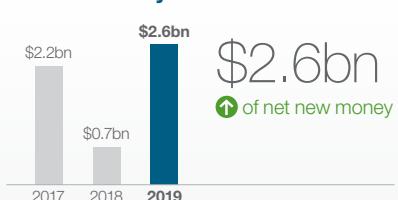
7.3%  830bps
underlying basis

6.4%  940bps
statutory basis

KPIs



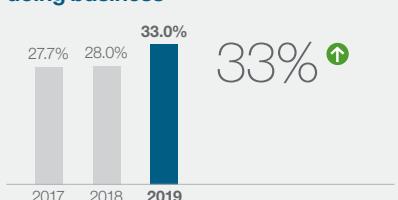
Net new money



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

Analysis: We added \$2.6 billion of net new money in 2019, delivering positive inflows for the third consecutive year since 2016

Net client score for ease of doing business



Aim: Improve the Private Banking client experience through all touch points with the Group.

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. Consequently, in 2019, our net client score rose to 33 per cent compared with 28 per cent in 2018.

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 Europe, 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

- Leverage the significant wealth creation and wealth transfers taking place in our markets to achieve greater scale in the business
- Make it easier for clients to access products and services across the Group. Improve clients' experience and grow the share of our clients' assets under management by enhancing our advisory proposition and reducing the turnaround time of the investment process
- Implement a rigorous controls enhancement plan to balance growth and controls

Progress

- Deepened client engagement with our target client base (over \$5 million in AUM) by improving our 'Relationship Management, Investment Advisory and Product Specialist' coverage model leading to a growing revenue contribution from these clients
- Continued to further enhance our open architecture derivatives platforms through full automation and straight through processing of the transactions. Our FX platform won the *Financial Times*' 'Best initiative of the year in relationship management technology, Asia' award
- Prioritised investments in user-centric technology such as the development of the 3rd generation relationship manager facing market insights portal, ADVICE
- Improved ease of doing business for clients by re-engineering key client-facing processes such as client on-boarding
- Further strengthened the stability and resilience of our business through timely execution of our control enhancement programme
- Launched our Impact Philosophy as a key pillar of our approach to sustainable finance (outlined to the right)

Performance highlights

- Underlying operating profit before taxation of \$94 million is driven by a net \$31 million release in credit impairment and an improvement in top-line growth
- Underlying operating income of \$577 million was up 12 per cent, making a third consecutive year of top-line growth. Income increase was mainly driven by higher Wealth-products income (up 19 per cent)
- Assets under management increased \$8 billion or 14 per cent year-on-year, mainly driven by \$2.6 billion of net new money and positive market movements
- Underlying RoTE increased 830bps to 7.3 per cent

IMPACT FINANCE

Launch of Impact Philosophy

Standard Chartered Private Bank launched its Impact Philosophy, offering high-net-worth clients a robust roadmap for using their resources to drive impact, including global metrics in line with the global Impact Reporting and Investment Standards (IRIS). This was rolled out to clients in Q1 2019, and allows us to engage them in structured conversations pertaining to driving impact, similar to an investment advisory conversation. In 2019, the private bank also launched ESG ratings in its equity and fixed income trades notes, providing clients an additional data point for decision making.



Greater China & North Asia

Profit before taxation

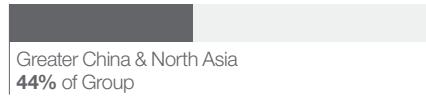
\$2,432m ↑
3%
underlying basis

\$2,294m ↑
1%
statutory basis

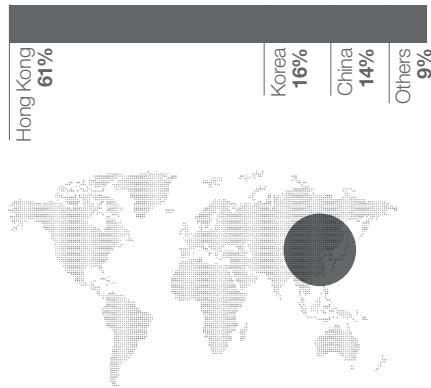
Risk-weighted assets

\$86bn ↑
\$5bn

Loans and advances to customers



Income split by key markets



CASE STUDY

Financing a sustainable future of shipping

We successfully closed an \$80.8 million Senior Secured Facility to SITC International Holding Company Limited (SITC) in June 2019. Two of the vessels financed by the facility are eco-friendly container ships to be delivered by Yangzijiang Shipbuilding Group. These vessels have adopted an eco-design approach to deliver high fuel efficiency and reduced emissions. This is fully aligned with the Group's Sustainable Finance initiative taking into account environmental, social and governance (ESG) considerations.

Region overview

Greater China & North Asia generated the largest share of the Group's income in 2019, at 40 per cent, and includes our clients in Hong Kong, Korea, Mainland 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 global footprint and strong regional presence, distinctive proposition and continued investment position 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 Greater Bay Area, renminbi, Belt & Road initiative, onshore capital markets and mainland wealth, as well as from development of our digital capabilities
- Strengthen market position in Hong Kong and improve performance in Korea

Progress

- Actively participated in the opening of China's capital markets, helping overseas investors do business through channels such as Bond Connect, Stock Connect and the Qualified Domestic Institutional Investor initiative, awarded 'Top Custodian, Active Bank and Top Dealer' by Bond Connect Awards, 26 per cent market share through Bond Connect
- Continuing good progress in Retail Banking in Hong Kong. We attracted over 50,000 new Priority clients during the year, up 22 per cent and increased our active qualified Priority clients by 12 per cent
- We were granted a virtual banking licence from the Hong Kong Monetary Authority on 27 March 2019; one of the first to receive a licence under Hong Kong's new virtual banking scheme and teamed up with PCCW, HKT and Ctrip Finance
- Continued to optimise the Korea franchise to improve returns and focus on China's opening. China is the top network income contributor to the rest of the region and Group

Performance highlights

- Underlying operating profit before taxation of \$2,432 million was up 3 per cent, with steady income growth despite the challenges of the ongoing social unrest in Hong Kong and the extended US-China trade tensions. Expenses were broadly flat, partially offset by higher credit impairment
- Underlying operating income of \$6,155 million was up 2 per cent on a constant currency basis, with strong growth across Retail Deposits, Financial Markets and Wealth Management, partially offset by a weaker Treasury income performance
- Retail Banking income grew 4 per cent, driven by Deposits with improving margins and strong balance sheet growth partly offset by a subdued performance in Wealth Management. Private Banking income was up 27 per cent, driven by a strong Wealth Management performance. Corporate & Institutional Banking and Commercial Banking income grew 2 per cent each, mainly through strong Cash Management and Financial Markets performances, partly offset by lower Corporate Finance and unfavourable debit valuation adjustment within Financial Markets
- Balance sheet momentum was sustained with loans and advances to customers up 7 per cent and customer accounts up 4 per cent



ASEAN & South Asia

Profit before taxation

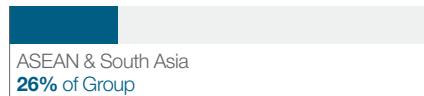
\$1,025m ↑
6%
underlying basis

\$1,039m ↓
3%
statutory basis

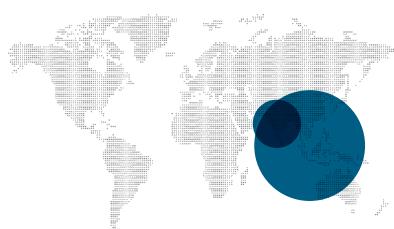
Risk-weighted assets (RWA)

\$89bn ↑
\$1bn

Loans and advances to customers



Income split by key markets



Region overview

The Group has a long-standing and deep franchise across the ASEAN & South Asia region. As the only international bank present in all 10 ASEAN countries and with meaningful operations across many key South Asian markets, we are in a strong position to be the 'go-to' banking partner for our clients. The two markets in the region contributing the highest income are Singapore and India, where we have had a deep-rooted presence for more than 160 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 operations, as well as SC Ventures, our innovation hub.

The strong underlying economic growth in the ASEAN & South Asia region enables us to help our clients achieve their growth ambitions and sustainably improve returns. The region is benefiting from rising trade flows, including activity generated from the Belt & Road initiative, continued strong investment and a rising middle class which is driving consumption growth and improving digital connectivity.

Strategic priorities

- Leverage the strength of our international network to support our clients' cross-border trade and investment activities across the high-growth ASEAN and South Asia corridors
- Deliver comprehensive client propositions in key markets (Singapore, India, Malaysia and Bangladesh) and a targeted offering in other high-growth markets such as Indonesia and Vietnam
- Continue to invest in technology and digital capabilities to enhance client experience and build scale efficiently
- Improve capital efficiency and sharpen our investments in higher-returning businesses
- Continue to reshape our India and Indonesia franchises to improve returns

- Instant client on-boarding and digitisation of service journeys have improved productivity and accelerated digital adoption amongst Retail Banking clients
- Steady progress in our optimisation markets: India saw double-digit income growth and cost-to-income ratio improved to 65 per cent; Indonesia grew income by 5 per cent as we pivoted our focus towards Wealth Management and flow businesses

Performance highlights

- Underlying operating profit before taxation grew by 6 per cent to \$1,025 million, underpinned by 6 per cent income growth and well-managed costs, offset by higher credit impairment; Singapore, our largest profit contributor grew 33 per cent
- Underlying operating income of \$4,213 million is 6 per cent higher, with double-digit income growth in Corporate & Institutional Banking and high single-digit growth in Commercial, Retail and Private Banking
- Retail current and savings accounts grew by 11 per cent; Transaction Banking cash liabilities grew by 12 per cent and we reduced our Corporate Time Deposits to optimise our cost of funds. RWA growth controlled at 1 per cent

Progress

- Strong broad-based growth in income and operating profit, all client segments and majority of our markets grew versus prior year
- Double-digit income growth in Priority Banking and attracted 12,000 new clients through differentiated propositions and advisory led approach
- Investments in network bankers and tailored client solutions delivered double-digit growth in the Global Subsidiaries business

CASE STUDY

Industry-first digital incentive programme

We partnered with Castrol India Limited, one of India's leading lubricant players, to digitise the way its mechanics and retailers receive incentive payments. Using the new mobile platform, they can scan QR codes on lubricant products and receive their payments instantaneously, instead of relying on physical coupons which often took months to process. In 2019, Castrol facilitated 100,000 incentive coupons daily for rewards aggregating \$857,000 a month. This innovation encourages digital upskilling in a traditionally manual field, promotes

financial inclusivity, and enhances the level of trust and transparency with which Castrol engages with its customers.



Africa & Middle East

Profit before taxation

\$684m  29%

underlying basis

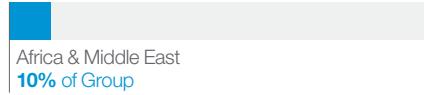
\$666m  54%

statutory basis

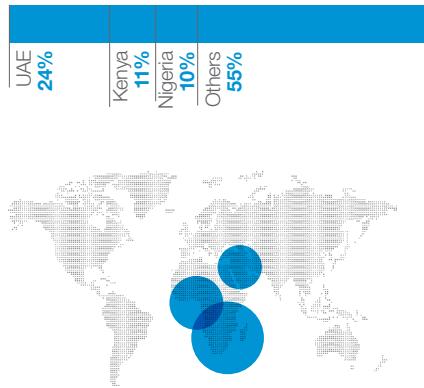
Risk-weighted assets

\$49bn  \$4bn

Loans and advances to customers



Income split by key markets



Region overview

We have a deep-rooted heritage of over 160 years in Africa & Middle East and are present in 25 markets, of which the UAE, Nigeria, Pakistan and Kenya are the largest by income. We are present in the largest number of sub-Saharan African markets of any international banking group.

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 China's Belt and Road initiative and we are well placed to facilitate these flows.

Macroeconomic and geopolitical headwinds in 2019 have impacted income momentum across both the Middle East and Africa; however, 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

- Provide best-in-class structuring and financing solutions and drive origination through client initiatives
- Invest to accelerate growth in differentiated international network and affluent client businesses
- Invest in market-leading digitisation initiatives in Retail Banking to protect and grow market share in core markets; continue with our retail transformation agenda to recalibrate our network and streamline structures
- De-risk and improve the quality of income with continuous focus on return enhancements

Progress

- A number of marquee transactions across the region are reflective of the strong client franchise
- Network income was 9 per cent higher and the Group's Global Subsidiaries business grew by 3 per cent
- After a successful launch of a digital-only bank in Côte d'Ivoire in the first half of 2018, roll-out was extended to eight additional markets (Uganda, Tanzania, Ghana, Kenya, Zimbabwe, Botswana, Zambia and Nigeria)
 - Across these nine markets, customer acquisition has trebled
 - Account funding rates for most markets are relatively healthy and customer feedback has been good

- Practically a 'zero touch' platform, with account opening and servicing without the need to visit a branch
- This efficiency has translated into a more targeted branch footprint, allowing us to reduce our number of branches by one-third in the last two years
- Despite continued geopolitical and macroeconomic headwinds, improved asset quality and good risk discipline led to lower credit impairments
- Cost efficiencies have allowed investments to continue through the cycle

Performance highlights

- Underlying operating profit before taxation of \$684 million was 29 per cent higher with lower expenses and improved credit impairment partially offset by a 2 per cent decrease in income
- Underlying operating income of \$2,562 million was down 2 per cent but up 3 per cent on a constant currency basis, with a good performance in our Financial Markets business across the region. Middle East, North Africa and Pakistan were flat, and Africa was down 3 per cent
- Strong performances in Financial Markets and Corporate Finance were offset by margin compression in Retail Banking and lower Wealth Management in UAE
- Loans and advances to customers were up 5 per cent and customer accounts were down 2 per cent

CASE STUDY

Infrastructure and clean tech

In 2019, we provided a \$2.4 billion project finance facility for the development, construction, operation and maintenance of a 700MW concentrated solar power (CSP) and 250MW photovoltaic plant in Dubai.

The project will provide clean energy to over 320,000 residences in Dubai, while reducing 1.4 million tonnes of carbon emissions a year. Standard Chartered

acted as mandated lead arranger, documentation bank, pre-hedging bank, offshore account bank, intercreditor agent, and offshore security trustee.

The project is our first CSP financing in the region and the largest limited recourse project finance deal in Dubai. It is also the largest regional investment into the renewable sector for a single project.



Europe & Americas

Profit before taxation

\$157m  2%

underlying basis

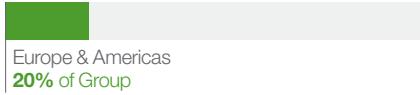
\$123m  24%

statutory basis

Risk-weighted assets

\$44bn  \$3bn

Loans and advances to customers



Income split by key markets



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. Our extensive expertise in working across our footprint in Asia, Africa and the Middle East allows us to offer our clients unique network and product capabilities.

The region is a significant 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. The business we do across the Group with clients based in Europe & Americas therefore generates above average returns.

Our Private Banking business focuses on serving clients with linkages to our footprint markets.

Strategic priorities

- Continue to attract new international corporate and financial institutional clients and deepen relationships with existing and new clients and banking them across more markets in our network, connecting them to the fastest growing and highest potential economies in the world
- Scale up our continental European business, leveraging significant trade corridors with Asia and Africa
- 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
- Leverage our network capabilities as new e-commerce based industries grow internationally

Progress

- Strong progress in improving the share of business from targeted CIB Priority clients, with income up 9 per cent from 'Top 100', 'Next 100' and 'New 90' client initiatives
- Continued growth in our key Greater China, ASEAN and South Asia corridors providing high network returns from Europe & Americas clients

→ Standard Chartered Bank AG (Germany) is operational and positioned to support our clients in all Brexit scenarios

→ Launched Sustainable Finance business and issued inaugural sustainable bond focused on emerging markets

Performance highlights

- Underlying operating profit before taxation of \$157 million improved 2 per cent driven by higher income, partially offset by higher costs and impairments
- Underlying operating income of \$1,725 million was up 3 per cent largely due to improved sales and trading performance in Financial Markets and higher income in Cash and Treasury. There was a year-on-year reduction in income of \$108m from a swing in the debit valuation adjustment (DVA) due to an improvement in the Group's own Credit Risk
- Income generated by Europe & Americas clients, but booked elsewhere in our network, increased by 6 per cent
- Loans and advances to customers grew 10 per cent year-on-year and customer accounts grew 7 per cent

CASE STUDY

Launching our first Sustainability Bond

Standard Chartered successfully issued its first Sustainability Bond, focused on emerging markets, a landmark transaction that was over six times subscribed.

At EUR 500 million, the proceeds of the bond will be used to provide finance in areas aligned with the United Nations Sustainable Development Goals (SDGs) – including clean energy projects, smaller business lending and microfinance loans – helping drive employment, growth and prosperity across emerging markets.

While 90 per cent of SDG financing needs are covered in developed countries, only 60 per cent of the investment needs are addressed in emerging and developing regions, and as low as 10 per cent in Africa. Our unique network and Here for good brand promise positions us well to address this problem.

Since the issuance of our inaugural Sustainability Bond, we have continued to innovate new Sustainable products, including the completion of our first LMA Green Loan Compliant trade financing, which was the first of its kind in the market.



Group Chief Financial Officer's review

An encouraging and resilient performance

Summary of financial performance

The Group delivered a resilient performance in 2019 notwithstanding an unusual combination of geopolitical and macroeconomic challenges that impacted some of its largest markets. Income grew at a faster rate than costs, profitability and return on tangible equity improved, capital and liquidity levels remain strong, and the balance sheet is growing.

All commentary that follows is on an underlying basis and comparisons are made to full-year 2018 on a reported currency basis, unless otherwise stated. A full reconciliation between statutory and underlying results is set out on page 59 of the Annual Report.

- **Operating income** grew 2 per cent or 4 per cent on a constant currency basis
- **Net interest income** decreased 2 per cent with increased volumes more than offset by a reduction in net interest margin
- **Other income** increased 6 per cent with a particularly strong performance in Financial Markets

→ **Operating expenses** excluding the UK bank levy were down 1 per cent or up 1 per cent on a constant currency basis, with tight control of costs generating positive income-to-cost jaws of 3 per cent. The cost-to-income ratio (excluding the UK bank levy) improved 2 percentage points to 66 per cent. The Group will continue to invest in its strategic priorities while – as previously guided – targeting cost growth below the rate of inflation and positive jaws. The **UK bank levy** rose \$23 million to \$347 million

→ **Credit impairment** increased by \$166 million to \$906 million. This was driven mainly by a \$275 million increase in stage 1 and 2 impairments, around half of which related to a deterioration in macroeconomic variables, which includes the downward revision to Hong Kong GDP in the second half of the year. Impairments of stage 3 assets decreased by \$109 million, despite a \$141 million charge booked in the fourth quarter relating to a single client exposure in ASEAN & South Asia. Credit impairment of \$906 million represents a loan-loss rate of 27 basis points (2018: 21 basis points) and remains at an historically low level

→ **Other impairment** reduced by \$110 million to \$38 million following the Group's decision to discontinue its ship leasing business, with the related impairment now recorded as a restructuring charge and excluded from underlying results

→ **Profit from associates and joint ventures** was up 5 per cent with continued good performance at China Bohai Bank partially offset by the exclusion from underlying performance of the Group's share of PT Bank Permata Tbk's earnings

→ **Profit before tax** improved 8 per cent or 10 per cent on a constant currency basis. Charges relating to restructuring, provisions for regulatory matters and other items decreased \$850 million to \$459 million, primarily driven by a reduction in regulatory provisions. The resolution of previously disclosed investigations in the UK and US into historical sanctions and financial crime control issues included monetary penalties of \$1,086 million, of which \$186 million was provided for in the current year. Including these items, statutory profit before tax increased 46 per cent

→ **Taxation** was \$1,373 million on a statutory basis including a \$179 million capital gains tax charge arising from the changes in legal entity structure to create a capital and liquidity hub in the Greater China & North Asia region. The underlying effective tax rate was 29.3 per cent, a decrease of 5.3 percentage points reflecting a greater proportion of profits from markets with lower tax rates and a reduction in non-deductible expenses

→ **Underlying return on tangible equity** improved by 130 basis points to 6.4 per cent, reflecting the increase in underlying profit and the reduction in tangible equity following the completion of the \$1 billion share buy-back programme

→ **Underlying basic earnings per share (EPS)** increased 23 per cent and statutory EPS trebled

→ A final **ordinary dividend** per share of 20 cents has been proposed by the Board which would result in a full-year dividend of 27 cents, an increase of 6 cents or 29 per cent



Andy Halford
Group Chief Financial Officer

| | 2019 \$million | 2018 \$million | Change % | Constant currency change % ² |
|---|-------------------|-------------------|-------------|---|
| Net interest income ¹ | 7,698 | 7,840 | (2) | |
| Other income ¹ | 7,573 | 7,128 | 6 | |
| Underlying operating income | 15,271 | 14,968 | 2 | 4 |
| Other operating expenses | (10,062) | (10,140) | 1 | (1) |
| UK bank levy | (347) | (324) | (7) | |
| Underlying operating expenses | (10,409) | (10,464) | 1 | (2) |
| Underlying operating profit before impairment and taxation | 4,862 | 4,504 | 8 | 10 |
| Credit impairment | (906) | (740) | (22) | |
| Other impairment | (38) | (148) | 74 | |
| Profit from associates and joint ventures | 254 | 241 | 5 | |
| Underlying profit before taxation | 4,172 | 3,857 | 8 | 10 |
| Provision for regulatory matters | (226) | (900) | 75 | |
| Restructuring | (254) | (478) | 47 | |
| Other items | 21 | 69 | (70) | |
| Statutory profit before taxation | 3,713 | 2,548 | 46 | 49 |
| Taxation | (1,373) | (1,439) | 5 | |
| Profit for the period | 2,340 | 1,109 | 111 | 113 |
| Net interest margin (%) ¹ | 1.62 | 1.69 | | |
| Underlying return on tangible equity (%) | 6.4 | 5.1 | | |
| Underlying earnings per share (cents) | 75.7 | 61.4 | | |
| Statutory return on tangible equity (%) | 4.8 | 1.6 | | |
| Statutory earnings per share (cents) | 57.0 | 18.7 | | |

1 The Group has changed its accounting policies for net interest income, net trading income and net interest margin. Prior period has been restated. Refer to Note 1 to the financial statements

2 Comparisons presented on the basis of the current period's functional currency rate, ensuring like-for-like currency rates between the two periods

Operating income by product

| | 2019 \$million | 2018 \$million | Change % |
|---|-------------------|-------------------|-----------------|
| Transaction Banking | 3,849 | 3,718 | 4 |
| Trade | 1,100 | 1,123 | (2) |
| Cash Management | 2,406 | 2,262 | 6 |
| Securities Services | 343 | 333 | 3 |
| Financial Markets | 2,916 | 2,612 | 12 |
| Foreign Exchange | 1,128 | 1,001 | 13 |
| Rates | 696 | 555 | 25 |
| Commodities | 165 | 192 | (14) |
| Credit and Capital Markets | 577 | 324 | 78 |
| Capital Structuring Distribution Group | 329 | 309 | 6 |
| DVA | (100) | 77 | nm ³ |
| Other Financial Markets | 121 | 154 | (21) |
| Corporate Finance ^{1,2} | 1,143 | 1,186 | (4) |
| Lending and Portfolio Management ² | 792 | 755 | 5 |
| Wealth Management | 1,878 | 1,799 | 4 |
| Retail Products | 3,849 | 3,750 | 3 |
| CCPL and other unsecured lending | 1,251 | 1,310 | (5) |
| Deposits | 1,982 | 1,782 | 11 |
| Mortgage and Auto | 508 | 573 | (11) |
| Other Retail Products | 108 | 85 | 27 |
| Treasury | 1,090 | 1,223 | (11) |
| Other | (246) | (75) | nm ³ |
| Total underlying operating income | 15,271 | 14,968 | 2 |

1 In December 2018 it was decided to discontinue the ship operating lease business and any future profits and losses will be reported as restructuring. Prior periods have not been restated

2 There has been a reorganisation of certain product teams between Corporate Finance and Lending and Portfolio Management. Prior periods have been restated

3 Not meaningful

Group Chief Financial Officer's review continued

Transaction Banking income grew 4 per cent with strong performance in Cash Management on the back of improved margins and increased volumes. Growth in Securities Services was offset by a 2 per cent decline in Trade.

Financial Markets income grew 12 per cent benefiting from market volatility and increased hedging and investment activity by clients. There was strong double-digit growth in Credit and Capital Markets and Rates and double-digit growth in Foreign Exchange partly offset by a negative \$177 million movement in the Debit Valuation Adjustment, of which a negative \$118 million movement occurred in the fourth quarter of 2019.

Corporate Finance income was down 4 per cent impacted by the Group's decision to discontinue its ship leasing business, with the related income now recorded as restructuring and excluded from underlying results. Excluding the impact of this decision, Corporate Finance income was up 2 per cent.

Lending and Portfolio Management income was up 5 per cent with improved margins and increased volumes in Corporate Lending.

Wealth Management income grew 4 per cent – despite more challenging market conditions – primarily from growth in FX, fixed income and structured products.

Retail Products income grew 3 per cent or 5 per cent on a constant currency basis with continued growth in Deposits from improved margins and increased volumes partly offset by margin compression in Mortgages and Credit Cards & Personal Loans.

Treasury income reduced 11 per cent with the impact of interest rate movements within the Treasury Markets portfolio partly offset by \$122 million favourable movement in hedge ineffectiveness.

Other products income of negative \$246 million includes increased funding costs reflecting the impact of adopting IFRS 16.

Profit before tax by client segment and geographic region

| | 2019 \$million | 2018 \$million | Change % |
|--|-------------------|-------------------|-----------------|
| Corporate & Institutional Banking | 2,318 | 2,072 | 12 |
| Retail Banking | 1,083 | 1,033 | 5 |
| Commercial Banking | 448 | 224 | 100 |
| Private Banking | 94 | (14) | nm ¹ |
| Central & other items (segment) | 229 | 542 | (58) |
| Underlying profit before taxation | 4,172 | 3,857 | 8 |
| Greater China & North Asia | 2,432 | 2,369 | 3 |
| ASEAN & South Asia | 1,025 | 970 | 6 |
| Africa & Middle East | 684 | 532 | 29 |
| Europe & Americas | 157 | 154 | 2 |
| Central & other items (region) | (126) | (168) | 25 |
| Underlying profit before taxation | 4,172 | 3,857 | 8 |

1 Not meaningful

Corporate & Institutional Banking

improved its profit by 12 per cent and was the largest contributor to the overall Group's profit before tax, from a client segment perspective.

Commercial Banking doubled its profit and **Retail Banking**'s grew by 5 per cent.

Private Banking generated a profit of \$94 million up from an operating loss of \$(14) million in 2018. The improved profitability of the client segments was partly offset by a

58 per cent reduction in the profit generated by Central & other items (segment) due to lower Treasury income from higher rates internally paid on liabilities and one-off liquidity requirements.

Greater China & North Asia was the largest regional contributor to the overall Group's profit before tax, and grew profit by 3 per cent. **Africa & Middle East** was the

fastest growing region, with profit up 29 per cent. **ASEAN & South Asia** generated 6 per cent growth, while profit in **Europe & Americas** improved 2 per cent. The loss incurred by Central & other items (region) decreased by \$42 million to \$126 million with higher external debt costs offset by a favourable change in hedge ineffectiveness and increased internal capital charges.

Adjusted net interest income and margin

| | 2019 \$million | restated 2018 ¹ \$million |
|--------------------------------------|-------------------|--|
| Adjusted net interest income | 8,007 | 8,032 |
| Average interest-earning assets | 494,756 | 476,114 |
| Average interest-bearing liabilities | 444,595 | 430,167 |
| | | |
| Gross yield (%) | 3.34 | 3.18 |
| Rate paid (%) | 1.92 | 1.65 |
| Net yield (%) | 1.42 | 1.53 |
| Net interest margin (%) ² | 1.62 | 1.69 ³ |

1 The Group has changed its accounting policies for net interest income and net trading income. Prior periods have been restated. Refer to Note 1 to the financial statements

2 Adjusted net interest income divided by average interest-earning assets

3 Restated as per Net interest margin, defined under Alternative performance measures in the Strategic report

The Group has changed its accounting policy for net interest income and the basis of preparation of its net interest margin to better reflect the underlying performance of its banking book. See Note 1 to the financial statements for further details.

Adjusted net interest income was flat with growth in interest-earning assets offsetting a 7 basis points reduction in net interest margin which averaged 162 basis points for the full year.

→ Average interest-earning assets increased 4 per cent driven by an increase in investment securities balances and higher loans and advances to customers. Gross yields increased 16 basis points compared to the average in 2018 and predominantly reflected the flow-through of rises in global interest rates that occurred through 2018, partly offset by declining interest rates in the second half of 2019

→ Average interest-bearing liabilities increased 3 per cent driven by growth in customer accounts. The rate paid on liabilities increased 27 basis points compared to the average in 2018 reflecting interest rate movements

The 7 basis point reduction in net interest margin was primarily driven by margin pressure on liabilities.

Credit risk summary

| | 2019 ¹ \$million | 2018 ^{1,2} \$million | | |
|--|--------------------------------|----------------------------------|-----------------------|---------|
| | Total | Ongoing business | Liquidation portfolio | Total |
| Gross loans and advances to customers ³ | 274,306 | 261,216 | 1,769 | 262,985 |
| Of which stage 1 and 2 | 266,908 | 254,445 | 86 | 254,531 |
| Of which stage 3 | 7,398 | 6,771 | 1,683 | 8,454 |
| Expected credit loss provisions | (5,783) | (5,054) | (1,374) | (6,428) |
| Of which stage 1 and 2 | (779) | (838) | (4) | (842) |
| Of which stage 3 | (5,004) | (4,216) | (1,370) | (5,586) |
| Net loans and advances to customers | 268,523 | 256,162 | 395 | 256,557 |
| Of which stage 1 and 2 | 266,129 | 253,607 | 82 | 253,689 |
| Of which stage 3 | 2,394 | 2,555 | 313 | 2,868 |
| Cover ratio of stage 3 before/after collateral (%) | 68 / 85 | 62 / 82 | 81 / 95 | 66 / 85 |
| Credit grade 12 accounts (\$million) | 1,605 | 1,437 | 86 | 1,523 |
| Early alerts (\$million) | 5,271 | 4,767 | – | 4,767 |
| Investment grade corporate exposures (%) | 61 | 62 | – | 62 |

1 Balances for 2019 and 2018 reflect interest due but unpaid together with equivalent credit impairment charge

2 2018 Stage 3 balances, provisions and cover ratios have been restated

3 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of \$1,469 million at 31 December 2019 and \$3,151 million at 31 December 2018

Group Chief Financial Officer's review continued

The Group has changed its accounting policy to report interest in suspense for stage 3 exposures. This results in an increase in gross stage 3 exposures and provisions, with no change to net stage 3 assets. Prior period balances have been restated. See Note 1 to the financial statements for further details.

Asset quality overall was broadly stable in the year with credit impairment rising but remaining at historically low levels well below those seen in previous years. The Group remains vigilant considering significant volatility in some markets, with continuing geopolitical uncertainty and weakening economic forecasts. Reviews and stress tests of the Group's portfolio are carried out

regularly to help identify then mitigate any risks that may arise. The actions to reduce exposures in the Group's former liquidation portfolio were substantially completed in 2018 so the remaining exposures are reported as part of the ongoing business in 2019.

Gross stage 3 loans and advances to customers of \$7.4 billion were down 12 per cent compared with 31 December 2018. The reduction is due to repayments, write-offs and upgrades to stage 2 mainly in Corporate & Institutional Banking and Commercial Banking. These credit-impaired loans represented 2.7 per cent of gross loans and advances, a reduction of 0.5 percentage points compared with 31 December 2018.

The stage 3 cover ratio increased to 68 per cent from 66 per cent in 2018. The cover ratio post collateral was stable at 85 per cent.

Credit grade 12 balances increased 5 per cent since 31 December 2018 reflecting sovereign ratings downgrades in Zimbabwe, Zambia and Lebanon which impacted the ratings of certain accounts in those countries. Early alert accounts increased 11 per cent in the year due to the transfer in the fourth quarter of 2019 of a handful of unrelated clients that had been previously under review.

The proportion of investment grade corporate exposures has remained broadly stable at 61 per cent.

Restructuring and other items

| | 2019 | | | 2018 | | |
|---|--|-------------------------|-----------------------|--|-------------------------|-----------------------|
| | Provision for regulatory matters \$million | Restructuring \$million | Other items \$million | Provision for regulatory matters \$million | Restructuring \$million | Other items \$million |
| Operating income | – | 146 | – | – | (248) | 69 |
| Operating expenses | (226) | (298) | – | (900) | (283) | – |
| Credit impairment | – | (2) | – | – | 87 | – |
| Other impairment | – | (98) | (27) | – | (34) | – |
| Profit from associates and joint ventures | – | (2) | 48 | – | – | – |
| Profit/(loss) before taxation | (226) | (254) | 21 | (900) | (478) | 69 |

The Group's statutory performance is adjusted for profits or losses of a capital nature, amounts consequent to investment transactions driven by strategic intent, 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 underlying performance period-by period.

As previously disclosed, the Group expects to incur around \$500 million of restructuring charges between 2019 and 2021 to execute its refreshed strategic priorities. Restructuring charges of \$254 million for 2019 primarily related to redundancy provisions taken in the fourth quarter together with impairments related to the Group's discontinued ship leasing business. Other items of \$21 million included profits from the Group's joint venture investment in Indonesia, which the Group has classified as held for sale having signed

a conditional share purchase agreement to sell its 44.56 per cent equity interest, and goodwill impairment relating to the Group's subsidiaries in Sri Lanka, Nepal and Oman. The provision for regulatory matters primarily relates to the agreement to pay monetary penalties following the resolution of investigations into historical sanctions and financial crime control issues, described further in Note 26 to the financial statements.

Balance sheet and liquidity

| | 31.12.19 \$million | 31.12.18 \$million | Increase/ (decrease) \$million | Increase/ (decrease) % |
|---|-----------------------|-----------------------|--------------------------------------|------------------------------|
| Assets | | | | |
| Loans and advances to banks | 53,549 | 61,414 | (7,865) | (13) |
| Loans and advances to customers | 268,523 | 256,557 | 11,966 | 5 |
| Other assets | 398,326 | 370,791 | 27,535 | 7 |
| Total assets | 720,398 | 688,762 | 31,636 | 5 |
| Liabilities | | | | |
| Deposits by banks | 28,562 | 29,715 | (1,153) | (4) |
| Customer accounts | 405,357 | 391,013 | 14,344 | 4 |
| Other liabilities | 235,818 | 217,682 | 18,136 | 8 |
| Total liabilities | 669,737 | 638,410 | 31,327 | 5 |
| Equity | 50,661 | 50,352 | 309 | 1 |
| Total equity and liabilities | 720,398 | 688,762 | 31,636 | 5 |
| Advances-to-deposits ratio (%) ¹ | 64.2% | 63.1% | | |
| Liquidity coverage ratio (%) | 144% | 154% | | |

1 In calculating the advances-to-deposits ratio the Group now excludes \$9,109 million held with central banks (2018: \$7,412 million) that have been confirmed as repayable at the point of stress

The Group's balance sheet remains strong, liquid and well diversified.

- Loans and advances to customers increased 5 per cent since 31 December 2018 to \$269 billion driven mainly by growth in Financial Markets, Corporate Lending and Mortgages
- Customer accounts of \$405 billion increased 4 per cent since 31 December 2018 with an increase in operating account balances within Cash Management offset by a run-off in Corporate Term Deposits

→ Other assets and other liabilities increased 7 per cent and 8 per cent respectively since 31 December 2018. The growth in other assets was driven by increased investment securities and reverse repurchase agreements partly offset by a reduction of cash balances at central banks. The growth in other liabilities reflects increased trading book liabilities and repurchase agreements

The advances-to-deposits ratio increased slightly to 64.2 per cent from 63.1 per cent at 31 December 2018 while the liquidity coverage ratio at year-end decreased 10 percentage points to 144 per cent, well above the minimum regulatory requirement.

Risk-weighted assets

| | 31.12.19 \$million | 31.12.18 \$million | Increase/ (decrease) \$million | Increase/ (decrease) % |
|---------------------|-----------------------|-----------------------|--------------------------------------|------------------------------|
| By risk type | | | | |
| Credit Risk | 215,664 | 211,138 | 4,526 | 2 |
| Operational Risk | 27,620 | 28,050 | (430) | (2) |
| Market Risk | 20,806 | 19,109 | 1,697 | 9 |
| Total RWAs | 264,090 | 258,297 | 5,793 | 2 |

1 Variance is increase/(decrease) comparing the current reporting period to the prior reporting period

Total risk-weighted assets (RWA) increased 2 per cent or \$5.8 billion since 31 December 2018 to \$264.1 billion.

- Credit Risk RWA increased \$4.5 billion to \$215.7 billion, with asset growth partially offset by RWA efficiencies, foreign currency translation and the partial sale of the Group's Principal Finance portfolio

- Market Risk RWA increased by \$1.7 billion to \$20.8 billion due to higher levels of Financial Markets activity and some policy and methodology changes
- Operational Risk RWA reduced by \$0.4 billion primarily due to a decrease in average income as measured over a rolling three-year time horizon, with lower 2018 income replacing higher 2015 income

Total RWA increased at broadly the same rate in 2019 as income. The ongoing execution of organic and inorganic RWA optimisation initiatives supports the expectation that income growth will exceed RWA growth in the medium-term.

Group Chief Financial Officer's review continued

Capital base and ratios

| | 31.12.19 \$million | 31.12.18 \$million | Increase/ (decrease) \$million | Increase/ (decrease) % |
|---|-----------------------|-----------------------|--------------------------------------|------------------------------|
| CET1 capital | 36,513 | 36,717 | (204) | (1) |
| Additional Tier 1 capital (AT1) | 7,164 | 6,684 | 480 | 7 |
| Tier 1 capital | 43,677 | 43,401 | 276 | 1 |
| Tier 2 capital | 12,288 | 12,295 | (7) | – |
| Total capital | 55,965 | 55,696 | 269 | – |
| CET1 capital ratio end point (%)¹ | 13.8 | 14.2 | (0.4) | |
| Total capital ratio transitional (%) ¹ | 21.2 | 21.6 | (0.4) | |
| UK leverage ratio (%) ¹ | 5.2 | 5.6 | (0.4) | |

¹ Change is percentage point difference between two points rather than percentage change

The Group remains well capitalised and highly liquid with all metrics above regulatory thresholds.

The Group's common equity tier 1 (CET1) ratio of 13.8 per cent was towards the top of the 13-14 per cent target range, 39 basis points lower than as at 31 December 2018. On an underlying basis CET1 rose 16 basis points as profits generated in the year were partly offset by credit and market RWA growth and higher dividends. This was offset by the impact of the \$1 billion share buy-back, the costs of the legal entity restructuring in Greater China & North Asia and regulatory provisions.

The Group repurchased 116,103,483 ordinary shares for an aggregate consideration of approximately \$1 billion between 2 May 2019 and 25 September 2019. The shares were subsequently cancelled, reducing the total issued share capital by 3.5 per cent.

The Board has decided to carry out a share buy-back for up to a maximum consideration of \$0.5 billion to further reduce the number of ordinary shares in issue by cancelling the repurchased shares. The terms of the buy-back will be announced and the programme will start shortly and is expected to reduce the Group's CET1 ratio in the first quarter of 2020 by approximately 20 basis points.

The Group's UK leverage ratio of 5.2 per cent was down 38 basis points compared with 31 December 2018 as higher Tier 1 capital was offset by growth in the leverage exposure measure. The Group's leverage ratio is significantly above its minimum requirement of 3.7 per cent.

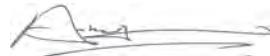
In the period the Group's Pillar 2A buffer increased from 2.9 to 3.4 per cent of which 1.9 per cent has to be held in CET1. The UK Financial Policy Committee and the Hong Kong Monetary Authority also announced changes to their counter-cyclical buffer rates with the UK increasing its rate from 1 per cent to 2 per cent with effect from 16 December 2020 and Hong Kong reducing its rate from 2.5 per cent to 2 per cent with effect from 14 October 2019. The changes to the counter-cyclical buffer rates are not expected to materially impact the Group's minimum CET1 requirements and it continues to target a CET1 ratio of 13-14 per cent.

The Board has recommended a final ordinary dividend of 20 cents per share which, together with the interim dividend of 7 cents per share, would result in a full-year ordinary dividend of 27 cents a share or \$863 million, which represents a 29 per cent increase in the full-year ordinary dividend.

Outlook

The underlying momentum in the fourth quarter of 2019 continued in the opening weeks of 2020 but lower interest rates, slower global economic growth, a softer Hong Kong economy and the impact of the recent novel coronavirus (Covid-19) outbreak will likely result in income growth in 2020 below our medium-term 5-7 per cent target range. These headwinds are expected to be transitory, but we now believe it will take longer to achieve our RoTE target of 10 per cent than we previously envisaged.

We have improved our RoTE every year since 2015 and we are focused on doing so again in 2020 through a combination of positive income-to-cost jaws and continued discipline on returning surplus capital to shareholders. The Board has authorised the purchase and cancellation of up to \$0.5 billion worth of shares starting shortly and will review the potential for making a further capital return upon the completion of the Permata sale.



Andy Halford
Group Chief Financial Officer

27 February 2020



OUR RESEARCH

Sharing insights on sustainability, trade and wealth with our clients

We recently published three reports providing insights for clients on opportunities for investment in the UN's Sustainable Development Goals (SDGs), how global markets are opening for trade, and the gap between wealth aspirations and reality among affluent consumers in our footprint.

Highlighting the SDG investment opportunity

The private sector has a critical role to play in meeting the SDGs over the next decade. Spanning 15 of the world's fastest-growing economies, our Opportunity2030 report reveals an almost \$10 trillion opportunity for private-sector investors across all emerging markets to help achieve the SDGs. This opportunity represents around 40 per cent of the total funding required to meet specific indicators within three infrastructure-focused SDGs between now and 2030. Providing universal access to power represents the greatest investment opportunity, followed by significant improvements to transport infrastructure, digital access and access to clean water and sanitation.

For more information on our Opportunity2030 report visit sc.com/opportunity2030

Pointing to greater trade potential

Our Trade20 report maps the 20 markets with the greatest potential for future trade growth. The study points to existing trade powers that continue to pave the way for increased trade, including markets such as China, India and Singapore. It also highlights a number of medium-sized trading economies, such as Ireland, Vietnam, Indonesia and Thailand, that continue to

make good progress, as well as smaller trading nations such as Côte d'Ivoire which are showing increasing promise. These high-potential markets may be of interest as future investment opportunities, or as import markets and supply chain partners.

For more information on our Trade20 report visit sc.com/wealthexpectancy

Introducing a new measure of prosperity

Our Wealth Expectancy Report 2019 examines the saving and investment behaviours of 10,000 emerging affluent, affluent and high-net-worth individuals across Asia, Africa and the Middle East. To do this, we compare their aspirations for retirement with the wealth they can expect to accumulate by the time they are 60. Even with a global average wealth expectancy of more than \$1 million, nearly six out of 10 people (56 per cent) are at risk of not being able to afford the retirement lifestyle they aspire to.

For more information on our Wealth Expectancy Report visit sc.com/trade20



Group Chief Risk Officer's review

Staying strong in challenging times

2019 saw considerable geopolitical and macroeconomic uncertainty, with global growth slowing and the long-term impacts of US-China trade tensions, low interest rates, social unrest in Hong Kong and Brexit dominating the financial landscape. This has continued into 2020, with the recent novel coronavirus (Covid-19) outbreak affecting many of our key markets. While ensuring appropriate support of clients, we have taken measures to ensure the ongoing effectiveness of our risk management, maintaining a strong, diversified and resilient portfolio; and ensuring that areas of growth are well controlled and sustainable. Asset quality has remained broadly stable, although credit impairment saw a modest increase compared with 2018. However, this is still below the elevated impairment levels observed in previous years. Our capital and liquidity positions continue to be at healthy levels.

We are constantly scanning the risk landscape for new areas of potential concern and in 2020 we have elevated Model Risk to a Principal Risk Type recognising the importance of Model Risk to the Group. We have also identified Climate Risk as a material cross-cutting risk that should be considered alongside multiple risk types. Sustainability remains a core item on our agenda and our adoption of the UN's Principles for Responsible Banking demonstrates our commitment to provide the right outcomes for all our stakeholders. We continue to invest in technology to further enhance our risk management capabilities.

An update on key risk priorities

In view of the challenging risk environment it is essential that we continue to optimise the way risk is managed within the Group. Innovation is at the heart of our agenda, and we are making progress on the Risk, and Conduct, Financial Crime and Compliance (FCCC) priorities set out at half year:

→ **Strengthen the Group's risk culture:** Embedding a healthy risk culture continues to be a core objective across all areas of the Group. It underpins an enterprise-level ability to identify and assess, openly discuss, and take prompt action to address all existing and emerging risks. Our Enterprise Risk Management Framework (ERM) has been embedded and rolled out to all countries. It sets out the guiding principles for our people, enabling us to have integrated and holistic risk conversations across the Group. In 2019, we increased focus on non-financial risks and are implementing a revised framework for the management of Operational Risk. Internal messaging from senior management promotes a healthy risk culture by valuing risk-based thinking across each line of defence, encouraging risk awareness, challenging the status quo and creating a transparent, safe and open environment for employees to communicate risk concerns.

→ **Enhance information and cyber security (ICS):** A key part of our Group strategy has been our investment in digitisation and partnerships to better serve our clients. A new Group ICS strategy has

been developed to align with the overall corporate strategy and drive cohesion across the Group on managing ICS Risk. The refreshed approach saw the following deliverables in 2019: an enhanced operating model to clarify accountabilities between the first and second lines of defence; Group-wide initiatives to further enhance our cyber capabilities; and increased training and awareness alongside crisis management exercises to ensure business responses with focus on clients and critical services, which has facilitated greater insights into the Group's risk position. In 2020, we will work to implement enhanced ICS capabilities across all our applications and businesses.

→ **Managing Climate Risk:** Climate change remains one of the greatest challenges facing the world today, given its widespread and proven impacts on the physical environment and human health, and potential to adversely impact economic growth. We recognise the need to manage both our contribution through direct and financed emissions, and the financial and non-financial risks arising from climate change. The Group is responding responsibly and with urgency on both and has committed to measure, manage and ultimately reduce the emissions linked to our financing in line with the Paris Agreement. In support of this, in December 2019 we announced a substantial new clean technology and renewables target, and that we will only support clients who actively transition their business to generate less than 10 per cent of earnings from thermal coal by 2030. Governance around management of Climate Risk was significantly strengthened in 2019. To provide oversight on the development and implementation of the Climate Risk framework a Climate Risk Management Forum has been appointed that includes senior leaders from the business, risk and strategy. We have also partnered with external experts to further assess the impact of climate related risks, including engaging Imperial College London as academic advisers and piloting the Munich Re tool for physical risk assessments. Climate Risk has been identified as a material cross-cutting risk and multiple workstreams are underway to incorporate it into the relevant Principal Risk Type Frameworks. Our 2019 Taskforce for Climate-related Financial Disclosures Report provides further details on the Group's progress.

 More details on the Group's Taskforce for Climate-related Financial Disclosures Report can be found on sc.com/tcfdr



Mark Smith
Group Chief Risk Officer

→ **Manage financial crime risks:** We remain committed to our mission of “partnering to lead in the fight against financial crime” and are delivering on the remediation actions arising from the 2019 resolutions. In 2019, we reached a milestone with the termination of the Independent Consultant appointed by the New York State Department of Financial Services (NY DFS), and the business restrictions previously imposed by the NY DFS are no longer in effect as of 31 December 2019. We reclassified the Fraud Risk sub-type from Operational Risk to Financial Crime Risk, thus providing new insights and a more holistic view of Financial Crime threats. We have also further developed our Fighting Financial Crime microsite as well as delivering on many of our system upgrades. We are demonstrating delivery against our mission through our Correspondent Banking Academies, our ongoing deployment of upgraded systems for AML, sanctions, fraud and customer due diligence, and the Group’s plan to collaborate with Quantexa, which will support the Group’s Financial Crime team in developing innovative solutions to tackle challenges including money laundering, fraud and terrorist financing. The Group also contributes to industry thinking on reform and information sharing partnerships in a number of markets, as well as working with international forums such as the Wolfsberg Group.

→ **Strengthen our conduct environment:** Conduct remains a key focus across the Group. The emphasis in 2019 was to further embed the framework at a more granular level across our footprint, businesses and functions, and ensure that conduct considerations are central to decisions taken throughout the Group. The Conduct Risk Type Framework provides a robust and consistent approach to help the identification, monitoring and management of Conduct Risk. The Conduct Risk Appetite metrics were also revised to focus on our main Conduct Risk outcomes: fair outcomes for clients; employee welfare and relations; and effective markets and stakeholder confidence, to provide a better view of the key Conduct Risks facing the Group. Conduct Plans are a key part of our framework and they identify, document and develop action plans to mitigate Conduct Risks. Ownership of Conduct Plans is with the first line of defence, with review and challenge from CFCC. These will play a significant part in helping us to uphold the highest standards of conduct, acknowledging that while incidents cannot be entirely avoided, the Group has no appetite for wilful or negligent misconduct.

→ **Enhance our Risk and CFCC infrastructure:** We continue to invest in our Risk and CFCC infrastructure to streamline processes, serve clients better and drive internal efficiencies. This includes improvements to stress testing, exposure management and data quality by using agile delivery methods to enhance our workflow and reporting systems. We are further developing our data and analytics infrastructure to enhance the speed and quality of risk decision-making; this includes initiatives driven both by internal innovation and collaboration with fintech partners. Our control capability has continued to strengthen with machine learning functionality and increased scope of surveillance and financial crime platforms, as well as adding availability on mobile devices to provide on-demand access to our automated askCompliance portal. We have also made structural changes including integrating financial crime and regulatory compliance teams at Group level to provide a single point of contact for the business. This has simplified our structure resulting in a greater client focus with reduced hierarchy, and faster decision-making. A new country operating model has also been designed and is being implemented across the Group. This mirrors the changes (and resulting benefits) at Group level by bringing together the financial crime and regulatory compliance teams, providing local teams with better access to specialist knowledge at a regional and group level.

→ **Enhance our Model Risk management:** We have elevated Model Risk to a Principal Risk Type and identified its development as a key priority for the Group. In 2019, we launched the Model Risk Management Strategic Enhancement Programme which will improve our current capabilities. We have adopted a holistic approach, focusing on areas such as policy and governance, model inventory, Model Risk appetite and risk assessment, roles and responsibilities across first and second line activities, model development and validation standards, model portfolio optimisation and mitigation techniques. We will continue to invest in 2020 to embed the enhanced Model Risk management framework.

Our risk profile and performance in 2019

Our 2019 risk profile indicates strong performance that reflects the good work done in past years to improve our portfolios and secure our foundations. This should serve us well as the macroeconomic environment becomes more challenging. In 2019, we have remained resilient, with the Group’s asset quality remaining broadly stable as well as our capital and liquidity metrics continuing to be at healthy levels.

We remain vigilant against existing and emerging risks that may impact our business, and utilise portfolio reviews and stress testing to assess the risk landscape.

Although credit impairment has increased year-on-year, it remains below the elevated levels seen in previous periods. Total credit impairment excluding the restructuring portfolio is \$906 million, an increase of 22 per cent on 2018; however, this was largely due to stage 1 and 2 impairment, which saw a rise due to deteriorating macroeconomic variables, including a reduction in Hong Kong GDP. This was partially offset by lower stage 3 impairments across most segments.

Gross credit impaired (stage 3) loans reduced by 12 per cent to \$7.4 billion (2018: \$8.5 billion) driven by continued reductions in Corporate & Institutional Banking and Commercial Banking.

The stage 3 cover ratio increased to 68 per cent (2018: 66 per cent) due to new impairment charges, repayments and upgrades in Corporate & Institutional Banking. The cover ratio including collateral was flat at 85 per cent (2018: 85 per cent).

Retail Banking and Private Banking represent a similar proportion of total customer loans and advances to the previous year, with the overall loan-to-value of the mortgage portfolio remaining low at 45 per cent. The percentage of unsecured loans in the portfolio is broadly stable.

Average Group Value at Risk increased by 47 per cent year-on-year as the non-trading book saw an increase in the bond inventory of high quality assets in the Treasury Markets business. While we have seen growth in Financial Markets income, we remain comfortable with the level of risk we are taking and continue to actively monitor the portfolio to ensure that any growth is in line with our risk appetite.

The results of the Bank of England’s Annual Cyclical Scenario stress test in 2019 show that the Group is more resilient to stress than a year ago. Despite an increase in the severity of the scenario, the maximum fall in the Group’s Common Equity Tier 1 ratio reduced to 520 basis points (2018: 570 basis points), reflecting improved revenue momentum and overall risk profile together with the resolution of legacy conduct and control issues.

➤ Further details of the Group’s risk performance for 2019 are set out in the Risk update (pages 150 and 151) and the Risk profile section (pages 152 to 205)

Group Chief Risk Officer's review continued

An update on our risk management approach

Since its launch in 2018, we have embedded the Enterprise Risk Management Framework (ERMF) across the Group, including branches and subsidiaries. This allows the Group to identify and manage risks holistically, as well as strengthening the Group's capabilities to understand, articulate and control the nature and level of the risks we take while still effectively serving our clients.

In 2019, we reviewed the ERMF. As part of the review, we have elevated Model Risk to a Principal Risk Type with enhancements to the Group's approach to Model Risk management. This was previously a risk sub-type within the Operational Risk Type Framework. In addition to the Principal Risk Types, the Group now recognises Climate Risk as a material cross-cutting risk that manifests through other relevant Principal Risk Types. Climate Risk is defined as the potential for financial loss and non-financial detriments arising from climate change and society's response to it. The Group aims to measure and manage financial and non-financial risks from climate change, and reduce emissions related to our own activities

and those related to the financing of clients in alignment with the Paris Agreement. Over time, the Group will consider if any of the other existing or emerging risks should be treated as material cross-cutting risks.

Principal risks are those risks that are inherent in our strategy and business model. These are formally defined in our ERMF which provides a structure for 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 provides an overview of the Group's principal risks and how these are managed.

| 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 |
| Traded Risk | The Group should control its trading portfolio and activities to ensure that Traded Risk losses (financial or reputational) do not cause material damage to the Group's franchise |
| Capital and Liquidity Risk | The Group should maintain a strong capital position including the maintenance of management buffers sufficient to support its strategic aims and 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 |
| Country Risk | The Group manages its Country Risk exposures following the principle of diversification across geographies and controls the business activities in line with the level of Jurisdiction Risk |
| Reputational Risk | 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 |
| Operational Risk¹ | 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 |
| Compliance Risk | The Group has no appetite for breaches in laws and regulations, while recognising that regulatory non-compliance cannot be entirely avoided the Group strives to reduce this to an absolute minimum |
| Conduct Risk | The Group has no appetite for negative Conduct Risk outcomes arising from negligent or wilful actions by the Group or individuals recognising that while incidents are unwanted, they cannot be entirely avoided |
| Financial Crime Risk | 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 |
| Information and Cyber Security Risk | 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 |
| Model Risk² | The Group aims to control Model Risk through appropriate level of governance and oversight to protect the franchise from losses that may occur as a consequence of decisions or the risk of mis-estimation that could be principally based on the output of models due to errors in the development, implementation or use of such models |

1 Risks arising from execution capability, governance, reporting, operational resilience (including third party vendor services, and system availability) are managed by the Operational Risk Type Framework. For further details please refer to page 221

2 Model Risk was added as a Principal Risk Type effective from January 2020. Further details on the Model Risk Type framework will be provided in the 2020 Annual Report

➤ Further details of our Principal Risks and how these are being managed are set out in the Principal risks section (pages 212 to 227)

Emerging risks

Emerging risks refer to unpredictable and uncontrollable outcomes from certain events and circumstances which may have the potential to impact our business materially. These include near-term risks that are on the horizon and can be measured or mitigated to some extent, as well as longer-term uncertainties that are on the radar but not yet fully measurable.

The table below summarises the emerging risks that the Group faces, and the steps we are taking to manage them.

| Emerging risks | Risk trend since 2018 ¹ | How these are mitigated/next steps |
|---|------------------------------------|--|
| Geopolitical events, in particular: extended trade tensions driven by geopolitical and trade concerns, unrest in Hong Kong, Middle East geopolitical tensions, Brexit implications, and Japan-Korea diplomatic dispute | ↑ | <ul style="list-style-type: none"> → We monitor and assess geopolitical events and act as appropriate to ensure we minimise 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 |
| Moderation of growth in key footprint markets led by China, political volatility, novel coronavirus and disruptions to global supply chains | ↑ | <ul style="list-style-type: none"> → 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 → A global downturn with shocks concentrated on China and countries with close trade links with China is one of the regularly run Traded Risk stress tests → The Group has robust Business Continuity Plans that are reviewed regularly to manage a range of scenarios |
| Climate-related transition and physical risks² | ↑ | <ul style="list-style-type: none"> → We are developing a Climate Risk framework to deliver a consistent Group-wide approach to climate risk management. We are also a member of the Risk Management Working Group under the Bank of England's Climate Financial Risk Forum → The Group has a public target to fund and facilitate \$35 billion towards renewable energy from 2020 to the end of 2024 |
| Interbank offered rate (IBOR) discontinuation and transition | ↑ | <ul style="list-style-type: none"> → We have implemented a global programme to manage all aspects of the transition → We are actively participating in and contributing to industry associations and business or regulatory forums focusing on different aspects of the LIBOR to Risk-Free Reference Rate (RFR) transition |
| Regulatory changes | ↔ | <ul style="list-style-type: none"> → We actively monitor regulatory initiatives across our footprint to identify any potential impact and change to our business model → We have established relevant project management programmes to review and improve end-to-end processes in terms of oversight and accountability, transparency, permission and controls, legal entry level limits and training |
| Regulatory reviews, investigations and legal proceedings | ↔ | <ul style="list-style-type: none"> → We have invested in enhancing systems and controls, and implementing remediation programmes (where relevant) → We continue to train and educate our people on relevant issues including conduct, conflicts of interest, information security and financial crime compliance in order to reduce our exposure to legal and regulatory proceedings |
| New technologies and digitisation, including business disruption risk, responsible use of artificial intelligence and obsolescence risk | ↔ | <ul style="list-style-type: none"> → We monitor emerging trends, opportunities and risks in the technology space which may have implications on the banking sector → We are engaged in building our capabilities to ensure we remain relevant and can capitalise rapidly on technology trends → We continue to make headway in harnessing new technologies, actively targeting the reduction of obsolescent/end of support technology and ensuring operational resilience |
| Increased data privacy and security risks from strategic and wider use of data | ↔ | <ul style="list-style-type: none"> → We have governance and control frameworks which we continue to enhance to meet the needs of emerging technologies → We have designed a programme to manage the risks posed by rapidly evolving cyber security threats → We maintain a vigilant watch on legal and regulatory developments in relation to data protection to identify any potential impact to the business |

↑ Risk heightened in 2019 ↓ Risk reduced in 2019 ↔ Risk remained consistent with 2018 levels

1 The risk trend refers to the overall risk score trend which is a combination of potential impact, likelihood and velocity of change

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

Further details on our emerging risks can be found on pages 228 to 235

Summary

Risk is an area that provides both challenges and opportunities. The Risk and CFCC functions will remain key to the Group's success. Early in 2020, we have been faced with the outbreak of the novel coronavirus. Major elections are due later in the year and a number of other geopolitical risks remain. Our continued investment and focus on our risk management capabilities will help the Group to navigate these headwinds, with the intention of ensuring a sustainable, innovative, resilient and client-centred bank.

Mark Smith
Group Chief Risk Officer

27 February 2020



CLIENT CASE STUDY

Building an Indian fashion brand with Neeru's

Based in Hyderabad, Neeru's specialises in traditional, handcrafted Indian fashion design.

In 2008, with demand for her unique designs increasing, Neeru Kumar, Owner and Head Designer, was looking for ways to expand, but didn't want to have to sell her stake in the business in order to raise capital. Neeru eventually found a way forward with Standard Chartered. We provided an INR 22,000,000 (\$314,285) business loan, as well as an INR 19,800,000 (\$282,857) personal loan over 180 months.

These loans formed the groundwork that ultimately enabled Neeru to open three more stores – one in Hyderabad and two in Bangalore. In 2019, Neeru took out a mortgage loan with us of INR 83,500,000 (\$1,192,857) to support the ongoing expansion of the brand.

Today, over a decade since we first worked with the business, Neeru's retails across 100 points of sale in 25 Indian cities and in Dubai.



"With Standard Chartered, we are achieving our goal of expanding both domestically and internationally"

Neeru Kumar Owner and Head Designer, Neeru's

Stakeholders and responsibilities

As an international bank located in 59 markets, stakeholder engagement is central to how we understand local, regional and global perspectives and trends that inform our approach to doing business.

| OUR STAKEHOLDERS | |
|---|----------------------------|
|  | Clients |
|  | Regulators and governments |
|  | Investors |
|  | Suppliers |
|  | Society |
|  | Employees |

This section forms our **Section 172** disclosure, describing how the directors considered the matters set out in section 172(1)(a) to (f) of The Companies Act 2006. It also forms the directors' statement required under section 414CZA of the Act.

See the following pages for:

How we engage stakeholders to understand their interests

› See pages 44 to 46

How we engage employees and respond to their interests

› See pages 47 to 49

How we respond to stakeholder interests through sustainable and responsible business

› See pages 51 to 56

Detailed information about how the Board engages directly with stakeholders and shareholders can be found in the Directors' Report on pages 80 to 82.

Examples of a selection of the Board's principal decisions are included throughout this section.

This section also forms our key non-financial disclosures in relation to sections 414CA and 414CB of the Companies Act. Our non-financial information statement can be found at the end of this section on page 57.

Sustainability Aspirations

Our Sustainability Aspirations continue to provide a robust set of performance targets to support sustainable business outcomes. Developed in 2016, the Aspirations are a set of annual and multi-year performance targets aligned to the UN SDGs. Performance against our Aspirations in 2019 is set out in the following pages. Their integration into the 2019 Annual Report reflects the Group's continued commitment to delivering sustainable and responsible banking.

As part of this commitment, we are embarking on third-party, limited assurance of a selection of our Aspirations as they represent our most significant impacts.

› See page 405 for our refreshed 2020 Sustainability Aspirations



Group KPI: Sustainability

Delivering sustainability aspirations



Aim: Embed sustainable and responsible practices across our business, operations and communities by measuring progress against the targets set out in our Sustainability Aspirations.

Analysis: In 2018, 90.9 per cent of our Aspirations were achieved or on track. In 2019, this figure rose to 93.1 per cent, demonstrating the continued progress being made.

Each Aspiration contains one or more performance measure. The KPI is the proportion of all measures that have been achieved or are on track to deliver at the end of the reporting period.

Engaging stakeholders

Constructive dialogue with stakeholders is central to delivering sustainable and responsible banking. Regular engagement builds trust with governments, regulators, investors and civil society, and enables us to understand and respond to the long-term challenges facing our markets. This is necessary if we are to deliver our purpose to drive commerce and prosperity in our markets.

During 2019, we increased our dialogue and engagement with stakeholders including civil society, regulators and investors on sustainability. We continued to track short- and long-term issues, assessing them based on business impact and level of stakeholder concern.

Stakeholder feedback is communicated internally to senior management through the relevant forums and governing committees to the Board's Brand, Values and Conduct Committee (BVCC). The BVCC oversees the Group's approach to its main government and regulatory relationships. Progress is communicated regularly to external stakeholders through channels such as sc.com and this report.

"Constructive dialogue is central to sustainable and responsible banking"



Clients

How we create value

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.

How we serve and engage

Clients are at the heart of everything we do as a bank. By building and fostering long-term relationships with our clients, we can serve them better, deepen our relationships, uphold our reputation and attract new customers to grow our business.

During 2019, we continued to capture feedback via annual surveys, real-time client experience surveys and third-party studies that benchmark our performance against competitors. Additionally, we launched efforts to work more directly with clients earlier in the development process to co-design new solutions and improve the value proposition of our existing offerings. Through this, clients have told us that we need to simplify our processes and make more effective use of digital technology. In recent years, we have also seen increasing demand from our clients for sustainable finance products.

The increased emphasis on direct interaction allowed us to respond more quickly and completely to our clients' feedback. For example, Retail Banking created a personal loan product in Singapore with a simplified online user experience and application process that was delivered in just six weeks; Private Banking designed more user-friendly communication for customers on corporate actions and enabled payment notifications via email and mobile; and Corporate & Institutional Banking developed innovative new products to meet clients' growing interest in sustainable finance.

Their interests

- Differentiated products, preferred bank
- Digitally enabled and positive experience
- Sustainable finance



Regulators and governments

How we create value

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

How we serve and engage

We actively engage with governments, regulators and policymakers at a global, regional and national level to share insights, and to support the development of best practice and the adoption of consistent approaches across our markets.

In 2019, we engaged policymakers on topics such as prudential rules, Brexit, supporting trade and economic growth, sustainable banking, fintech, artificial intelligence, cyber security and fighting financial crime, benchmark reform and conduct.

We are committed to complying with 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 ensures that the Group meets its obligations and supports the resilience and effective functioning of the broader financial system and economy. In support of this, we have a unified Public and Regulatory Affairs team responsible for anticipating changes to relevant legislation and regulation, and managing relationships with regulators and governments. During 2019, we improved our capacity to identify and analyse the forward horizon of potential and emerging regulatory developments that have strategic impacts on the Group.

We meet all relevant transparency requirements and engage through ongoing dialogue with regulators and governments, submitting responses to formal consultations and by participating in industry working groups. We typically publish our consultation responses on regulations that impact the Group on sc.com.

In 2020, we expect to engage on regulation and legislation associated with international trade, emerging technologies and innovations in banking, sustainable banking including climate risk and artificial intelligence including data analytics and privacy.

Their interests

- Robust capital base/strong liquidity position
- Standards for conduct
- Healthy economies, competitive markets and positive social development



Investors

How we create value

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

How we serve and engage

We rely on capital from debt and equity investors to execute our business model. Whether they have a short- or long-term investment horizon, we provide all investors with information about all aspects of our financial and sustainability performance.

Our operating footprint and commitment to sustainable and responsible banking enables us to connect investors in capital markets to opportunities in emerging markets. We believe that an integrated approach to ESG issues and a strong risk and compliance culture provide a competitive advantage. During 2019, we delivered value by executing against our strategic priorities. See pages 19 to 29 for more information.

Transparent engagement with our investors and the wider market helps us to understand what investors need so that we can tailor our public information accordingly. We communicate with investors through quarterly management statements, half- and full-year results, webinars and media releases. Our Investor Relations team engages directly through calls, conferences and roadshows. For example, during 2019 we hosted investor seminars on our franchise in the Africa & Middle East region and our Financial Markets business to provide greater insights into their opportunities, advantages and underlying drivers of performance.

Feedback is taken seriously by the Board and it is aware of topics of particular interest, recommendations or requests. During the year, the Board met with investors to discuss key topics including digital banking initiatives, the US-China trade dispute, social unrest in Hong Kong and executive remuneration. They also discussed the views of institutional investors and responded to retail shareholders' questions at the AGM.

We continued to respond to the growing interest from mainstream investors on ESG matters including the SDGs, sustainable finance, climate change, coal and human rights. We also engage with sustainability analysts and participate in sustainability indices that provide independent benchmarking of our performance. We are included in FTSE4Good and submit to the Carbon Disclosure Project (CDP).

In 2020, we will continue to engage with investors on how we plan to sustainably improve our returns to create value over the long term.

Their interests

- Safe, strong and sustainable financial performance
- Opportunities for sustainable finance
- Environment, social and governance matters



Suppliers

How we create value

We work with local and global suppliers to ensure they can provide the right goods and services for our business, efficiently and sustainably.

How we serve and engage

Engagement is guided by our Supplier Charter, which sets out what we expect of suppliers on issues such as ethics, anti-bribery and anti-corruption, human rights and environmental performance. Our suppliers must recommit to the charter annually, and regular engagement to monitor performance is built into our procurement practices and standards.

We engage globally and locally to create value through the supply chain for both our business and our suppliers. In 2019, our innovation arm SC Ventures and our Group Chief Executive held engagement sessions with strategic and fintech suppliers in Singapore to strengthen collaboration and innovation around digital transformation. In addition, we formed a strategic partnership with SAP Ariba to bring financial supply chain solutions to businesses in the Asia Pacific Region through the Ariba Network.

Small and medium-sized business owners continue to have the opportunity to participate in our sourcing activities and local supply teams help them meet the standards set out in our charter. We continue to work with small and medium-sized fintechs with SC Ventures to drive greater innovation in our supply chain.

PRINCIPAL BOARD DECISION 1

Share buy-back programme

In setting out the Group's approach to dividend growth and capital returns, the Board considered a range of options to grow the dividend over time and to deploy capital not needed to be retained in the business over time. Taking into account a broad range of investor views, and considering regulator sentiment, the Board agreed that it was in the best interests of the Group to return \$1 billion of capital through a share buy-back programme, subject to prevailing economic and regulatory conditions.

PRINCIPAL BOARD DECISION 2

Climate risk and sustainability strategy

The Board reviewed the Group's activities in relation to climate change.

In its discussions, the Board recognised the need to manage physical and transitional climate risks that are impacting clients, shareholders, employees and local communities.

As a result, the Board endorsed the Management Team's decision to develop and implement a Climate Risk framework and to incorporate climate into relevant Principal Risk types as a material cross-cutting risk.

The Board also acknowledged the significant opportunity to support clients with new financing solutions that contribute to decarbonising economies and improving physical resilience to a changing climate.

In addition, it considered the Group's progress in advancing its sustainability strategy against a rapidly changing landscape where expectations from key stakeholders, including governments, regulators, investors and employees, were increasing.

Engaging stakeholders continued

Suppliers continued

We are committed to improving the supplier experience. In 2019, suppliers told us they wanted simpler on-boarding and payment processes. To address this, we are streamlining our on-boarding processes, improving our use of technology and providing additional training on these processes for employees and suppliers.

During 2019, we made good progress embedding sustainability into our procurement practices. We strengthened governance of Modern Slavery and Human Trafficking (MSHT) risk and assessed the MSHT standards and practices of our strategic suppliers' own supply chains. Read our 2019 Modern Slavery Statement at sc.com/modernslavery.

We have started to enrich our data on supplier diversity and conducted a benchmarking study in preparation for developing a more robust supplier diversity programme in 2020.

Their interests

- Open, transparent and consistent tendering process
- Willingness to adopt supplier driven innovations
- Accurate and on-time payments



How we create value

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

How we serve and engage

We engage with a wide range of civil society and international and local non-governmental organisations (NGOs) from those focused on environmental and public policy issues to partners delivering our community programmes.

Where NGOs approach us about a specific client or transaction, we aim for constructive dialogue that helps ensure we understand alternative positions, which can shape our thinking, and that our approach to doing business is understood. This engagement takes the form of individual face-to-face meetings and calls, as well as written responses on specific topics. The views and concerns of our stakeholders are then fed into the decisions we make within the Group. In 2019, we continued to engage with organisations on climate change, human rights and tax.

We engage with international and local NGOs to advance our community development agenda to tackle avoidable blindness and promote economic inclusion. We have long-standing relationships with global implementing partners, such as Women Win and the International Agency for the

Prevention of Blindness, which deliver our community programmes. These relationships provide valuable insight, with partners acting as trusted sounding boards for understanding evolving issues in our communities.

Local NGO partners delivering our community programmes collect regular feedback from participants to shape future activities. For example, girls on our Goal empowerment programme are regularly surveyed to track their individual and collective progress against the programme's objectives. In 2019, we commissioned an independent study to learn more about Goal's impact.

We also encourage colleagues to use their three days of volunteering leave to build relationships within their own communities, and the Board incorporates visits to our community programmes into their travel schedules.

In 2020, we will host the inaugural Futuremakers Forum, an engagement opportunity that will bring together a broad range of experts, community members and corporates to discuss and promote economic inclusion for young people.

Their interests

- Positive social and economic contribution
- Strong community outreach and sustainability programme
- Climate change and environmental issues

PRINCIPAL BOARD DECISION 3

Sale of joint venture investment in an Indonesian bank

In deciding to explore, with its joint venture partner, the sale of its stake in an Indonesian bank, the Board gave due consideration to the potential impact on other key stakeholders, over and above the financial and strategic benefits which would be realised by the Group. This included local regulatory requirements.

The Board considered the impact of the divestment on clients and employees, as well as the local communities in which the bank operates, and agreed that the final terms of the sale were in the best interests of the Group as a whole.



Employees

How we create value

We believe great employee experience drives great client experience. We want all our people to pursue their ambitions, deliver with purpose and have a rewarding career enabled by great people leaders.

| 2019 SUSTAINABILITY ASPIRATIONS: EMPLOYEES | |
|--|----------------------------|
| People | |
| Increase gender representation: 30% women in senior roles (Sept 2016 – Dec 2020) | |
| Implement a Living Wage for all employed workers (Jan 2019 – Dec 2019) | |
| Conduct feasibility analysis to incorporate a Living Wage into agreements for all non-employed workers (Jan 2019 – Dec 2020) | |
| Concluded in the year | Ongoing aspirations |
| Achieved | On track |
| Not achieved | Not on track |

How we serve and engage

By engaging employees and fostering a positive experience for them at Standard Chartered, we can better serve our clients and deliver our purpose to drive commerce and prosperity through our unique diversity. Building an inclusive culture enables us to harness our unique diversity to unlock innovation, make better decisions, deliver our business strategy, live our valued behaviours, and embody 'Here for good'.

Since 2016, the Group has taken steps toward an inclusive, innovative and performance-based culture that emphasises sustainability and conduct. When lived consistently, our valued behaviours (Never settle, Do the right thing, and Better together) should deliver our desired culture.

We proactively assess and manage people-related risks; for example, organisation, capability, and culture, as part of our Group risk management framework.

Their interests

In 2018, we conducted research to understand our Employee Value Proposition (EVP) or the value that employees feel they gain from being part of our organisation. The research also illustrated what potential employees consider important in an

employer. Our employees told us they want to: have interesting and impactful jobs; innovate within a unique set of markets and clients; cultivate a brand that sustainably drives commerce and offers enriching careers and development; and be supported by great people leaders. They want these elements to be anchored in competitive reward and a positive work-life balance. Our EVP has been a key input to our refreshed People Strategy, which was approved by the Board in 2019. The strategy will be a key enabler in delivering our business strategy while also creating a differentiated employee experience.

Listening to employees

Listening to employees helps us identify, and work to close gaps between their expectations and their experiences. My Voice, our annual engagement survey has played a role at each stage in our culture transformation. In 2019, 71,000 (91 per cent) of our employees and, for the first time, 3,000 non-employed workers (NEWs) completed the survey. Two-thirds of the survey questions improved year-on-year with one survey question decreasing, suggesting the overall employee experience is improving. This is also reflected in our voluntary attrition rates decreasing year-on-year. Our employee net promoter score (eNPS) has continued to increase steadily since 2016. Improving employee advocacy internally is beginning to reflect externally with increasing LinkedIn follower growth (up by 36 per cent from 2018) and our Glassdoor rating is 3.7 stars.

We need our people leaders to be the drivers of culture change. During the year, more than 80 per cent of first-time leaders attended our new people leader development programme LeadX to develop better leadership capabilities. The programme content was informed by what our employees told us they wanted from their leaders in My Voice.

While survey results are improving, employee satisfaction with growth opportunities is the lowest scoring question. As part of our refreshed People Strategy, we are implementing several initiatives to improve this, including piloting the introduction of a virtual talent marketplace to grow individuals' skillsets and increasing opportunities for learning experiences for all employees.

In response to the revised UK Corporate Governance Code Provision 5, we considered the specified workforce engagement methods (a director from the workforce, a workforce advisory panel, and/or a designated non executive director)

Group KPI: Employee engagement



Employee Net Promoter Score (eNPS)

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

Analysis: Our eNPS has steadily increased since 2016 and is on a par with 2018.



eNPS measures the number of promoters (who would recommend the Group as a great place to work) compared with detractors on a scale from -100 to +100. This is reflected in the percentage change calculation.

CASE STUDY

Inclusive leadership

83 per cent of our people leaders have now attended an Inclusive Leadership Programme. This builds an understanding of how to create an inclusive culture and create value by unlocking the diversity of thought in teams. This has been further supported by the launch of an activity-based e-learning 'When we're all included' in 2019.



Engaging stakeholders continued

Employees continued

and concluded that an alternative framework would be more suitable. As a global organisation with a workforce of approximately 90,000 across 59 diverse markets, the Board engagement needs to gather feedback that is representative of the whole workforce to be effective. Several channels exist for the Board to understand the views of the workforce, including information reported from senior management on culture, My Voice, Speaking Up, disciplinary and grievance data and themes. The Board engages directly with the workforce on overseas visits, which in 2019 included Germany, China and Singapore, and other events; for example, our employee Recognition Awards. Further, in 2019 we experimented with two interactive online sessions. More than 900 employees actively participated in both sessions either asking questions, providing comments or liking content. Questions focused on the future of banking, organisational structures, talent management and diversity and inclusion, and the Questions and Answers page has been viewed more than 6,500 times. These initial sessions demonstrate employee interest in hearing from our Board members and the output will be used to inform future engagements with employees.

Developing future skills in a diverse workforce

The world of work continues to change rapidly. We want to equip employees with the skills they need to prosper in this increasingly ambiguous environment. This starts with an aspiration for every employee to have a personalised growth plan, created in partnership with their people leader and based on their performance, career objectives and future roles. Our goal in 2020 is for 80 per cent of employees to have a growth plan in place.

We are investing in tools to support this aspiration. Our new global people management platform makes it easier for employees to define their objectives, receive feedback from peers and plan their career growth.

We want to increase access to development opportunities for our diverse talent. We are building a virtual talent marketplace platform, supported by artificial intelligence, that enables employees to match their skills and aspirations with short-term experiences. We are also rolling out a personalised learning platform that provides tailored recommendations and access to internal and external learning resources. This should help employees manage their careers for

Group KPI: Diversity and inclusion



Women in senior roles

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

Analysis: Since signing the Women in Finance Charter in 2016, we have seen a positive trend in female representation in our senior leadership roles, increasing to 28.5 per cent at the end of 2019. This takes us closer towards our pledge of having women occupy 30 per cent of senior roles by 2020.



The total number of women in senior management (Managing Director and band 4) roles expressed as a percentage of total senior management roles.

the future. In addition, we have delivered a series of targeted leadership acceleration programmes to more than 850 employees to develop role readiness and build leadership capabilities. These efforts are having a positive impact on developing our pipeline of internal talent with 63 per cent of senior management appointments in 2019 going to an internal candidate.

We will only prosper as an organisation if our employees and teams prosper too. We want to create a working environment that supports employee resilience and creativity, so they can thrive at work and in their personal lives. Providing working conditions that are broad and inclusive will help us to reap the benefits of our diverse and talented workforce. Our Fair Pay Charter (p116) is a public declaration of

our commitment to deliver fair, transparent and competitive pay, continually improve our benefits, and support our employees' lifestyle, wellbeing and development. We continue to build on the resources (mental, physical, social and financial) to help our employees manage their individual wellbeing needs. We have wellbeing champions in place that cover 95 per cent of our employees and mental health first aiders available in the UK, US, Singapore and Hong Kong.

Creating an inclusive culture that leverages our diversity

Following the launch of our Diversity and Inclusion (D&I) strategy in 2018, we have continued to build the foundations and raise awareness of D&I. It is our strong belief that a culture of inclusivity is the key to harnessing our unique diversity to unlock innovation and create shareholder value. Our Inclusive Leadership Programme, completed by more than 80 per cent of people leaders, cultivates skills and behaviours to help mitigate unconscious bias and build a culture of inclusion. This has further been supported through the launch of our e-learning, 'When we're all included', for all employees.

We recognise five international D&I dates¹ to raise awareness, enable dialogue, highlight role models, disrupt traditional norms and break stereotypes. Our global campaigns, supported by local D&I councils and employee resource groups, delivered 293 activities ranging from panel events with clients and community representatives to hosting classes on sign language, cultural intelligence and flexible working. In addition, we shared toolkits to increase understanding of cultural dialogue, being an LGBT+ advocate, mental wellbeing, disability and parental leave best practices.

We have signed up to disability advocacy initiatives such as The Valuable 500 and the International Labour Organization – Global Business Disability Network Charter to further

FUTURE SKILLS

Global Learning Week

In support of our ambition to develop future skills as part of our refreshed People Strategy, we held a global learning week in October titled 'Invest in Yourself'. About 49,000 participants took part in more than 500 events that included panels, external speakers and

demonstrations of learning tools and more than 17,000 videos, articles and podcasts were consumed. The week was a catalyst to encourage people to think about the future of work, develop new skills and make learning an everyday habit.

reinforce our commitment to be a disability-confident organisation. Our aim is to remove barriers and increase accessibility. We've had an inclusive design standard in place since 2016 which has been applied to all new premises and retrofits. Further, we are encouraging markets to assess their disability confidence with a new assessment tool to close gaps and identify best practice.

We achieved our 2019 aspiration to pay all employed workers a living wage, and in locations where it is possible, employees are invited to participate in our Sharesave plan to share in the success of the Group.

During 2020, we will continue work on a feasibility assessment to extend our living wage commitment to our contractors and third parties.

Our inclusion efforts and actions have led to improvements in the outcomes we measure including female representation in senior roles, which has increased from 27.7 per cent in 2018 to 28.5 per cent at the end of 2019. We don't plan to settle at 30 per cent and, as part of our new Sustainability Aspirations for People, we have set ourselves a new target to have 35 per cent female representation in senior roles by 2024.

Externally, we have engaged with more than 600 clients in our efforts to drive the pace of change and inclusion across the industry. We have sponsored conferences and summits, such as the Bloomberg Equality Summit and Grace Hopper Celebration India. We have also delivered the 'Men Advocating Real Change' programme in India, Singapore and the UK where clients and senior leaders have come together to sharpen their awareness of inequality, develop inclusive leadership strategies and hone skills to make a lasting impact. We are also helping our clients with their inclusion efforts. For example, we have launched an Impact Philosophy Framework for our private bank clients. This provides a methodology to match our clients' financial goals with solutions that help drive the advancement of the Sustainable Development Goals.

We continue to be recognised for our achievements and efforts in D&I across the footprint. There is a summary of our award wins on page 409. We are proud of the progress that we have made to date but recognise there is more work to do.

1. International Day Against Homophobia, Transphobia and Biphobia; International Day of Persons with Disabilities; International Men's Day; International Women's Day; and World Day for Cultural Diversity for Dialogue and Development

Gender pay gap and equal pay

We continue to analyse our gender pay gap for the UK, Hong Kong, Singapore, UAE and the US. The gender pay gap compares the average pay of men and women, without accounting for some of the key factors which influence pay, including different roles, skills, seniority and market pay rates. Our gender pay gaps are caused by there being fewer women in senior roles and in business areas where market rates of pay are highest. With the exception of the mean hourly pay gap in the US, the mean gap for hourly pay and the mean gap for bonus pay have remained flat or reduced across all five markets.

When the pay of males and females at the same level and in the same business area is compared the gender gaps are significantly smaller. The remaining gaps exist due to differences in the market pay level for different types of roles at the same level and in the same business areas, and differences in the relative positioning of the pay of each role

holder around the market benchmark. In the UK, the 2019 adjusted pay gap is four per cent, which is an increase of two percentage points compared to 2018. We wanted to understand more about why this figure had increased, so we conducted additional equal pay checks for the UK to provide assurance that there was not a systemic issue to address.

We are committed to gender diversity globally and have initiatives in place to support this; we acknowledge it will take time to see the level of change needed to significantly reduce our gender pay gaps. You can read more about our gender pay gaps and our gender diversity initiatives in our gender pay gap report at sc.com/genderpaygap.

Equal pay is a more detailed measure of pay equality than the gender pay gap, and is a key commitment in our Fair Pay Charter. We analyse equal pay during our annual performance and pay review process globally to assure ourselves that we deliver equal pay for equal work.

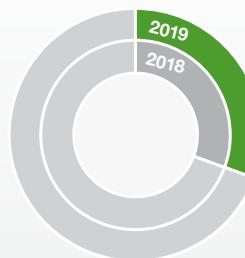
2019 gender pay gap

| | UK | Hong Kong | Singapore | UAE | US |
|---------------------|-----|-----------|-----------|-----|-----|
| Mean hourly pay gap | 32% | 20% | 35% | 26% | 25% |
| Mean bonus pay gap | 46% | 38% | 46% | 53% | 48% |

Female representation

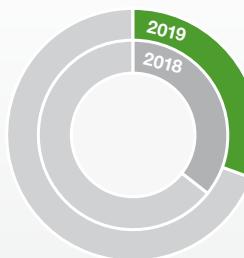
Board

Female
31%
(2018: 31%)
Male
9



Management Team

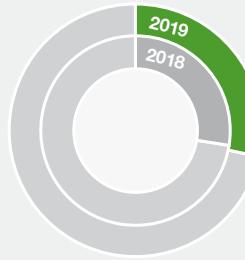
Female
31%
(2018: 35.7%)
Male
9



Senior management

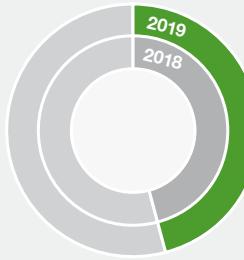
(Managing directors and band 4)

Female
28.5%
(2018: 27.7%)
Male
1,162
2,914



All employees

Female
46.1%
(2018: 45.9%)
Male
38,880
45,518





DIGITAL BANKING

We now provide digital banking in nine African markets

After launching our first digital bank in Côte d'Ivoire in 2018, we rolled out digital capabilities across eight additional markets in less than 12 months.

Our digital banking solution now covers Kenya, Uganda, Tanzania, Ghana, Zambia, Botswana, Zimbabwe and Nigeria.

Early results show that markets like Uganda and Tanzania have increased their customer acquisition by three times, account funding rates for most markets are relatively healthy and customer feedback has been positive.

The platform we now have in Africa operates on the existing technology rails available to us, but it has a middle and backend that is practically zero touch, which means that customers can open accounts, do all their banking transactions and receive customer service without going into branches or interacting with staff.

This efficiency has translated into a more targeted branch footprint, allowing us to reduce our branches by over a third to 199 branches across Africa and the Middle East.

"We have begun work on rolling out our digital platforms in our Middle Eastern markets in 2020."

Now that our digital banking platforms have stabilised, our focus has shifted to adding a full suite of digital products to enhance our competitive advantage.

We launched mobile-led insurance and investments in the second half of 2019 and will begin to phase in additional offerings like digitally-led small-ticket loans, Business Banking and Agency Banking throughout 2020.

We are also going paperless in all of these markets with the launch of a staff-assisted platform, which enables all customers walking into branches to have their accounts opened directly on the digital platform. In parallel, we have begun work on rolling out these digital platforms to our Middle Eastern markets in 2020.



Sustainable and responsible business

Our purpose is to drive commerce and prosperity through our unique diversity. Our new sustainability vision is to become the most sustainable and responsible bank, and the leading private sector catalyser of finance for the SDGs where it matters most, in Asia, Africa and the Middle East.



We embed sustainability across our business, operations and communities through our sustainability framework. By focusing on three pillars – Sustainable Finance, Responsible Company and Inclusive Communities – we believe we can deliver sustainable prosperity, in line with our valued behaviours and our brand promise to be Here for good.

This approach is framed around a Sustainability Philosophy that informs our decision-making, Sustainability Aspirations that provide tangible targets for sustainable business outcomes aligned to the UN Sustainable Development Goals (SDGs), and Position Statements that set out our environmental and social client standards.

In 2018, we laid the foundations for an ambitious transformation of our sustainability performance and in 2019, we built on this with positive results. We created sustainable finance products and a governance framework that support our commitment to help deliver the SDGs. We accelerated our response to climate change, publishing our emissions white paper to encourage collaboration across the finance sector, updating our position on coal and integrating climate into the Group's risk framework. As part of our refreshed Sustainability Aspirations, we set stretching new targets for Sustainable Finance as well as People, Environment, Conduct and Financial Crime

Compliance and we continued to deliver for our communities through volunteering and community programmes.

Sustainability governance

The Board is responsible for ensuring that high standards of responsible business are maintained and receives information to identify and assess significant risks and opportunities related to environmental and social matters, including climate change. Sustainability is overseen by the Brand, Values and Conduct Committee of the Board, which reviews priorities and oversees the development of, and delivery against, public commitments.

At a management level, the CEO, Corporate & Institutional Banking is responsible for Sustainable Finance, which incorporates Environmental and Social Risk management. The Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance leads a cross-business Sustainability Forum to develop and deliver the Group's broader sustainability strategy and champion sustainability across the Group.

➤ See page 44 to read how stakeholder engagement informs our approach to sustainable and responsible business

➤ See page 405 for a full list of our 2020 Sustainable Aspirations

CLIMATE CHANGE

Innovative solutions for climate change

In 2019, we joined forces with the Centre for Climate Finance & Investment at the UK's Imperial College Business School to launch the Climate Investment Challenge. The competition encourages postgraduate students to develop and describe creative financial solutions and innovations to address climate change. Ideas will be judged on their innovation, implementation feasibility, scalability and impact by a panel from investment banking, private equity and impact investing.



Sustainable and responsible business continued

Sustainable Finance



Stakeholders

- Clients
- Investors
- Society

We use our core business to promote sustainable development in our markets, while managing the environmental and social risks associated with our financing activities.

"We have set stretching new targets to ensure we continue to drive sustainable finance that supports the UN SDGs"

| 2019 SUSTAINABILITY ASPIRATIONS: SUSTAINABLE FINANCE | |
|--|--------------|
| Infrastructure | |
| Provide advisory, financing, debt structuring services and policy advice for \$25bn of infrastructure projects (Jan 2017 – Dec 2019) | |
| Including \$4bn toward clean technology (Jan 2016 – Dec 2020) | |
| Climate change | |
| Develop a methodology to measure, manage and ultimately reduce the emissions related to the financing of our clients (Jan 2019 – Dec 2020) | |
| Entrepreneurs | |
| Provide \$6bn to Business Banking clients (Jan 2017 – Dec 2019) | |
| Grow our lending to smaller business clients in our Commercial Bank by 20% (Jan 2017 – Dec 2019) | |
| Digital | |
| Continue to provide 'last mile' payments and collections through our Straight2Bank wallet (Jan 2017 – Dec 2019) | |
| Commerce | |
| Bank 8,000 of our clients' networks of suppliers and buyers through banking the ecosystem programmes (Jan 2017 – Dec 2020) | |
| Impact Finance | |
| Provide \$1bn to institutions for microfinance (Jan 2016 – Dec 2020) | |
| Facilitate opportunities for Private Bank clients to invest in impact investing funds (Jan 2016 – Dec 2020) | |
| Continue to promote blended finance capabilities (Jan 2016 – Dec 2020) | |
| Concluded in the year Ongoing aspirations | |
| Achieved | On track |
| Not achieved | Not on track |

Our unique footprint across emerging markets enables us to focus sustainable finance where it matters most. In 2019, we took major steps forward to deliver finance that drives positive social and economic impact and manage environmental and social risks associated with our financing activities.

In 2019, we launched two new Sustainable Finance products to address the SDGs in low- and middle-income countries. The proceeds from our inaugural €500 million Sustainability Bond will finance clean energy projects, smaller business lending and microfinance loans. We also launched the world's first Sustainable Deposit in London and Asia's first Sustainable Deposit in Singapore. This was followed by launches in Hong Kong and New York. Every dollar deposited will be referenced against sustainable assets.

These products are underpinned by a robust approach to governance. Our Green and Sustainable Product Framework and Green and Sustainable Bond Framework set out all eligible and excluded activities and themes for future sustainable products. The frameworks, which were developed in collaboration with leading ESG research provider Sustainalytics, will be subject to internal review annually.

Our Sustainability Aspirations set out the areas in which we can have the most positive impact in our markets. In 2019, to support the low carbon transition, we mobilised \$20 billion for clean technology and helped clients issue \$18.3 billion in green, social and sustainable bonds.

Entrepreneurs and small businesses play an important role in the economic sustainability of communities. We continued to extend access to finance for entrepreneurs, providing \$710 million to microfinance institutions (MFIs) in 2019 and \$2.4 billion since 2016. We remain strongly committed to the sustainable financing of smaller businesses, which are at the heart of growth, job creation and economic empowerment in our footprint. While we did not meet our target, we continued to grow our lending to Commercial Banking clients by 12 per cent between 2017 and 2019.

Following engagement with internal and external stakeholders, we set stretching new targets to support the SDGs. As set out in our Sustainability Aspirations, between January 2020 and December 2024, we will fund and facilitate \$40 billion for infrastructure that promotes sustainable development and \$35 billion for renewable energy, provide \$15 billion to small business clients and \$3 billion to MFIs.

See page 405 for a full list of our 2020 Sustainable Aspirations

Sustainable Finance continued

Managing Environmental and Social Risk

Our main impact on the environment and society is through the business activities we finance. Our seven Position Statements outline the cross-sector standards we expect of ourselves and our clients, as well as sector-specific guidance for those clients operating in sectors with a high potential environmental or social impact. These draw on International Finance Corporation Performance Standards, the Equator Principles and global best practice. Our Prohibited Activities list sets out the activities we do not finance and can be found on sc.com.

We identify and assess environmental and social risks related to our Corporate & Institutional, Commercial and Business Banking clients, and embed our Environmental and Social Risk framework directly into our credit approval process. All relationship managers and credit officers are offered training in assessing Environmental and Social Risk against our criteria, as well as access to online resources. During 2019, we continued to embed the Position Statements through e-learning and classroom-based training for frontline and risk colleagues.

Our refreshed Position Statements came into effect in March 2019. During the year, we reviewed 1,127 transactions that presented potential specific risks against our Position Statements. Further to our 2018 decision to end financing for new coal-fired power plants, we announced that we will only support clients who actively transition their business to generate less than 10 per cent of earnings from thermal coal by 2030.

We work with clients, regulators and peers across the finance sector to continuously improve environmental and social standards. We proactively engage with clients to mitigate identified risks and impacts and support them to improve their environmental and social performance over time. Where this is not possible, transactions have been, and will continue to be, turned down. In 2019, we were active in the review of the refreshed Equator Principles 4 (EP4) and in November, assumed the role of chair of the EP Steering Committee. Our focus will be overseeing implementation of EP4 during 2020.

 See our Position Statements at sc.com/positionstatements

Responding to climate change

Climate change is a shared global challenge. We are committed to supporting clients through the low-carbon transition in line with the Paris Agreement and supporting adaptation and resilience to tackle physical risks. Since 2018, we have been identifying ways to measure, manage and ultimately reduce the carbon emissions relating to our financing of clients.

During 2019, we published a white paper on our emissions framework to accelerate discussion across the finance sector. We piloted two methodologies to measure emissions, focusing on the 2 Degrees Investing Initiative's tool to understand emissions at a sector level. Using this tool, we disclosed our current, financed emission intensities for the automotive and cement manufacturing portfolio in our 2019 Climate Change/Taskforce on Climate-related Financial Disclosures (TCFD) report to support dialogue with a range of stakeholders. Further insights from this work are informing our corporate planning process and the development of our new Climate Risk framework.

Recognising the significance of climate-related concerns to our clients and communities, we are integrating Climate Risk into our Group-wide approach to risk management. We have identified it as a material cross-cutting risk that will be considered alongside designated Principal Risk Types. For more information, see pages 206 to 235 of the Risk review.

In addition to our own response, we believe collaborative action is needed. We are continuing to work through existing relationships including UN Environment Programme for Financial Institutions and the Katowice Commitment. In 2019, we became a founding member of the UN Principles for Responsible Banking, a signatory to the UN Collective Commitment to Climate Action and joined the Coalition on Climate Resilient Investment.

We continue to engage clients on assessing Climate Risk and identifying low-carbon opportunities through our Sustainable Finance team. We are mobilising finance to support the low-carbon transition, such as our new commitment to provide \$35 billion of financial services towards renewable energy between January 2020 and December 2024.

 See our 2019 Climate Change/Taskforce on Climate-related Financial Disclosures (TCFD) report at sc.com/tcfdf

Responsible Company



Stakeholders

-  Clients
-  Regulators & governments
-  Suppliers
-  Society

We strive to manage our business sustainably and responsibly, drawing on our purpose, brand promise, valued behaviours and Code of Conduct to enable us to make the right decisions.

2019 SUSTAINABILITY ASPIRATIONS: RESPONSIBLE COMPANY

Environment

Reduce annual energy use by 35% in tropical climates (Jan 2008 – Dec 2019) 

Reduce annual energy use by 31% in temperate climates (Jan 2008 – Dec 2019) 

Reduce annual water use by 72% (Jan 2008 – Dec 2019) 

Reduce annual office paper use by 57% (Jan 2008 – Dec 2020) 

Reduce annual GHG emissions by 36% by 2025 

Conduct

Effectively embed conduct risk into product governance across the Group (Jan 2019 – Dec 2019) 

Financial crime compliance

All eligible staff to complete relevant ABC, AML and sanctions training with less than 2% overdue (Ongoing) 

Deliver at least 10 correspondent banking academies (Jan 2019 – Dec 2019) 

Concluded in the year Ongoing aspirations

 Achieved

 On track

 Not achieved

 Not on track

Sustainable and responsible business continued

Responsible Company continued

Promoting good conduct

Good conduct is a priority for our stakeholders and for the Group.

We continue to make good progress on our conduct, embedding practices that help us identify, aggregate and manage Conduct Risk as part of our Group-wide approach to risk management.

In 2019, we strengthened Conduct Risk management, focusing on fair outcomes for clients by formalising conduct considerations in strategy design and product governance.

Our Code of Conduct remains the central tool through which we set our conduct expectations. The Code supports a culture where: employees are encouraged to demonstrate good judgement, integrity, and a strong sense of personal accountability when they make decisions; leaders are empowered to recruit and recognise employees based on good conduct; and performance objectives and reward mechanisms are linked to our valued behaviours.

Conduct training is obligatory and employees are asked annually to recommit to the Code. In 2019, 99.5 per cent recommitted to the Code.

In 2020, we will challenge and support our employees to identify and mitigate Conduct Risk as we continue to promote good conduct across the Group.

➤ See page 223 for more on our approach to conduct risk

Percentage of employees recommitted to the Group Code of Conduct in 2019

99.5%

Speaking Up cases

| Year | Total raised ¹ | In scope ² | Closed ³ | |
|-------------|---------------------------|-----------------------|----------------------------|-----------------|
| | | | Substantiated ⁴ | Unsubstantiated |
| 2019 | 1,383 | 528 | 263 | 190 |
| 2018* | 1,473 | 590 | 305 | 275 |
| 2017* | 1,183 | 460 | 201 | 296 |

1 Total concerns raised within the reporting year

2 A concern under the FCA whistleblowing rules that is raised within the reporting year and considered within the scope of the Speaking Up programme. For the purposes of this report, this number also includes any cases pending triage assessment at the point of reporting

3 This represents all cases closed within the reporting year. This includes cases that were raised in the reporting year and in previous years

4 Closed and with sufficient evidence supporting the original allegation(s)

* Case numbers reported in prior years differ from those reported in this period due to closed cases being either reclassified, based on new information, or updated for administrative reasons.

➤ Download our Group Code of Conduct at sc.com/codeofconduct and visit sc.com/speakingup to find more about how our Speaking Up programme works

Speaking Up

Speaking Up is our confidential and anonymous whistleblowing programme. It includes independent and secure channels for anyone – employees, contractors, suppliers and members of the public – to raise concerns.

During 2019, 1,383 concerns were raised through Speaking Up, of which 528 were within scope of the programme and investigated or resolved. Themes included breaches of operating procedures, failures in information and cyber security and breaches of our Code of Conduct. During the period, 453 cases were closed following investigation (these included cases raised in 2019 as well as in prior years) of which 263 were substantiated while 190 were closed as unsubstantiated. A range of corrective actions were taken. These include process improvements, targeted coaching and training and, for 97 cases, disciplinary sanctions ranging from verbal warning to dismissals.

Results from our 2019 My Voice employee survey continue to demonstrate confidence in the programme with 91 per cent of employees responding favourably to the statement: 'I feel comfortable to speak up if I see a violation of the Bank's policies, valued behaviours and Code of Conduct.'

As part of our commitment to Speaking Up, we invested in a new system to enable better management of cases.

In 2020, we will continue to raise awareness and use by launching a digital learning toolkit.

Fighting financial crime

We believe partnering to lead in the fight against financial crime is the best way to protect our business, clients and wider communities from its damaging effects. By cutting off funding sources, we help make the financial system a hostile environment for criminals and support positive economic development in our markets.

We have comprehensive safeguards in place to address threats including money laundering, terrorist financing, sanctions compliance breaches, bribery and other forms of corruption. A dedicated Financial Crime Compliance (FCC) team leads our Financial Crime Risk management activities, which include adhering to anti-money laundering and sanctions policies and applying core controls such as client due-diligence screening and monitoring. See the Risk review on page 225 for more on how we manage Financial Crime Risk.

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 2019, 99.9 per cent of colleagues completed ABC training, 99.9 per cent completed anti-money laundering training and 99.9 per cent completed sanctions training.

By working in partnership with our client banks, we share best practices on controls for managing Financial Crime Risk and in doing so build a strong network to keep criminal activity out of the financial system. In 2019, we further strengthened our partnerships as we surpassed our target of at least 10 Correspondent Banking Academies, delivering 19 training sessions in 49 countries.

In 2020, we will continue to adapt our controls to emerging threats by ensuring we have highly trained and experienced employees working with new technologies to detect any abuse of the financial system. We will also continue to partner with, and educate, peer banks and clients in the detection and control of financial crime risks.

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

In 2019, we continued to review and enhance our controls relating to modern slavery, including via collaborative dialogue with one of our investors. Our 2019 Modern Slavery Statement, which is approved by the Group's Board, details the actions we are taking as a result. These include changes to risk assessment processes for suppliers, and a review of our strategic suppliers to assess their standards and practices in managing modern slavery risks in their onward supply chains.

 Read our 2019 Modern Slavery Statement at sc.com/modernslavery

Reduce emissions from our operations by 2030¹ to reach

Net Zero

Managing our environmental footprint

We are committed to reducing the direct environmental impact of our branches and offices. To do this, we measure and manage their energy and water efficiency, greenhouse gas emissions and paper use. We also measure the amount of non-hazardous waste our branches and offices generate and recycle. We do not produce or handle, and therefore do not report information on, material quantities of hazardous waste.

Our reporting criteria sets out the principles and methodology for measuring our emissions. Our Scope 1 and 2 emissions, as well as water and waste data, are independently assured by Global Documentation.

Annual energy use of our property (kWh/m²/year)²

Tropical climate



We have met our long-term targets for energy efficiency, reducing consumption in temperate climates by 44 per cent and tropical climates by 38 per cent between 2008 and 2019. Further expansion of our LED lighting conversions, effective space management and more efficient equipment is the core principle behind the efficiency gains.

We have measured our greenhouse gas (GHG) emissions since 2008, and last year adopted science-based targets (SBT) to significantly reduce our carbon footprint. In 2019, we reduced our annual GHG emissions by 22 per cent by reducing our reliance on diesel generators. A temporary increase in emissions from our global data centres was the result of additional capacity being used as we migrated to new, more energy efficient data centres.

During the year, we set more ambitious targets to achieve net zero emissions and only use renewable energy sources by 2030. We are reviewing fuels and increasing renewable energy sources to deliver the efficiency improvements needed across our properties to meet these challenging targets.

Water availability is a growing challenge in our markets. Although we did not face any issues sourcing water that was fit for purpose in 2019, we continue to take a sustainable and responsible approach to managing water across the Group. We reduced consumption by 29 per cent in 2019 and 72 per cent between 2008 and 2019 by installing ultra-low flow water devices, targeting markets with high water usage and improving our behaviour towards water use.

Our aim is to reduce paper use across our operations and since 2012, we have reduced consumption by 27 per cent. In 2019, we improved our paper reporting and worked with country technology teams to look at ways to support local paper reduction.

Our Group Chief Executive communicated with employees globally, encouraging them to go paperless as part of wider efforts to reduce our environmental impact. Further action will be needed to achieve our 57 per cent reduction target between 2012 and the end of 2020.

We are committed to reducing waste in all its forms and have prevented more than one million disposable cups going to landfill annually since 2017. We are working to remove single-use plastic from all our operations. We choose to send non-recyclable waste to energy generation or compost so that we limit our impact on landfill where possible. In 2019, we strengthened our commitment with ambitious new targets to reduce waste to 40 kilograms per employee and recycle 90 per cent of our waste by 2025.

We continue to identify ways to improve our environmental performance. In 2019, we extended our third-party assurance to include water and waste.

In 2020, we will focus on reducing waste further and taking the necessary steps to meet our SBTs for greenhouse gas emissions.

 Read the principles and methodology for measuring our greenhouse gas emissions at sc.com/environmentcriteria

 Read the independent assurance for our energy and greenhouse gas emissions (Scope 1 and 2) at sc.com/environmentalassurance

ENVIRONMENT

Reducing our energy use in West Africa

Many of our markets in West Africa lack reliable and consistent access to clean electricity. They rely on diesel generators that can be inefficient and produce high greenhouse gas emissions. In 2019, our property teams in Sierra Leone, The Gambia, Ghana, Nigeria and Côte d'Ivoire introduced improvements that delivered a 30 per cent reduction in energy use across the region. Measures included upgrading air conditioning units, fitting LED lights, upgrading and right-sizing generators and installing solar photovoltaic panels.

Temperate climate



1 Net zero: In aggregate, we do not produce any emissions from our operations (Scope 1 & 2)

2 Tropical energy usage relates to cooling; temperate energy usage relates to both heating and cooling

Sustainable and responsible business continued

Inclusive Communities



| Stakeholders |
|--------------------------|
| Society |
| Regulators & governments |

We aim to create more inclusive economies by sharing our skills and expertise, and developing community programmes that transform lives.

In 2019, we invested \$51.1 million in communities and employees contributed more than 51,300 volunteering days.

In the first year of Futuremakers by Standard Chartered, our new global initiative to tackle inequality, we contributed \$9.4 million through fundraising and Group donations. Our target is to raise \$50 million between 2019 and 2023 through fundraising and Group donations to empower the next generation to learn, earn and grow.

As part of Futuremakers, we expanded Goal, our existing girls' empowerment programme, which reached more than 108,400 girls and young women in 2019. Goal reached more than 590,300 between 2006 and 2019.

We also launched new global programmes in 2019. Youth to Work reached 1,834 young people through employability projects.

In addition, we reached 9,269 young people and small businesses through entrepreneurship activities, including our Women in Tech (WiT) incubators. In 2019, we launched WiT in Pakistan, UAE and Nigeria to support women-led ventures enabled by technology.

We are continuing to support the delivery of eye health projects as part of Seeing is Believing (SiB), our global initiative to tackle avoidable blindness. Between 2003 and 2019, we reached 212.7 million people through SiB, and raised and matched a total of \$104.2 million. We are using our knowledge and experience from SiB to mobilise support for the Vision Catalyst Fund (VCF), which aims to raise \$1 billion to fund sustainable eye care projects, and by supporting people with visual impairments through Futuremakers.

In 2020, we will scale-up and roll-out Futuremakers programmes, continue to support the creation of the VCF and develop and implement a robust measurement and

evaluation framework for our community programmes. We will host our first Futuremakers Forum bringing together programme participants, clients and development experts. From 2020, we will also be working towards encouraging 55 per cent of employees to participate in volunteering annually between 2020 and 2023.

The Standard Chartered Foundation was established in 2019 to advance charitable purposes. It will be the Group's lead partner in delivering its philanthropic activities, including Futuremakers by Standard Chartered.

During the year, the Board received an update on Futuremakers, SiB and the establishment of the Foundation, confirming the Group's approach and encouraging the Management Team to advance our community investment and engagement activities.

Our community expenditure 2019

| | |
|----------------------------------|--------------|
| 1. Leverage ¹ | 3.7% |
| 2. Management costs | 8.8% |
| 3. Gifts in kind | 0.6% |
| 4. Cash contributions | 53.8% |
| 5. Employee time (non-cash item) | 33.1% |

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



2019 SUSTAINABILITY ASPIRATIONS: INCLUSIVE COMMUNITIES

Communities

Invest 0.75% of prior year operating profit in communities
(Jan 2006 – Dec 2020)



Raise \$50m for Futuremakers by Standard Chartered
(Jan 2019 – Dec 2023)



Education

Reach one million girls and young women through Goal
(Jan 2006 – Dec 2023)



Employability

Reach 100,000 young people
(Jan 2019 – Dec 2023)



Entrepreneurship

Reach 50,000 young people, micro and small businesses (Jan 2019 – Dec 2023)



Visual impairment

Support the development of the Vision Catalyst Fund (Jan 2019 – Dec 2020)



Concluded in the year

Ongoing aspirations

Achieved

On track

Not achieved

Not on track

GIRLS' EMPOWERMENT

Measuring Goal's impact

We measure the impact of our community programmes to ensure they are delivering on our objectives. In 2019, we commissioned global development think tank, Overseas Development Institute (ODI) to assess Goal's impact.

Using data and interviews with Goal girls, their families and communities, ODI found

strong evidence of Goal's positive and lasting impact on girls. After completing Goal, girls reported a 14 per cent increase in self-confidence, a 28 per cent increase in knowledge about health, and an 18 per cent increase in knowledge about savings and finance. The full report will be shared around International Women's Day.

Non-financial information statement

This table sets out where shareholders and stakeholders can find information about key non-financial matters in this report, in compliance with the non-financial reporting requirements contained in sections 414CA and 414 CB of the Companies Act 2006. Further disclosures are available on sc.com and in our 2019 Sustainability Summary.

| Reporting requirement | Where to read more in this report about our policies and impact (including risks, policy embedding, due diligence and outcomes) | Page |
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1 Visit sc.com/environmentcriteria for our carbon emissions criteria and sc.com/environmentalassurance for Global Documentation's Assurance Statement of our Scope 1 and 2 emissions, and waste and water data



BELT & ROAD

Our first-ever global running event along the Belt & Road

At the beginning of 2019, eight of our employees set off to run across 44 markets over the course of 90 days in the first-ever global running event spanning the Belt & Road Initiative.

The Standard Chartered Belt & Road Relay began in Hong Kong on 17 February and ended in Beijing, China on 11 May, covering a total of 353km.

Our staff runners were selected from our diverse footprint across Asia, Africa, the Middle East, and Europe and the Americas.

We are present in two-thirds of Belt & Road markets, and our rich heritage, deep local knowledge and unparalleled connectivity mean that we're ideally placed to help our partners, clients and communities to make the most out of the initiative.

We have been connecting Asia, Africa, the Middle East, and Europe and the Americas for more than 160 years.



"We have been connecting Asia, Africa, the Middle East, Europe and the Americas for more than 160 years"

Underlying versus statutory results reconciliations

Reconciliations between underlying and statutory results are set out in the tables below:

Operating income by client segment

| | 2019 | | | | | |
|------------------------------------|---|--------------------------|------------------------------|---------------------------|---------------------------------|-----------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million | Total \$million |
| Underlying operating income | 7,185 | 5,171 | 1,478 | 577 | 860 | 15,271 |
| Restructuring ¹ | 146 | – | 4 | – | (4) | 146 |
| Statutory operating income | 7,331 | 5,171 | 1,482 | 577 | 856 | 15,417 |

| | 2018 | | | | | |
|---|---|--------------------------|------------------------------|---------------------------|---------------------------------|-----------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million | Total \$million |
| Underlying operating income | 6,860 | 5,041 | 1,391 | 516 | 1,160 | 14,968 |
| Restructuring ¹ | (257) | – | (1) | 2 | 8 | (248) |
| Gains arising on repurchase of senior and subordinated liabilities ¹ | 3 | – | – | – | 66 | 69 |
| Statutory operating income | 6,606 | 5,041 | 1,390 | 518 | 1,234 | 14,789 |

1 Refer to Note 2 for further details

Operating income by region

| | 2019 | | | | | |
|------------------------------------|--------------------------------------|------------------------------|--------------------------------|-----------------------------|---------------------------------|-----------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Central & other items \$million | Total \$million |
| Underlying operating income | 6,155 | 4,213 | 2,562 | 1,725 | 616 | 15,271 |
| Restructuring ¹ | 87 | (2) | – | – | 61 | 146 |
| Statutory operating income | 6,242 | 4,211 | 2,562 | 1,725 | 677 | 15,417 |

| | 2018 | | | | | |
|---|--------------------------------------|------------------------------|--------------------------------|-----------------------------|---------------------------------|-----------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Central & other items \$million | Total \$million |
| Underlying operating income | 6,157 | 3,971 | 2,604 | 1,670 | 566 | 14,968 |
| Restructuring ¹ | (7) | 21 | 1 | 6 | (269) | (248) |
| Gains arising on repurchase of senior and subordinated liabilities ¹ | – | – | – | 3 | 66 | 69 |
| Statutory operating income | 6,150 | 3,992 | 2,605 | 1,679 | 363 | 14,789 |

1 Refer to Note 2 for further details

Profit before taxation

| | 2019 | | | | | | |
|---|----------------------|--|-------------------------|--|-------------------------------|---|---------------------|
| | Underlying \$million | Provision for regulatory matters \$million | Restructuring \$million | Gains arising on repurchase of senior and subordinated liabilities \$million | Goodwill impairment \$million | Share of profits of PT Bank Permata Tbk joint venture \$million | Statutory \$million |
| Operating income | 15,271 | – | 146 | – | – | – | 15,417 |
| Operating expenses | (10,409) | (226) | (298) | – | – | – | (10,933) |
| Operating profit/(loss) before impairment losses and taxation | 4,862 | (226) | (152) | – | – | – | 4,484 |
| Credit impairment | (906) | – | (2) | – | – | – | (908) |
| Other impairment | (38) | – | (98) | – | (27) | – | (163) |
| Profit from associates and joint ventures | 254 | – | (2) | – | – | 48 | 300 |
| Profit/(loss) before taxation | 4,172 | (226) | (254) | – | (27) | 48 | 3,713 |
| | 2018 | | | | | | |
| | Underlying \$million | Provision for regulatory matters \$million | Restructuring \$million | Gains arising on repurchase of senior and subordinated liabilities \$million | Goodwill impairment \$million | Share of profits of PT Bank Permata Tbk joint venture \$million | Statutory \$million |
| Operating income | 14,968 | – | (248) | 69 | – | – | 14,789 |
| Operating expenses | (10,464) | (900) | (283) | – | – | – | (11,647) |
| Operating profit/(loss) before impairment losses and taxation | 4,504 | (900) | (531) | 69 | – | – | 3,142 |
| Credit impairment | (740) | – | 87 | – | – | – | (653) |
| Other impairment | (148) | – | (34) | – | – | – | (182) |
| Profit from associates and joint ventures | 241 | – | – | – | – | – | 241 |
| Profit/(loss) before taxation | 3,857 | (900) | (478) | 69 | – | – | 2,548 |

Profit before taxation by client segment

| | 2019 | | | | | | |
|--|---|--------------------------|------------------------------|---------------------------|---------------------------------|-----------------|--|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million | Total \$million | |
| Operating income | 7,185 | 5,171 | 1,478 | 577 | 860 | 15,271 | |
| External | 7,356 | 4,223 | 1,539 | 329 | 1,824 | 15,271 | |
| Inter-segment | (171) | 948 | (61) | 248 | (964) | – | |
| Operating expenses | (4,361) | (3,754) | (907) | (514) | (873) | (10,409) | |
| Operating profit/(loss) before impairment losses and taxation | 2,824 | 1,417 | 571 | 63 | (13) | 4,862 | |
| Credit impairment | (474) | (336) | (123) | 31 | (4) | (906) | |
| Other impairment | (32) | 2 | – | – | (8) | (38) | |
| Profit from associates and joint ventures | – | – | – | – | 254 | 254 | |
| Underlying profit before taxation | 2,318 | 1,083 | 448 | 94 | 229 | 4,172 | |
| Provision for regulatory matters | – | – | – | – | (226) | (226) | |
| Restructuring | (110) | (63) | (11) | (11) | (59) | (254) | |
| Goodwill impairment | – | – | – | – | (27) | (27) | |
| Share of profits of PT Bank Permata Tbk joint venture | – | – | – | – | 48 | 48 | |
| Statutory profit/(loss) before taxation | 2,208 | 1,020 | 437 | 83 | (35) | 3,713 | |

2018

| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million | Total \$million |
|--|---|--------------------------|------------------------------|---------------------------|---------------------------------|-----------------|
| Operating income | 6,860 | 5,041 | 1,391 | 516 | 1,160 | 14,968 |
| External | 7,055 | 4,493 | 1,570 | 270 | 1,580 | 14,968 |
| Inter-segment | (195) | 548 | (179) | 246 | (420) | - |
| Operating expenses | (4,396) | (3,736) | (923) | (530) | (879) | (10,464) |
| Operating profit/(loss) before impairment losses and taxation | 2,464 | 1,305 | 468 | (14) | 281 | 4,504 |
| Credit impairment | (242) | (267) | (244) | - | 13 | (740) |
| Other impairment | (150) | (5) | - | - | 7 | (148) |
| Profit from associates and joint ventures | - | - | - | - | 241 | 241 |
| Underlying profit/(loss) before taxation | 2,072 | 1,033 | 224 | (14) | 542 | 3,857 |
| Provision for regulatory matters | (50) | - | - | - | (850) | (900) |
| Restructuring | (350) | (68) | (12) | (24) | (24) | (478) |
| Gains arising on repurchase of senior and subordinated liabilities | 3 | - | - | - | 66 | 69 |
| Statutory profit/(loss) before taxation | 1,675 | 965 | 212 | (38) | (266) | 2,548 |

Profit before taxation by region

2019

| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Central & other items \$million | Total \$million |
|--|--------------------------------------|------------------------------|--------------------------------|-----------------------------|---------------------------------|-----------------|
| Operating income | 6,155 | 4,213 | 2,562 | 1,725 | 616 | 15,271 |
| Operating expenses | (3,771) | (2,681) | (1,747) | (1,470) | (740) | (10,409) |
| Operating profit/(loss) before impairment losses and taxation | 2,384 | 1,532 | 815 | 255 | (124) | 4,862 |
| Credit impairment | (194) | (506) | (132) | (98) | 24 | (906) |
| Other impairment | (5) | (1) | 1 | - | (33) | (38) |
| Profit from associates and joint ventures | 247 | - | - | - | 7 | 254 |
| Underlying profit/(loss) before taxation | 2,432 | 1,025 | 684 | 157 | (126) | 4,172 |
| Provision for regulatory matters | - | - | - | - | (226) | (226) |
| Restructuring | (138) | (34) | (18) | (34) | (30) | (254) |
| Goodwill impairment | - | - | - | - | (27) | (27) |
| Share of profits of PT Bank Permata Tbk joint venture | - | 48 | - | - | - | 48 |
| Statutory profit/(loss) before taxation | 2,294 | 1,039 | 666 | 123 | (409) | 3,713 |

2018

| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Central & other items \$million | Total \$million |
|--|--------------------------------------|------------------------------|--------------------------------|-----------------------------|---------------------------------|-----------------|
| Operating income | 6,157 | 3,971 | 2,604 | 1,670 | 566 | 14,968 |
| Operating expenses | (3,812) | (2,711) | (1,810) | (1,453) | (678) | (10,464) |
| Operating profit/(loss) before impairment losses and taxation | 2,345 | 1,260 | 794 | 217 | (112) | 4,504 |
| Credit impairment | (71) | (322) | (262) | (83) | (2) | (740) |
| Other impairment | (110) | 6 | - | 17 | (61) | (148) |
| Profit from associates and joint ventures | 205 | 26 | - | 3 | 7 | 241 |
| Underlying profit/(loss) before taxation | 2,369 | 970 | 532 | 154 | (168) | 3,857 |
| Provision for regulatory matters | - | - | - | (50) | (850) | (900) |
| Restructuring | (106) | 105 | (100) | (8) | (369) | (478) |
| Gains arising on repurchase of senior and subordinated liabilities | - | - | - | 3 | 66 | 69 |
| Statutory profit/(loss) before taxation | 2,263 | 1,075 | 432 | 99 | (1,321) | 2,548 |

Return on tangible equity (RoTE)

| | 2019 | | | | | |
|--|-------------------------------------|------------------|----------------------|-------------------|-------------------------|------------|
| | Corporate & Institutional Banking % | Retail Banking % | Commercial Banking % | Private Banking % | Central & other items % | Total % |
| Underlying RoTE | 8.5 | 12.6 | 7.3 | 7.3 | (5.1) | 6.4 |
| Provision for regulatory matters | – | – | – | – | (3.1) | (0.6) |
| Restructuring | | | | | | |
| Of which: Income | 0.7 | – | 0.1 | – | – | 0.4 |
| Of which: Expenses | (0.8) | (1.0) | (0.3) | (1.2) | (0.6) | (0.8) |
| Of which: Other impairment | (0.5) | – | – | – | (0.1) | (0.3) |
| Goodwill impairment | – | – | – | – | (0.4) | (0.1) |
| Share of profits of PT Bank Permata Tbk joint venture | – | – | – | – | 0.6 | 0.1 |
| Tax on normalised items | 0.2 | 0.2 | 0.1 | 0.3 | (2.8) | (0.3) |
| Statutory RoTE | 8.1 | 11.8 | 7.2 | 6.4 | (11.5) | 4.8 |
| | 2018 | | | | | |
| | Corporate & Institutional Banking % | Retail Banking % | Commercial Banking % | Private Banking % | Central & other items % | Total % |
| Underlying RoTE | 7.4 | 11.8 | 3.4 | (1.0) | (4.8) | 5.1 |
| Provision for regulatory matters | (0.2) | – | – | – | (11.4) | (2.3) |
| Restructuring | | | | | | |
| Of which: Income | (1.3) | – | – | 0.2 | 0.1 | (0.6) |
| Of which: Expenses | (0.8) | (1.1) | (0.3) | (1.7) | (0.4) | (0.7) |
| Of which: Credit impairment | 0.5 | – | – | (1.3) | – | 0.2 |
| Of which: Other impairment | (0.2) | – | – | – | – | (0.1) |
| Gains arising on repurchase of senior and subordinated liabilities | – | – | – | – | 0.9 | 0.2 |
| Tax on normalised items | 0.6 | 0.3 | 0.1 | 0.8 | (3.3) | (0.2) |
| Statutory RoTE | 6.0 | 11.0 | 3.2 | (3.0) | (18.9) | 1.6 |

Earnings per ordinary share

| | 2019 | | | | | | | |
|---|-------------------------|---|----------------------------|---|--|-------------------------------------|---|------------------------|
| | Underlying \$million | Provision for regulatory matters \$million | Restructuring \$million | Profit from joint venture \$million | Gains arising on repurchase of senior and subordinated liabilities \$million | Goodwill impairment \$million | Tax on normalised items ¹ \$million | Statutory \$million |
| Profit for the year attributable to ordinary shareholders | 2,466 | (226) | (254) | 48 | – | (27) | (152) | 1,855 |
| Basic – Weighted average number of shares (millions) | 3,256 | | | | | | | 3,256 |
| Basic earnings per ordinary share (cents) | 75.7 | | | | | | | 57.0 |
| | 2018 | | | | | | | |
| | Underlying \$million | Provision for regulatory matters \$million | Restructuring \$million | Profit from joint venture \$million | Gains arising on repurchase of senior and subordinated liabilities \$million | Goodwill impairment \$million | Tax on normalised items ¹ \$million | Statutory \$million |
| Profit for the year attributable to ordinary shareholders | 2,031 | (900) | (478) | – | 69 | – | (104) | 618 |
| Basic – Weighted average number of shares (millions) | 3,306 | | | | | | | 3,306 |
| Basic earnings per ordinary share (cents) | 61.4 | | | | | | | 18.7 |

Alternative performance measures

An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. The following are key alternative performance measures used by the Group to assess financial performance and financial position.

| Measure | Definition |
|---|--|
| Constant currency basis | A performance measure on a constant currency basis is presented such that comparative periods are adjusted for the current year's functional currency rate. The following balances are presented on a constant currency basis when described as such: <ul style="list-style-type: none"> ➔ Operating income ➔ Operating expenses ➔ Profit before tax ➔ RWAs or Risk-weighted assets |
| Underlying | A performance measure is described as underlying if the statutory result has been adjusted for restructuring and other items representing 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. The following balances and measures are presented on an underlying basis when described as such: <ul style="list-style-type: none"> ➔ Operating income ➔ Operating expense ➔ Profit before tax ➔ Earnings per share ➔ Cost to income ratio ➔ Jaws ➔ RoE or Return on equity ➔ RoTE or Return on tangible equity |
| Advances-to-deposits/customer advances-to-deposits (ADR) ratio | The ratio of total loans and advances to customers relative to total customer accounts, excluding approved balances held with central banks, confirmed as repayable at the point of stress. 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. |
| Cost to income ratio | The proportion of total operating expenses to total operating income. |
| Cover ratio | The ratio of impairment provisions for each stage to the gross loan exposure for each stage. |
| Cover ratio after collateral/cover ratio including collateral | The ratio of impairment provisions for stage 3 loans and realisable value of collateral held against these non-performing loan exposures to the gross loan exposure of stage 3 loans. |
| Gross yield | Statutory interest income divided by average interest earning assets. |
| Jaws | The difference between the rates of change in revenue and operating expenses. Positive jaws occurs when the percentage change in revenue is higher than, or less negative than, the corresponding rate for operating expenses. |
| Loan loss rate | Total credit impairment for loans and advances to customers over average loans and advances to customers. |
| Net tangible asset value per share | Ratio of net tangible assets (total tangible assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period. |
| Net yield | Gross yield less rate paid. |
| NIM or Net interest margin | Net interest income adjusted for interest expense incurred on amortised cost liabilities used to fund financial instruments held at fair value through profit or loss, divided by average interest-earning assets. |
| RAR per FTE or Risk adjusted revenue per full-time equivalent | Risk adjusted revenue (RAR) is defined as underlying operating income less underlying impairment over the past 12 months. RAR is then divided by the 12-month rolling average full-time equivalent (FTE) to determine RAR per FTE. |
| Rate paid | Statutory interest expense adjusted for interest expense incurred on amortised cost liabilities used to fund financial instruments held at fair value through profit or loss, divided by average interest bearing liabilities. |
| RoE or Return on equity | 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. |
| RoTE or Return on ordinary shareholders tangible equity | The ratio of the current year's profit available for distribution to ordinary shareholders, to the weighted average ordinary shareholders' equity less the average goodwill and intangible assets for the reporting period. Where a target RoTE is stated, this is based on profit and equity expectations for future periods. |
| TSR or Total shareholder return | The total return of the Group's equity (share price growth and dividends) to investors. |

Viability statement

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 going concern status and viability of the Group, the directors have assessed the key factors likely to affect the Group's business model and strategic plan, future performance, capital adequacy, solvency and liquidity taking into account the emerging risks 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, and is representative of the continuous level of regulatory change affecting the financial services industry. 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, cashflows, capital requirements and resources, liquidity ratios and other key financial and regulatory ratios over the period. The corporate plan details the Group's key performance measures, of forecast profit, CET1 capital ratio forecast, return on tangible 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 capital and liquidity adequacy, severe but plausible macrofinancial scenarios explore shocks that trigger one or more of:

- Global slowdowns, including a China hard landing with spillovers within Asia and more broadly via financial and other linkages
- Sharp falls in world trade volumes, including the effects of an extreme worsening in and broadening of recent trade tensions.
- Material and persistent declines in commodity prices
- Financial market turbulence, including a generalised sharp fall in risky asset prices

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 208).

The Board Risk Committee (BRC) exercises oversight of prudential risks on behalf of the Board. These risks include, among others: credit, market, capital, liquidity and funding, model, operational and information and cyber security 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, geopolitical outlook, market developments, and regulatory updates in relation to capital, liquidity and risk. In 2019, the BRC had deeper discussions on: Intragroup funding limits and controls, Industry portfolio mandates, ERM function, Climate Risk management, CIB Risk Review, macroeconomic and geopolitical risks (including US-China trade tension, China slowdown and regional impact and Hong Kong social unrest), technology obsolescence, operational resilience, IRB models performance initiatives, RWA strategic review, transition from LIBOR to risk-free rates, RB Risk review, Technology Risk, SC Ventures business ventures, and Safety and Security Risk.

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

Further details of information relevant to the directors' assessment can be found in the following sections of the annual report:

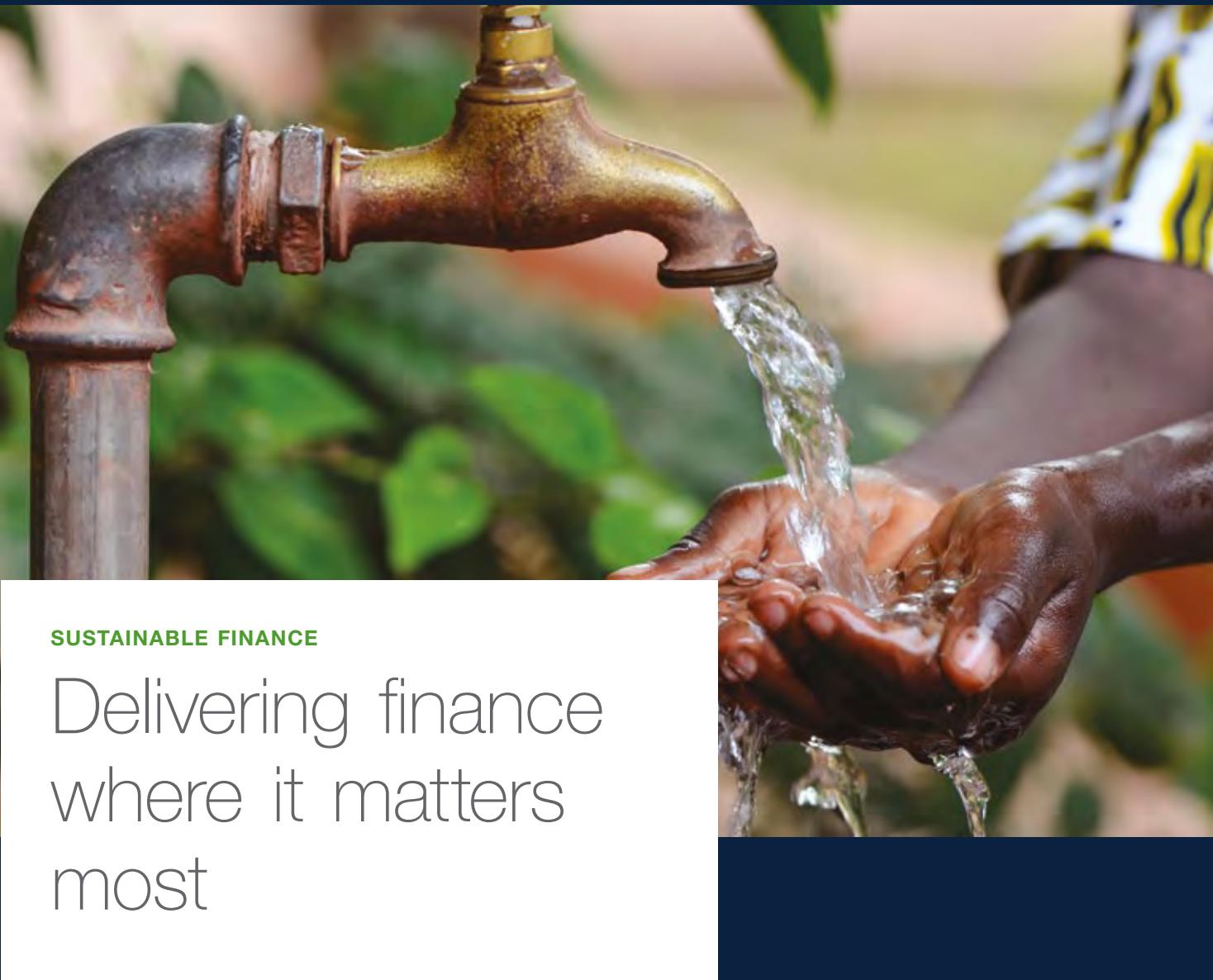
- The Group's Business model (pages 14 to 18) and Strategy (pages 19 to 21)
- The Group's current position and prospects including factors likely to affect future results and development, together with a description of financial and funding positions, are described in the client segment reviews and regional reviews (pages 22 to 29)
- An update on the key risk themes of the Group is discussed in the Group Chief Risk Officer's review, found in the Strategic report (pages 38 to 41)
- The BRC section of the Directors' report (pages 92 to 97)
- The Group's Emerging risks, sets out the key external factors that could impact the Group in the coming year (page 40 and pages 228 to 235). Note 26 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 (pages 206 to 211)
- The Group's Risk profile provides an analysis of our risk exposures across all Principal Risk Types (page 212 to 227)
- 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 236 to 241)

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 2022.

Our Strategic report from pages 01 to 65 has been reviewed and approved by the Board

Bill Winters
Group Chief Executive

27 February 2020



SUSTAINABLE FINANCE

Delivering finance where it matters most



➤ Read more about our approach to sustainable and responsible business on pages 51 to 56

The world is just a decade away from its 2030 deadline to deliver on the UN Sustainable Development Goals (SDGs), yet, according to a UN report, just 60 per cent of the financing needed to achieve the SDGs in low and middle-income countries is being met. In Africa, this is as low as 10 per cent.

In 2019, we launched the world's first Sustainable Deposit. Every dollar deposited will be referenced against sustainable assets that support the delivery of the UN's 17 SDGs, which form a global blueprint for a more sustainable world. Corporate and institutional clients in London, Singapore, Hong Kong and New York, along with Retail clients in Singapore, can now use their money to help address some of the world's biggest threats, including climate change, financial exclusion, and lack of access to health and education.

The deposit meets the requirements of our new Green and Sustainable Product

Framework, which sets out qualifying themes and activities aligned to the SDGs. Liquidity raised from the deposit will provide financing for microfinance institutions, small and medium-sized enterprises, and the development of sustainable infrastructure and services including clean energy, water improvements and health and education services in middle- and low-income countries.

The deposit is just one of the ways we are mobilising private capital to where it is needed most. Our aim is to help close the annual \$2.5 trillion funding gap that the UN estimates exists for the SDGs.

Clients can use their money to address climate change, financial exclusion, and lack of access to health and education.

DIRECTORS' REPORT

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Group Chairman's letter



"We remain committed to ensuring we work effectively as a Board in providing robust oversight to support the Group's ambitions".

Dear Shareholder,

As I mentioned earlier in this report, 2019 has been a year of progress against our strategic and financial objectives, as we continue to unlock our potential and focus on driving profitable and sustainable growth. We have also taken measures to improve our resilience to shocks, an area which the Board Risk Committee has particularly focused on this year. We have made good progress on the environmental and broader sustainability agenda, overseen by the Brand, Values and Conduct Committee, where we have strengthened our sustainable finance position for clients, announced our withdrawal from all new coal-fired power stations and launched new sustainable finance products.

Ensuring excellent governance underpins everything we do and is critical in retaining the trust of our shareholders and wider stakeholders. The resolution of legacy sanctions compliance and financial crime controls investigations in the US and UK was overseen by the Board Financial Crime Risk Committee. More details of its work can be found on pages 105 to 107 of this report.

As a Board we engaged extensively with our stakeholders throughout the year to understand better their views, as well as the opportunities, challenges and the Group's impact across our diverse markets.

Following the response to our Remuneration Policy at last year's Annual General Meeting (AGM), members of the Remuneration Committee and I met with many of our shareholders to understand their views. This resulted in the outcomes announced in November which are detailed, along with the extensive engagement undertaken by the Committee, in the Directors' Remuneration Report on pages 108 to 137.

The Board also met with a combination of clients, employees, regulators and investors as part of meetings held across our footprint this year, in Frankfurt, Shanghai and Singapore. Details of our engagement with stakeholders can be found on pages 80 to 82, including how the Board has engaged with employees, as part of the new workforce engagement provisions within the UK Corporate Governance Code. In addition, we have provided some examples in our Section 172 disclosure on pages 43 to 49 regarding how the Board has given consideration to our stakeholders' diverse interests as part of its discussions and decision-making.

This year, we paid significant attention to enhancing the effectiveness of the Board and its committees. An externally facilitated Board effectiveness review was commissioned, conducted by Ffion Hague of Independent Board Evaluation (IBE) and undertaken in line with the requirements of the UK Corporate Governance Code. The review assessed the Board's progress since the last external review in 2017 and provided an opportunity to take a step back, and reflect on the Board's overall effectiveness. The review concluded that the Board continues to operate effectively while also signalling several areas for improvement. Separately, but in parallel, the Prudential Regulation Authority (PRA) undertook their own Board effectiveness review. More details on the process and the key issues and outcomes of both reviews can be found on page 84 and in the committee sections of this report.

Sharing information and maintaining escalation channels with the chairs and independent non-executive directors (INEDs) across our subsidiaries has continued to strengthen in recent years through a number of mechanisms, including annual conference calls, meetings with INEDs as part of market visits and the introduction of the global subsidiary governance conference in 2017. Reflecting feedback from the last conference, the Board hosted its second global subsidiary governance conference while in Singapore in November. This two-day event brought together the Board, the Management Team and chairs and INEDs representing the Group's banking subsidiaries from over 25 countries across our markets, and provided the opportunity for those present to deliberate and discuss key elements of the Group strategy and further cement intra-Group cohesion. More details on the conference, including an insight into some of the topics discussed can be found on page 82, along with details of some of the work underway to drive improved linkages through the regional hub structure. Ensuring strong linkages will be particularly important with the change of the Group's Auditor to EY this year. The Audit Committee have overseen the smooth transition from KPMG to EY and further details on the committee's activities and judgements are provided on pages 86 to 91.

As Chairman I am responsible for ensuring that the Board is, and remains, an effective decision making body able to challenge and support the executive, now and into the future. Ensuring robust succession planning, identifying high-quality and diverse Board candidates, with the right skills and experience for the medium to longer term continues to be a key priority for the Governance and Nomination Committee.

In June 2019, we welcomed David Tang to the Board. In addition to his knowledge of China, his experience and understanding of emerging technologies, in the context of some of our key markets and strategic ambitions, has added significant value to our discussions as we continue to innovate and drive our digital capabilities. The Governance and Nomination Committee also played a central role in considering the corporate governance arrangements resulting from the establishment of the Hong Kong regional hub, as well as overseeing the composition of the dual-board structure with Standard Chartered Bank. More details on the work of the Governance and Nomination Committee can be found on page 101 to 104.

Our Board action plan sets out a number of key areas for us for the year ahead. We remain committed to ensuring we work effectively as a Board in providing robust oversight to support the Group's ambitions.

José Viñals
Group Chairman

Board of Directors

Committee key

- Committee Chair shown in green
- (A) Audit Committee
- (R) 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 (65)
Group Chairman



Appointed: October 2016 and Group Chairman in December 2016. José was appointed to the Court of Standard Chartered Bank in April 2019.

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. While at the IMF,

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 (58)
Group Chief Executive



Appointed: June 2015. Bill was appointed to the Court of Standard Chartered Bank in 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.

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 adviser 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.

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

➤ Bill Winters leads the Management Team

Andy Halford (60)
Group Chief Financial Officer



Appointed: July 2014. Andy was appointed to the Court of Standard Chartered Bank in July 2014.

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, Strategy, Group Corporate Development, Group Investor

Relations, Property and Supply Chain Management functions.

External appointments: Andy is Senior Independent Director and Chair of the Audit Committee at Marks and Spencer Group plc. He is also a trustee of the Standard Chartered Foundation.

➤ Andy Halford also sits on the Management Team

Naguib Kheraj (55)
Deputy Chairman



Appointed: January 2014 and Deputy Chairman in December 2016. Naguib was appointed to the Court of Standard Chartered Bank in April 2019.

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 served as chief executive officer of JP Morgan Cazenove and served for 12 years on the investment committee of Wellcome Trust.

Naguib is a former non-executive director of NHS England and served as a senior adviser to Her Majesty's Revenue and Customs and to the Financial Services Authority in the UK.

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

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

Christine Hodgson, CBE (55)
Senior Independent Director



Appointed: September 2013 and Senior Independent Director in February 2018. Christine was appointed to the Court of Standard Chartered Bank in April 2019.

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 a non-executive director of Ladbrokes Coral Group plc.

External appointments: Christine is an independent non-executive director and chair designate of Severn Trent Plc. She will step down as chair of Capgemini UK plc in

March 2020 and become chair of Severn Trent Plc in April 2020. Christine also 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. She received a CBE for services to education in the Queen's New Year Honours 2020.

Committees:

David Conner (71)
Independent Non-Executive Director



Appointed: January 2016. David was appointed to the Court of Standard Chartered Bank in April 2019.

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 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.

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

Committees:
David is also a member of the Combined US Operations Risk Committee of Standard Chartered Bank.

Jasmine Whitbread (56)
Independent Non-Executive Director



Appointed: April 2015. Jasmine was appointed to the Court of Standard Chartered Bank in April 2019.

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, a position she held until she

stepped down in 2015. Jasmine stepped down as a non-executive director from the Board of BT Group plc in December 2019.

External appointments: Jasmine is chief executive of London First, a business campaigning group with a mission to make London the best city in the world to do business and a non-executive director of WPP Plc.

Committees:

Gay Huey Evans, OBE (65)
Independent Non-Executive Director



Appointed: April 2015. Gay was appointed to the Court of Standard Chartered Bank in April 2019.

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.

External appointments: Gay is chair of the London Metal Exchange, a non-executive director of ConocoPhillips and Bank Itau BBA International plc, and a non-executive member of the HM Treasury board. Gay also sits on the panel of senior advisers at Chatham House.

Committees:

Louis Cheung (56)
Independent Non-Executive Director



Appointed: January 2013. Louis was appointed to the Court of Standard Chartered Bank in April 2019.

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.

External appointments: Louis is managing partner of Boyu Capital Advisory Co, a China-focused private equity investment firm and an independent non-executive director

of Fubon Financial Holding Company. He is also a Fellow of the Hong Kong Management Association and a Director of The Friends of Cambridge University in Hong Kong.

Committees:

Byron Grote (71)
Independent Non-Executive Director



Appointed: July 2014. Byron was appointed to the Court of Standard Chartered Bank in April 2019.

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 before stepping down in 2015.

External appointments: Byron is Senior Independent Director at Anglo American plc, a non-executive director and chair of the audit committee at 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: A R

Ngozi Okonjo-Iweala (65)
Independent Non-Executive Director



Appointed: November 2017. Ngozi was appointed to the Court of Standard Chartered Bank in April 2019.

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 programme to obtain debt relief and is credited with developing reforms that helped improve governmental transparency to stabilise and grow the Nigerian economy.

External appointments: Ngozi is an independent director of Twitter, Inc, Chair of GAVI, the Global Alliance for Vaccines and Immunisations and co-chair of Lumos Global, an off-grid solar provider. She also holds a number of prestigious international advisory positions, including the Asian Infrastructure Investment

Bank and holds advisory panel and chair positions at a range of global institutions, including charitable foundations, non-governmental organisations and inter-governmental organisations. Ngozi chairs the African Risk Capacity, a weather-based insurance organisation of the African Union and is co-chair of the Global Commission on Economy and Climate. She is a member of the G20 Eminent Persons Group, reviewing Global Financial Governance, an ambassador of the Open Government Partnership and is a trustee of the Carnegie Endowment for International Peace.

Committees: V

David Tang (65)
Independent Non-Executive Director



Appointed: June 2019. David was also appointed to the Court of Standard Chartered Bank in June 2019.

Experience: David has deep understanding and experience of emerging technologies in the context of some of our key markets, most notably mainland China.

Career: David has more than 30 years of international and Chinese operational experience in the technology and venture capital industries, covering venture investments, sales, marketing, business development, research &

development and manufacturing. From 1989 to 2004, David held a number of senior positions in Apple, Digital Equipment Corp and 3Com based in China and across the Asia Pacific region. From 2004 to 2010, David held various positions in Nokia, including corporate senior vice president, chairman of Nokia Telecommunications Ltd and vice chairman of Nokia (China) Investment Co. Ltd. He went on to become senior vice president, regional president of Advanced Micro Devices (AMD), Greater China, before joining NGP (Nokia Growth

Partners) as managing director and partner in 2013.

External appointments: David is managing director and partner of NGP in Beijing, managing investments in a range of technology start-up and emerging technology companies. David is also a non-executive director of YY Inc, the Chinese live streaming social media platform, listed on the Nasdaq, and Kingssoft Corporation, a leading Chinese software and internet services company, listed on the Hong Kong Stock Exchange.

Committees: V

Carlson Tong (65)
Independent Non-Executive Director



Appointed: February 2019. Carlson was appointed to the Court of Standard Chartered Bank in April 2019.

Experience: Carlson has a deep understanding and knowledge of operating in mainland China and Hong Kong and has significant experience of the financial services sector in those markets.

Career: Carlson joined KPMG UK in 1979, becoming an Audit Partner of the Hong Kong firm in 1989. He was elected chairman of KPMG China and Hong Kong in 2007, before

becoming Asia Pacific chairman and a member of the global board and global executive team in 2009. He spent over 30 years at KPMG and was actively involved in the work of the securities and futures markets, serving as a member of the Main Board and Growth Enterprise Market Listing Committee of the Stock Exchange of Hong Kong from 2002 to 2006 (chair from 2004 to 2006). After retiring from KPMG in 2011, he was appointed a non-executive director of the Securities and Futures Commission, becoming its chair in 2012 until he stepped down in

October 2018. He oversaw a number of major policy initiatives during his term as the chair including the introduction of the Hong Kong and Shanghai/Shenzhen Stock connect schemes and the mutual recognition of funds between the mainland and Hong Kong.

External appointments: Carlson sits on various Hong Kong SAR government bodies, including as a non-executive director of the Airport Authority of Hong Kong and chair of the University Grants Committee.

Committees: A Ri C

Amanda Mellor (55)
Group Company Secretary



Appointed: May 2019.

Prior to joining Standard Chartered, Amanda had been Group Secretary and head of corporate governance at Marks and Spencer Group plc since 2009, where she was also an executive member of the Operating Committee. From 2004-2009, she was head of investor relations at

M&S, having been director of corporate relations at Arcadia Group plc. Prior to working in investor relations, Amanda worked in investment banking at James Capel and Robert Fleming.

Amanda is a non-executive director of Volution Group plc. She is a visiting professor of the Inter-Disciplinary

Ethics Applied Centre at Leeds University. Amanda is a Fellow of the Institute of Chartered Secretaries.

Management Team



Bill Winters, CBE (58)
Group Chief Executive

Tracy Clarke (53)
Regional CEO, Europe & Americas
and CEO, Private Bank



Appointed: Tracy was appointed CEO, Europe and Americas in October 2015, and assumed her additional role of CEO Private Bank in March 2018. Tracy is a member of the Court of Standard Chartered Bank.

Career: Tracy joined Standard Chartered in 1985 and has held a number of roles in Retail, Commercial and Corporate Banking, in addition to



Andy Halford (60)
Group Chief Financial Officer

Simon Cooper (52)
CEO, Corporate, Commercial &
Institutional Banking



Appointed: Simon joined the Group as CEO, Corporate & Institutional Banking in April 2016 and assumed the additional responsibility for Commercial Banking in March 2018.

Career: Simon was previously group managing director and chief executive of Global Commercial Banking at HSBC. He has extensive experience across our markets and

Group functions, both in the UK and in Hong Kong. From 2013 to 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 previously an independent non-executive director of Sky plc and stepped down as an independent non-executive director of Inmarsat plc in December 2019.

External appointments: Tracy sits on the board of England Netball and is also a director of TheCityUK.

Benjamin Hung (55)
Regional CEO, Greater China &
North Asia and CEO Retail
Banking and Wealth Management



Appointed: Ben was appointed Regional CEO, Greater China & North Asia, on 1 October 2015, and CEO, Retail Banking on 30 November 2017. He assumed his additional role as CEO Wealth Management in March 2018.

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,

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 and a trustee of the Standard Chartered Foundation.

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 currently sits on the board of the Hong Kong Exchanges and Clearing

Ltd. He is a member of the Hong Kong Chief Executive's Council of Advisers on Innovation and Strategic Development. He also sits on the Exchange Fund Advisory Committee, the General Committee of the Hong Kong General Chamber of Commerce, and the HKUST Business School Advisory Council.

Judy Hsu (56)
Regional CEO, ASEAN & South Asia



Appointed: Judy was appointed Regional CEO, ASEAN & South Asia on 1 June 2018.

Career: Judy was the country CEO for Standard Chartered Singapore from 2015 to 2018. She 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 at Citibank was Regional Head of Retail Bank for Asia Pacific and Country Head for International Personal Banking, Singapore.

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

Sunil Kaushal (54)
Regional CEO, Africa & Middle East



Appointed: Sunil was appointed Regional CEO, Africa & Middle East on 1 October 2015.

Career: Sunil has over 30 years of banking experience in diverse markets and has been with Standard Chartered for over 21 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.

David Fein (59)
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.

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 Vice Chair of the United for Wildlife Financial Taskforce, a trustee of the Standard Chartered Foundation and a member of the board of directors of Guiding Eyes for the Blind.

Dr Michael Goriz (60)
Group Chief Information Officer



Appointed: Michael joined Standard Chartered as Group Chief Information Officer in July 2015.

Career: An industry award winner, Michael joined from Daimler AG, where he was vice president and CIO with responsibility for the smooth operation of all Daimler systems and the management of IT projects globally. He held various CIO roles

within the Daimler group, and spent many years working across Standard Chartered's footprint.

External appointments: None.

Management Team continued

Tanuj Kapilashrami (42)
Group Head, HR



Appointed: Tanuj joined the Management Team as Group Head, HR in November 2018. She joined the Bank in March 2017 as Group Head, Talent, Learning and Culture, and took on additional responsibility as Global Head HR, Corporate, Commercial and Institutional Banking in May 2018.

Career: Prior to joining the Group, Tanuj built her career at HSBC. She has worked across multiple HR disciplines in many of our footprint markets (Hong Kong, Singapore, Dubai, India and London).

External appointments: Tanuj is a member of the Asia House board of trustees, of which Standard Chartered is a founding stakeholder.

Asia House is a London-based centre of expertise on trade, investment and public policy whose mission it is to drive political, economic and commercial engagement between Asia and Europe.

Tracey McDermott, CBE (50)
Group Head, Corporate Affairs,
Brand & Marketing, Conduct,
Financial Crime and Compliance



Appointed: Tracey joined as Group Head, Corporate, Public and Regulatory Affairs in March 2017. She has subsequently expanded her portfolio to take on Brand & Marketing and Conduct, Financial Crime and Compliance.

Career: Prior to joining Standard Chartered, Tracey served as Acting Chief Executive of the Financial Conduct Authority (FCA) from September 2015 to June 2016. She joined the then Financial Services Authority (FSA) in 2001,

where she held a number of senior roles, including: Director of Supervision and Authorisations, and Director of Enforcement and Financial Crime. Tracey also served as a Board Member of the FSA from April 2013, as a member of the Financial Policy Committee of the Bank of England, and as non-executive director of the Prudential Regulation Authority (PRA) from September 2015 to June 2016. Prior to joining the FCA, Tracey worked as a lawyer in private practice, having spent time in law firms in the UK, USA and Brussels.

In 2016, Tracey received a CBE for her services to financial service consumers and markets.

External appointments: Tracey is a board member of UK Finance; a member of the International Regulatory Strategy Group (IRSG) Council; an Honorary Professor at the Centre for Commercial Law Studies, Queen Mary University of London; and a trustee of the Standard Chartered Foundation.

Mark Smith (58)
Group Chief Risk Officer



Appointed: Mark was appointed Group Chief Risk Officer in January 2016. Mark is responsible for managing Credit, Market and Operational Risk across the Group, and ensuring the broader risk framework is effective. Mark is a member of the Court of Standard Chartered Bank.

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. He has worked in London and Hong Kong.

External appointments: Mark was appointed chair of the International Financial Risk Institute in January 2020.

David Whiteing (51)
Group Chief Operating Officer



Appointed: David joined Standard Chartered as Group Chief Operating Officer in September 2018.

Career: David joined Standard Chartered from the Commonwealth Bank of Australia, where he was the Group CIO, responsible for all of the technology and operations teams of the Group and for delivering the Group's strategic pillar of 'world leading application of operations

and technology.' He is a highly experienced executive with a track record of delivering cultural transformation in Australia and overseas. Prior to joining the CBA Group in 2013, David was Vice President of Enterprise Systems at BP in the UK. He is a former Accenture technology and operations partner with extensive transformation experience.

External appointments: David is an independent director of Silicon Quantum Computing Ltd.

Corporate governance

Composition of the Board and independence of Directors

The Chairman is committed to ensuring the overall effectiveness of the Board and that it achieves the appropriate composition and balance of directors. The Board comprises a majority of independent non-executive directors; the biographies for each director can be found on pages 69 to 71. Details of the Governance and Nomination Committee's work on Board composition is set out on pages 101 to 104. In determining the independence of a non-executive director, 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 demonstrate objective judgement and independent thinking.

The Board considers all of the non-executive directors to be independent of Standard Chartered, and has concluded that there are no relationships or circumstances likely to impair any individual non-executive director's judgement.

Two of the more long-standing Board members stepped down on 23 February 2019. Dr Han Seung-soo retired from the

Board having served as an independent non-executive director for nine years and Om Bhatt after serving on the Board for six years.

Two new independent non-executive directors, Carlson Tong and David Tang, both with significant experience of operating across the Greater China, North Asia region, were appointed to the Board on 21 February 2019 and 12 June 2019 respectively. As is good practice, directors stand for (re)election by shareholders at the Group's Annual General Meetings (AGM) with the support of the Board.

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.



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.

Audit Committee

Oversight and review of financial, audit, internal financial control and non-financial crime issues.

Read more on page 86

Board Risk Committee

Oversight and review of principal risks, including credit, country, traded, capital and liquidity, operational, reputational, compliance, conduct, information and cyber security, financial crime and model risks.

Read more on page 92

Brand, Values and Conduct Committee

Oversight of the Group's brand, culture, valued behaviours, conduct, government and regulatory relations, sustainability priorities and processes for managing reputational risk and workforce engagement.

Read more on page 98

Governance and Nomination Committee

Oversight and review of the Board and executive succession, overall Board effectiveness and corporate governance issues.

Read more on page 101

Board Financial Crime Risk Committee

Oversight and review of all financial crime compliance matters.

Read more on page 105

Remuneration Committee

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

Read more on page 108

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 72 to 74.



The full schedule of matters reserved for the Board's decision, along with written terms of reference for the Board's committees, can be viewed at sc.com/termsofreference

Board decisions, responsibilities and delegation of 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 effective independent oversight and stewardship. Details of the significant topics discussed and considered by the committees in 2019 can be found in this report. 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 in place to provide clarity over where responsibility for decision-making lies. These are reviewed annually against industry best practice and corporate governance provisions and guidance,

including the Prudential Regulation Authority's (PRA) Supervisory Statement on Board Responsibilities.

With the exception of the Governance and Nomination Committee (where the Group Chairman is its Chair) and the Board Financial Crime Risk Committee (where two external advisers are members) all of the Board committees are comprised of independent non-executive directors who bring a diversity of skills, experience and knowledge to the discussion, and play an important role in supporting the Board.

Board composition, roles and attendance in 2019

| | Attendance | | | Responsibilities |
|--|------------|-----------|--------|---|
| | AGM | Scheduled | Ad hoc | |
| Group Chairman J Viñals | ✓ | 8/8 | 1/1 | Responsible for leading the Board, the development of the Group's culture and ensuring the Board's 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. |
| Senior Independent Director* C M Hodgson, CBE | ✓ | 8/8 | 1/1 | 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. |
| Executive directors | | | | |
| Group Chief Executive W T Winters, CBE | ✓ | 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, Strategy, Group Corporate Development, Group Investor Relations, Property and Supply Chain Management functions. |
| Independent non-executive directors | | | | |
| L Cheung | ✓ | 8/8 | 1/1 | |
| D P Conner | ✓ | 8/8 | 1/1 | |
| B E Grote | ✓ | 8/8 | 1/1 | |
| G Huey Evans, OBE | ✓ | 8/8 | 1/1 | |
| N Okonjo-Iweala | ✓ | 8/8 | 1/1 | |
| D Tang (appointed to the Board on 12 June 2019) | ✓ | 4/4 | n/a | Provides an independent perspective, constructive challenge and monitors the performance and delivery of the strategy within the risk appetite and controls set by the Board. |
| C Tong (appointed to the Board on 21 February 2019) | ✓ | 8/8 | 1/1 | |
| J M Whitbread | ✓ | 8/8 | 1/1 | |
| O P Bhatt ¹ (stepped down from the Board on 23 February 2019) | n/a | 0/1 | n/a | |
| Dr Han Seung-soo, KBE (stepped down from the Board on 23 February 2019) | n/a | 1/1 | n/a | |

* As Senior Independent Director, Christine Hodgson is available to shareholders if they have concerns for which the normal channels would be inappropriate. She may be contacted via the Group Company Secretary at 1 Basinghall Avenue, London EC2V 5DD

1 Om Bhatt was unable to attend the Board meeting held on 22 February 2019 due to other business commitments

In 2019, the Group held one general meeting, our Annual General Meeting, on 8 May, 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 Group Chairman and Group Chief Executive are adequately distinct from one another and are clearly defined in detailed role descriptions which can be viewed at sc.com/roledescriptions

Our Board meetings – operations and focus

To enable the Board to use its time most effectively and efficiently, supported by the Group Company Secretary, 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 advisers.

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 relevant stakeholders, 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 key risks.

Sir Iain Lobban, who is engaged by the Board to act as an independent adviser to the Board and its committees on cyber security and cyber threat management, attended a number of Board and committee meetings to provide an independent and current view on the Group's progress in this area. The Board continues to find Sir Iain's input challenging and practical. In 2019, Sir Iain Lobban's appointment was renewed for a further 12-month term.

 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 138 to 144

Code compliance

The UK Corporate Governance Code 2018 (the Code) and the Hong Kong Corporate Governance Code contained in Appendix 14 of the Hong Kong Listing Rules (the HK Code) are the standards against which we measured ourselves in 2019.

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.

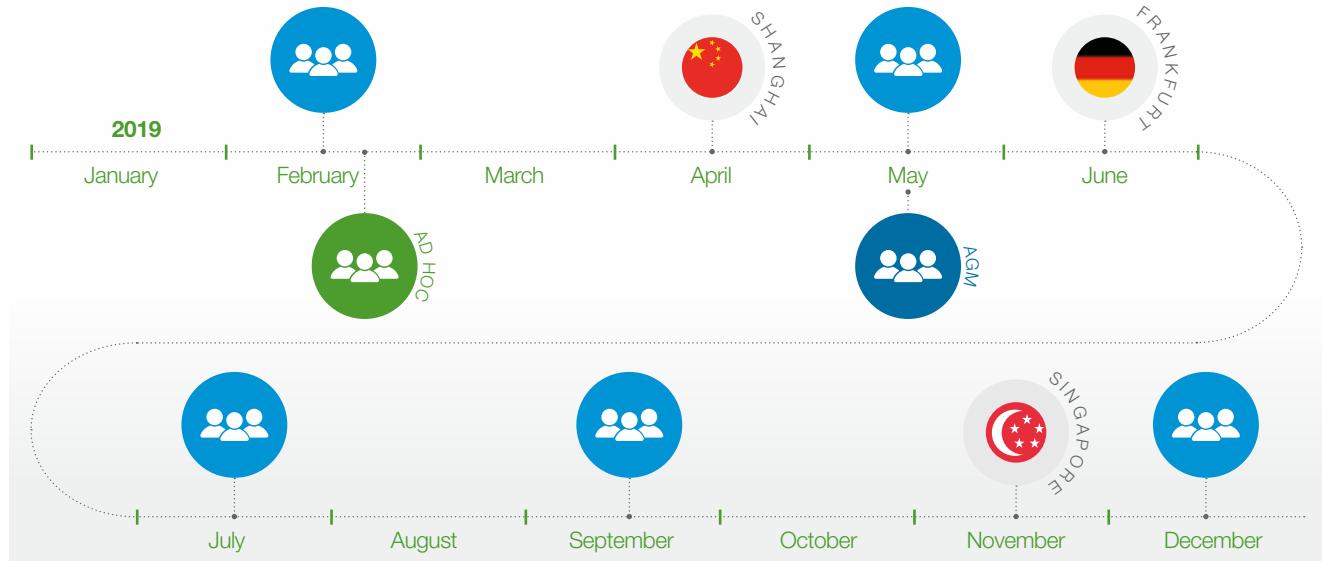
Throughout this corporate governance report, we have provided insight into how governance operates within the Group and how we have applied the principles set out in the Code and the HK Code.

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 activities during 2019

In 2019, the Board held eight scheduled meetings and one ad hoc meeting, three of which were held outside the UK in Shanghai, Frankfurt and Singapore.



Areas of Board discussion during 2019

Details of some of the Board's key areas of focus through 2019 are set out below. Some of these items were considered at each meeting and others reviewed periodically throughout the year. The directors are mindful of their statutory duties and obligations as directors and receive training on their responsibilities as part of their induction and on an annual basis.

The Board spends a significant amount of time engaging with its relevant stakeholders, including: employees; clients; investors; regulators; governments; and non-governmental organisations, to better understand their views and perspectives. The directors recognise the benefit in having open dialogue with its stakeholders and the need to foster these stakeholder relationships. During the year, the Board's discussions considered the impact on relevant stakeholders; some examples of how the Board considered their interests and the matters set out in section 172 of the Companies Act 2006, can be found in the Section 172 disclosure on page 43.

The Board will continue to enhance the mechanism for ensuring that the Group's stakeholders are given due regard and consideration as part of the Board's decision making.

Group strategy

- Reviewed and approved the five-year corporate plan, as a basis for preparation of the 2020 budget, receiving confirmation from the Group Chief Risk Officer that the plan is aligned to the Enterprise Risk Management Framework and the Group Risk Appetite Statement
- Received regular corporate development updates
- Received an update on the Greater China and North Asia region, including an update on its performance and priorities and the China strategy
- Received an update on the progress of the Operations strategy, including the focus on the client-led operations transformation
- Received an update on progress against the Group's Retail Banking strategy
- Received an update on the Corporate & Institutional Banking and Commercial Banking businesses, including progress against the strategic priorities, revenue, risk and control structure
- Received an update on the priorities and progress against the strategy and Corporate Plan in Europe and Americas, including a focus on the strategic opportunities and initiatives in Continental Europe
- Monitored the progress made in executing the refreshed strategic priorities and financial commitments

- 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
- Received an update on the Group's three-year Information and Cyber Security strategy
- Approved the sale of the Group's stake in an Indonesian Bank
- Received an update on progress in executing the strategy in the Africa & Middle East region, including key developments and strategic priorities
- Monitored the progress executing the Group's Technology strategy
- Reviewed potential scenarios and the Group's strategic considerations in light of the US-China trade tensions
- Received an update on the ASEAN and South Asia region, including a focus on the Singapore strategy
- Received the refreshed strategic priorities for the Private Bank
- Discussed and approved the proposed end-state regional hub entity structure and revised governance arrangements
- Monitored and assessed the strength of the Group's capital and liquidity positions

Risk management

- Received regular risk reports from the Group Chief Risk Officer
- Approved material changes to the Enterprise Risk Management Framework arising from the 2019 review
- Received an Information and Cyber Security risk and delivery status update
- Considered Management's response to the FCA's 2019 Firm Evaluation Letter
- Assessed the findings of the 2018 Bank of England Intelligence-led stress testing and the Hong Kong Monetary Authority's Intelligence-led Cyber Attack Security Testing reports
- Received an update on the Group's Information and Cyber Security risk profile and a progress update on the transformation and remediation programme
- Approved the renewal of the Group's insurance policies for 2019/20
- Engaged with the PRA on the findings of the 2018 Periodic Summary Meeting Letter
- Approved the risk appetite validation of the 2020 Corporate Plan

Budget and performance oversight

- Approved the Group's 2020 budget
- Monitored the Group's financial performance
- 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
- Approved a formulaic interim dividend policy
- Discussed the Group's excess capital return strategy
- Approved the launch of a \$1 billion share buy-back programme
- Approved the re-capitalisation of certain entities within the Principal Finance business
- Received bi-annual updates on the Group's investment portfolio for 2019
- Monitored the Group's Competitor and Market position and performance for the full year 2018
- Noted management's presentations to the Bank of England in respect of the 2019 Cyclical Scenario stress test submission
- Approved changes to the basis of the Group's internal and external financial reporting from 2021

People, culture and values

- Approved the Group's 2018 Modern Slavery Statement
- Discussed the findings from the Group's global employee engagement MyVoice survey
- Received an update on Management Team succession planning and an overview of the refreshed People Strategy
- Approved the share plan and principles for use within SC Ventures
- Received an update on productivity tracking, recent productivity performance and the strategic roadmap for improving productivity
- Received a report updating on the Group's Speaking Up Programme
- Discussed progress in delivering the Group's Sustainability Strategy

External environment

- Received an update on the macroeconomic headwinds and tailwinds in the global economy, including an assessment of their impact on the key drivers of the Group's financial performance
- Received an update on how the Group was responding to climate change and the physical and transition risks it presented across the Group's footprint
- Received internal and external briefings, training and input across a range of topics, including:
 - Discussion of the observations from the externally conducted Investor Perception Study
 - Discussion with the Chair of the Group's International Advisory Council
 - Discussion of the key risks relating to the US-China trade tensions, Hong Kong social unrest and Brexit
 - Managing Risk from Climate Change training

Areas of Board discussion during 2019 continued

Governance

- Approved the appointments of Carlson Tong and David Tang on recommendation from the Governance and Nomination Committee
- Received reports at each of the meetings from the Board Committee Chairs on each of their key areas of focus
- Reviewed and approved the Board Diversity Policy
- Approved the re-appointment of Sir Iain Lobban as an independent external adviser on cyber security and cyber threat management
- Approved the appointment of a new Group Company Secretary
- Approved changes to the Group Delegated Authorities Manual to support changes to the Group structure
- Noted the observations and themes arising from the 2018 Board and Committee effectiveness review and approved the Board's 2019 Action Plan
- Received an update on themes arising from its engagement with the workforce
- Commissioned an external Board effectiveness review (further details can be found on page 84)
- Held its second global subsidiary governance conference

Shareholder and stakeholder engagement

- Approved the resolution of legacy sanctions compliance and financial crime controls investigations in the US and the UK
- Engaged with investors, held meetings with brokers, discussed the views of institutional shareholders and responded to retail shareholders' questions at the 2019 Annual General Meeting
- Engaged extensively with stakeholders, including clients, investors, regulators and employees following the 2019 AGM vote on the Remuneration Policy
- Commissioned an Independent Shareholder Perception Survey
- Received an overview of the Group's three-year plan for developing the brand and the corporate narrative
- Participation by Board members in community engagement activities and projects
- Received bi-annual updates from Investor Relations, including share price and valuation analysis, market engagement and ownership analysis, and sell side sentiment

- Received an update on the Group's new global community initiative, Futuremakers by Standard Chartered, including the establishment of the Standard Chartered Foundation

- Approved certain actions with respect to the Group's Indian Depository Receipt programme

- Endorsed the statement setting out the views received from shareholders and actions taken in relation to executive remuneration

For a detailed overview of our strategy, see pages 19 to 21

Considering stakeholder perspectives

Our communities' perspective and the environment

- Positive social and economic contributions
- Strong community outreach and sustainability programme

Our employees' perspective

- Fair and competitive performance management and remuneration
- Engaged and diverse workforce

Our suppliers' perspective

- Open, transparent and consistent tender process
- Willingness to adopt supplier driven innovations

Driving commerce and prosperity through our unique diversity

Our clients' perspective

- Differentiated products, preferred bank
- Digitally enabled and positive experience

Our regulators' perspective

- Robust capital base/ strong liquidity position
- Standards for conduct

Our shareholders' perspective

- Strong performance
- Increased income, profit and return on investment

For examples of how the Board considered stakeholder perspectives in some principal decisions during the year are provided on pages 43 to 49

STAKEHOLDER ENGAGEMENT

Engaging with our employees, clients, shareholders and regulators across our markets

Frankfurt, Germany

The Board marked the opening of the Group's new Frankfurt office with an event attended by clients, employees and other stakeholders. A number of engagement sessions also provided members of the Board with the opportunity to engage informally with employees. The Board also held discussions with the German Regulator, BaFin.



Singapore

The Board hosted a global subsidiary governance conference while in Singapore (more details on this can be found on page 82). Members of the Board received an interactive session on the client journey and collectively met with a range of local clients, employees and the Singapore Regulator, MAS.



Europe & Americas

| | Visits |
|--------------------|--------|
| Warsaw, Poland | 3 |
| Washington DC, US | 1 |
| New York, US | 3 |
| Paris, France | 2 |
| Frankfurt, Germany | 13 |
| Dublin, Ireland | 3 |

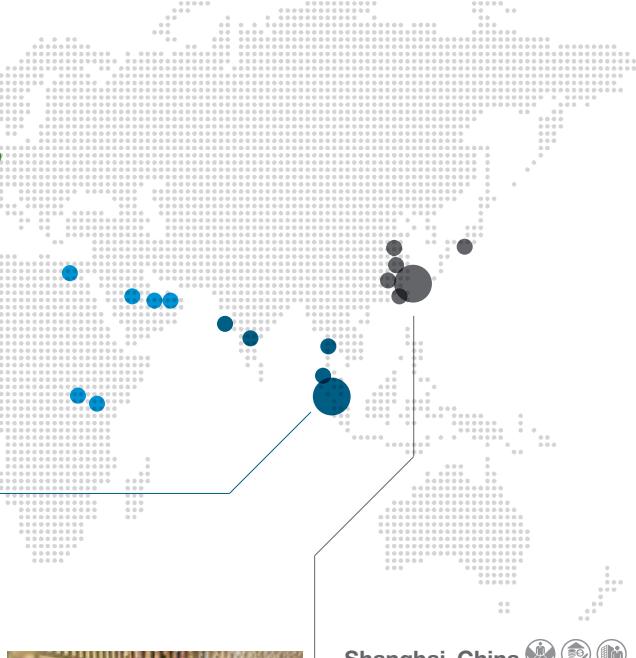
Africa & Middle East

| | Visits |
|----------------------|--------|
| Dubai, UAE | 2 |
| Abu Dhabi, UAE | 1 |
| Nairobi, Kenya | 3 |
| Riyadh, Saudi Arabia | 1 |
| Cairo, Egypt | 1 |
| Kampala, Uganda | 1 |

The Board recognises the importance of visiting our markets to gain a deeper understanding of the opportunities and the risks facing the business, as well as testing the execution of the Group's strategic priorities across our markets. It also provides the independent non-executive directors with opportunities to engage directly with a wide range of stakeholders. This on-the-ground access to, and dialogue with, clients, employees, investors and regulators continues to enhance the Board's understanding of the changing nature of the business and the industry, and provides insight from a range of stakeholders across the Group's diverse markets.

In addition, our independent non-executive directors also made a significant number of visits to our markets independently, either as they travel through our footprint or by participating in more formal organised programmes, before or after overseas Board meetings. This range of visits enables the independent non-executive directors to reach more of the Group's footprint and provide a deeper understanding of the business, our stakeholders and the market environment within which they operate.

During 2019, the Group Chairman, our independent non-executive directors and the external adviser members to the Board Financial Crime Risk Committee collectively made 72 visits across our markets, which included three overseas Board meeting programmes, held in Shanghai, Frankfurt and Singapore. This map details the range of locations visited and some of the stakeholder engagement undertaken.



Shanghai, China

The Board met with a number of major clients and shareholders, and took the opportunity to meet with senior members of SCB China management. Members of the Board also engaged directly with some high-performing employees at a 'Talent Townhall'.



Greater China & North Asia

| | Visits |
|-----------------|--------|
| Shanghai, China | 11 |
| Hong Kong | 2 |
| Tokyo, Japan | 1 |
| Tianjin, China | 1 |
| Hangzhou, China | 4 |
| Kampala, Uganda | 1 |

ASEAN & South Asia

| | Visits |
|------------------------|--------|
| Kuala Lumpur, Malaysia | 3 |
| Mumbai, India | 1 |
| Singapore | 14 |
| Bangalore, India | 1 |

Engaging 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 they are 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 transform our business for improved returns.

José Viñals and other independent non-executive directors engaged directly with shareholders, including at the 2019 Annual General Meeting (AGM), and José hosted an open forum that several large existing and potential shareholders attended. In addition, Christine Hodgson, Chair of the Remuneration Committee, continued to discuss with and collect feedback from shareholders on remuneration matters.

The Board commissioned an external independent investor perception study which was delivered in the middle of the year. The study provided many useful and actionable insights from 23 of the Group's largest shareholders, who collectively own or manage around 56 per cent of our issued share capital.

Bill Winters and Andy Halford are the primary spokespersons for the Group. Throughout the year they engaged extensively with existing shareholders and potential new investors during individual or group meetings, and on roadshows and investor conferences. In addition, each member of the Management Team responsible for a client segment or a geographic region, as well as

the Group Treasurer, met with investors to promote greater awareness and understanding of the strategy in their respective areas, as well as taking the opportunity to receive investor feedback first hand.

Institutional shareholders

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 Group Chairman, Group Chief Executive, Group Chief Financial Officer, other Board members and senior management in conducting a comprehensive engagement programme.

The Remuneration Committee Chair led detailed engagement with shareholders and other stakeholders following feedback received during the Remuneration policy engagement process and further to the guidance on executive pensions published by the Investment Association at the end of September 2019. The strength of stakeholders' views on executive pensions was carefully considered and balanced with the principles applied to the wider workforce. Further detail on the decision and changes implemented can be found in the Directors' Remuneration Report on page 108.

 All presentation material and webcast transcripts are made available on the Group's website and can be viewed at sc.com/investors

Retail shareholders

The Group Company Secretary oversees communication with our retail shareholders. The AGM was held on 8 May 2019 and provided an opportunity for the Board to meet with our retail shareholders and representatives to listen to their views and respond to their questions. The meeting was well attended and all of the resolutions were passed with shareholder support, ranging from 63.8 to 100 per cent.

Following the result of the Remuneration Policy vote tabled at the 2019 AGM, which received shareholder dissent of more than 20 per cent, the Company was included on the Investment Association's Public Register. In response to shareholder concerns, the Company, led by the Remuneration Committee Chair, spent a significant amount of time engaging with shareholders, to further understand their views and concerns. The engagement was wide ranging and represented approximately 60 per cent of our issued share capital. The Investment Association, which represents over 250 UK investment management firms, were also approached as were other major shareholder advisory bodies; and other smaller shareholders who also provided feedback.

Further details of the key concerns raised and the actions taken to address these are set out in the Directors' Remuneration Report on page 108.

 The results of the voting on each resolution at the 2019 AGM can be viewed at sc.com/investors

Debt investors

Our Treasury team has primary responsibility for managing the Group's relationships with debt investors and the three major rating agencies, with market chief executives and chief financial officers leading on most subsidiary ratings. In 2019, management met with debt investors across Europe, North America and Asia, and maintained a regular dialogue with 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 a key part of the external perception of our financial strength and creditworthiness.

 Further information can be viewed at sc.com/investors

Engaging with Investors: what we did during 2019

| February | March | April | May | June | August | September | October | November |
|---------------------------|---------------------------|----------------------------|---|---------------------------|------------------------|---------------------------|----------------------------|---|
| 2018 Full year results | Conferences and roadshows | 2019 First Quarter Results | AGM Financial Markets investor seminar | Conferences and roadshows | 2019 Half year results | Conferences and roadshows | 2019 Third Quarter Results | Africa & Middle East region investor seminar, roadshows |



Engaging with employees

The Board values the opportunity to meet with employees and the wider workforce, and understands the importance of the business having a firm understanding of their views, ideas and concerns. The Board is also acutely aware of the role it has in maintaining a genuine and open two-way dialogue with employees. The Board took every opportunity to meet with employees, either collectively or individually when making market visits during 2019, helping to gain a genuine understanding of the issues on the ground.

The Board agreed to adopt an alternate approach to the workforce engagement methods set out in the UK Corporate Governance Code. The primary reason for taking a different approach was that as a global organisation with more than 84,000 employees across 59 diverse markets, it is vital that any Board engagement should gather unfiltered feedback which is representative of the whole workforce in order to be truly effective.

A more formalised framework was put in place to supplement the channels which already exist, for the Board to understand the views of the workforce, which includes: the annual MyVoice Survey; the confidential Speak Up process; information reported from senior management on culture; disciplinaries and grievances data and themes; and direct engagement the Board has with employees as it travels around markets, collectively and individually. The key themes and action plans were reported to, and discussed by, the Brand, Values and Conduct Committee before being reported to the Board.

In 2019, we experimented with the introduction of an additional method of direct engagement and two-way dialogue between the Board and our employees. In September, two interactive engagement sessions were held between employees and the Board. The first was a call, facilitated through interactive question and answer technology, allowing real time questions and comments to be posed and responded to. The second took the form of a 'live online chat' between our global workforce and the Board, using the Group's intranet. Both sessions were well received by Board members and those employees who participated. Some of the themes explored in the sessions included: the future of banking; the Group's strategy; change within the Group; cultural transformation; talent management; and diversity and inclusion.

The Board was encouraged by the degree of interest employees had shown in engaging directly with Board members, and remains committed to evolving and refining this form of engagement to ensure they remain genuine interactions. The Governance and Nomination Committee conducted a review in early 2020 and agreed a number of proposals to further enhance our employee engagement programme and develop this for the year ahead.

Engaging with the Group's subsidiaries

The Board recognises the importance and benefit of creating and maintaining appropriate linkages with the Group's subsidiaries. During the Board's visit to Singapore in November, it held its second global subsidiary governance conference. This two-day event was attended by the Board and Management Team and the chairs and INEDs from across the Group's diverse footprint.

The conference presented the opportunity for the Board to strengthen its linkages with the Group's subsidiary chairs and further enhance their understanding and delivery of the Group's refreshed strategic priorities, as well as a range of other highly relevant topics. It also enabled the Board and Management Team to gain a better appreciation of some of the challenges and opportunities the Group faces across its subsidiary markets. Items discussed across the two days included:

- Group strategy, financial performance and governance structure
- Regional CEOs strategy session
- Global developments in corporate governance
- Developments in fintech, new business models and capturing clients of the future
- Non-financial risks and outcomes of Group internal audits of information and cyber security
- Delivering a strong people and culture agenda in an international bank
- Embedding anti-money laundering standards in a dynamic market environment and the role of financial services in the illegal wildlife trade

In addition, the INEDs also spent time engaging with the subsidiaries on a range of matters through scheduled conference calls. The Audit Committee held a call hosted by the Audit Committee Chair and attended by the chairs of subsidiary audit committees. The Group Chairman, Group Head, Finance, Group Head of Internal Audit, Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance, lead audit partner of the Group's statutory auditor, and the Group Company Secretary also participated in the call.

In conjunction with the Chair of the Board Financial Crime Risk Committee, the Board Risk Committee Chair hosted its annual call with the chairs of the subsidiary Board risk committees and INEDs. The Group Chief Risk Officer, Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance, Co-Head of Financial Crime Compliance and the Group Company Secretary also participated in the call.

We are also introducing a number of formal reporting mechanisms to improve the linkages between Standard Chartered Bank Hong Kong, Standard Chartered Bank and the Standard Chartered PLC.



Global subsidiary governance conference attendees, Singapore

Director induction

Two new directors were appointed to the Board during 2019, Carlson Tong and David Tang. Both bring highly relevant skills and a breadth of knowledge relevant to the Board debate. David Tang has more than 25 years of international and Chinese operational experience in the technology and venture capital industries, and Carlson Tong has a significant accounting background along with a deep understanding and knowledge of operating in mainland China and within commercial and Hong Kong SAR statutory bodies.

On joining the Board, both Carlson Tong and David Tang undertook a wide-ranging and robust induction programme to ensure that they were well placed to make a positive contribution from the outset. While a proportion of the induction is relevant to all new Board members, the content of the programme is tailored to meet each director's individual level of experience and expertise. In the case of both Carlson Tong and David Tang, a key element of the programme focused on ensuring they developed a detailed understanding of the UK regulatory

and governance environment, including a comprehensive understanding of their statutory duties, obligations and responsibilities as directors of a commercial organisation in the UK, which included the Senior Managers Regime.

The Group Corporate Secretariat is resourced to support the INEDs as they undertake their induction programmes. They are typically completed within the first six to nine months of an INED's appointment.

Ongoing development plans

Training and development of our directors is ongoing and does not end following their induction. Continuous development of our Board directors is crucial to maintaining a highly engaged, well-informed and effective Board. Mandatory learning and training are key elements of directors fit and proper assessments as mandated under the Senior Managers Regime. During the year, all directors received a combination of mandatory learning and training, internal and external briefings, presentations from guest speakers and papers on a range of topics to ensure the directors are well-informed and

that the Board remains highly effective. The Committee members also received specific training relevant to the work of their Committee.

The directors' formal ongoing training in 2019 took the form of refresher training on statutory duties and responsibilities, with a particular focus on identifying and managing conflicts of interest; an update on regulatory and governance responsibilities and obligations; briefings on shareholders' perception of the Board and its strategy; key risks relating to the US-China trade tensions, Hong Kong social unrest and Brexit; and training on managing the risks from climate change. The table below gives further detail on who received these briefings.

All of the directors have access to the advice of the Group Company Secretary, who provides support to the Board and is responsible for advising the Board on governance matters. 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 during 2019

| | Induction training ¹ | Directors' duties and regulatory updates | Visits to our markets and meetings with local management | Observations from the shareholder perception study ² | Key risks relating to the US-China trade tensions, Hong Kong social unrest and Brexit ² | Managing Risk from Climate Change training ² |
|-------------------|---------------------------------|--|--|---|--|---|
| J Viñals | N/A | ✓ | ✓ | ✓ | ✓ | ✓ |
| W T Winters, CBE | N/A | ✓ | ✓ | ✓ | ✓ | ✓ |
| A N Halford | N/A | ✓ | ✓ | ✓ | ✓ | ✓ |
| L Cheung | N/A | ✓ | ✓ | ✓ | ✓ | ✓ |
| D P Conner | N/A | ✓ | ✓ | ✓ | ✓ | ✓ |
| B E Grote | N/A | ✓ | ✓ | ✓ | ✓ | ✓ |
| C M Hodgson, CBE | N/A | ✓ | ✓ | ✓ | ✓ | ✓ |
| G Huey Evans, OBE | N/A | ✓ | ✓ | ✓ | ✓ | ✓ |
| N Kheraj | N/A | ✓ | ✓ | ✓ | ✓ | ✓ |
| N Okonjo-Iweala | N/A | ✓ | ✓ | ✓ | ✓ | ✓ |
| D Tang | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| C Tong | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| J M Whitbread | N/A | ✓ | ✓ | ✓ | ✓ | ✓ |

1 Applicable to directors who received induction training during 2019

2 These briefings took the form of a combination of presentations, Board dinners and discussions. Where a director was unable to attend a session, they received the update by the circulation of papers

✓ Director attended the session

✗ Director did not attend the session but received the accompanying material

Board effectiveness

This year's external evaluation of the Board was conducted in accordance with the UK Corporate Governance Code and the Prudential Regulation Authority's (PRA) expectations. It was facilitated by Ffion Hague of Independent Board Evaluation (IBE). The Board's six committees were also observed as part of the review. Neither Ffion Hague nor IBE has any other connection with the Company or any individual directors. This was the second external evaluation the Board has undertaken under the Chairmanship of José Viñals. In parallel to IBE's review, the PRA also conducted its own effectiveness review of the Board and a number of committees, this took the form of: interviews with the Board, a selection of subsidiary Board members and members of the Management Team; observation of the September 2019 meetings of the Board, Board Risk and Audit Committees and consideration of past Board papers and a review of the more static documentation provided.

What were the key observations from the effectiveness review?

An insight into the key observations from IBE's independent review are highlighted below:

- The Board has evolved considerably since the last external review in 2017, and there is a good level of diversity of thought and experience
- Levels of commitment and engagement are high, with value being added by Board members. The culture of the Board is regarded as a strength
- The Board's efforts to connect with high-potential employees, visiting key markets, and the level of engagement on issues such as fair pay, non-financial risk and purpose was well regarded

→ While the Board is operating effectively, there remains scope for further improvement and recommendations were made in respect to Board planning of discussions; quality of papers to support Board challenge and better use of Board time; private sessions; and interaction with wider Management Team

→ The Board is regarded as well constructed and while the level of financial expertise is high, closer mapping of specific experience and skill sets through the succession planning process was also recommended

Board effectiveness – external evaluation process, conducted by IBE



Jul/Sep/Nov 2019

Brief and Board observation

A comprehensive brief was provided to the assessment team at IBE by the Chairman in July 2019 and the assessment team observed the Board and its committees in July, September and November. Access to Board and committee papers were provided under strict controls.



Jul/Aug/Sep 2019

One-to-one interviews

Detailed interviews were conducted with each Board member throughout July, August and September, as well as with a number of the Management Team, external advisers and the auditor. All participants were interviewed for 1.5 hours in accordance with a tailored agenda.



Oct/Nov 2019

Evaluation and report

The report was compiled by the evaluation team in October and November, based on the information and views supplied by those interviewed and observations from the Board and committee meetings.



Dec 2019

Discussion with the Board and committee Chairs

The draft conclusions were discussed with the Chairman and subsequently with the wider Board in December 2019, at which Ffion Hague was present. Following the Board discussion, feedback was provided to each of the committee Chairs on the performance of each committee and the report on the Chairman's performance was discussed with the Senior Independent Director. In addition, the Chairman received a report with feedback on each director.



Dec 2019

Shared findings with the PRA

A summary of the findings was shared with the PRA.



Feb 2020

Agreed action plans for 2020

The key observations were discussed by the Governance and Nomination Committee ahead of the Board and its committees finalising their 2020 action plans.

The 2020 Board actions relate to the following areas:

Board papers; clarity of agendas between Standard Chartered PLC and its two hubs, Board challenge; and governance model and linkages between Standard Chartered PLC, its regional hubs and its subsidiaries.

Group Chairman's performance

The Senior Independent Director, Christine Hodgson, spoke individually with and met the independent non-executive directors as a group privately without the Chairman present, to evaluate his performance, and consider the views of the executive directors. The feedback was collated, and consolidated feedback was discussed with José Viñals.

Directors' performance

Evaluation of individual director performance was carried out by the Chairman in 2019. For each of the independent non-executive directors, the discussion with José Viñals consisted of, among other things:

- Their performance against the core competencies
- Their time commitment to the Group, including (where relevant) the potential impact of any outside interests
- Their ongoing development
- The Board's composition, taking into account when each independent non-executive director envisaged stepping down from the Board
- The current and future committee membership and structure

These performance reviews are used as the basis for recommending the re-election of directors by shareholders at the 2020 AGM and to assist the Chairman with his assessment of the independent non-executive directors' competencies. In addition, the Chairman has responsibility for assessing on an annual basis, the fitness and propriety of the Company's independent non-executive directors and the Group Chief Executive Officer under the Senior Managers Regime. These assessments were carried out in respect of each independent non-executive director and the Group Chief Executive towards the end of 2019.

External directorships and other business interests

Board members hold external directorships and other outside business interests. We recognise the significant benefits that greater boardroom exposure provides for our directors. However, we closely monitor the nature and number of external directorships our directors hold, in order to satisfy ourselves that any additional appointments will not adversely

impact their time commitment to and their role at Standard Chartered, and to ensure that all of our Board members remain compliant with the PRA directorship requirements, as well as the shareholder advisory groups' individual 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.

Our independent non-executive directors commit sufficient time in discharging their responsibilities as directors of Standard Chartered. In general, we estimate that each independent non-executive director spent approximately 35 to 70 days on Board-related duties, and considerably more for those who chair or are members of multiple committees.

Details of the directors' external directorships can be found in their biographies on pages 69 to 71. 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.

During 2019, we strengthened our internal processes to ensure that directors do not undertake any new external appointments without first receiving formal approval of the Board. The Board has delegated authority to make such approvals to the Chairman, with the exception of his own appointments. Of those independent non-executive directors who took on new external directorships during the year, two were regarded as significant directorships (appointed to the boards of listed companies) and as such were announced to the market in line with the Listing Rules. Those positions related to:

- Jasmine Whitbread, who was appointed an independent non-executive director of WPP plc on 1 September 2019. Jasmine discussed the appointment with the Chairman in advance of accepting the position and provided assurance that the appointment would not impact her ability to devote sufficient time and focus to both her Board and committee responsibilities. Jasmine continues to hold below the maximum number of INED directorships permitted under the PRA rules. Jasmine also stepped down from the board of BT Group plc on 6 December 2019, ensuring that she is able to continue to devote sufficient time to Standard Chartered.

→ Christine Hodgson, who was appointed an independent non-executive director of Severn Trent Plc and chair designate on 1 January 2020. Christine discussed the appointment with the Chairman in advance of accepting the position and provided assurance that the appointment would not impact her ability to devote sufficient time and focus to both her Board and committee responsibilities. Christine remains within the maximum number of INED directorships permitted under the PRA rules. Christine will step down from the board of Capgemini UK plc at the end of March 2020, ahead of being appointed chair of Severn Trent Plc in April 2020, which will ensure she continues to have sufficient time to devote to Standard Chartered.

The Board's executive directors are permitted to hold only one non-executive directorship. Of our executive directors, Andy Halford is the Senior Independent Director and chair of the audit committee at Marks and Spencer Group plc, listed on the FTSE 250, and Bill Winters is a non-executive director of Novartis International AG, listed on SIX Swiss Exchange.

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 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 where necessary. Alongside interconnected committee membership, the Board receives a written summary of each of the committee's meetings and verbal updates at the Board, where appropriate.

Further details on each committee, including their oversight and focus during 2019, can be found in the Board committee sections starting on page 86.

Audit Committee



"Linkages between the Committee and audit committees within the Group's network have been strengthened to enable useful interaction and alignment"

Committee composition

| | Scheduled meetings | Ad hoc |
|------------------|--------------------|-------------|
| N Kheraj (Chair) | 8/8 | 1/1 |
| D P Conner | 8/8 | 1/1 |
| C M Hodgson, CBE | 8/8 | 1/1 |
| B E Grote | 8/8 | 1/1 |
| C Tong | 7/7 | 0/0* |

*Carlson Tong joined the Committee on 21 February 2019

Other regular attendees at Committee meetings in 2019 included:

Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group Head of Internal Audit; Group General Counsel; Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance; Group Statutory Auditors and Group Company Secretary.

EY attended four Committee meetings as an observer.

As part of, and in addition to, each scheduled Committee meeting, the Committee held 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 Naguib Kheraj has recent and relevant financial experience and that the other Committee members also have a depth of experience having managed complex balance sheets or having knowledge of financial reporting in international business.

Details of their experience can be found on pages 69 to 71. All the Committee members are independent.

Main responsibilities of the Committee

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. The Committee reports to the Board on its key areas of focus following each Committee meeting.

The Committee has written terms of reference that can be viewed at sc.com/termsofreference

As Chair of the Audit Committee, I am pleased to present the Audit Committee's report for the year ended 31 December 2019.

In addition to the disclosure requirements relating to audit committees under the UK Corporate Governance Code 2018, the following report sets out the areas of significant and particular focus for the Committee and its activities over the course of the year. The report also covers the reviews undertaken on the effectiveness of the Group Internal Audit (GIA) function and the Group's statutory auditor KPMG LLP (KPMG). Assurance has been sought and received by the Committee concerning the resourcing of the Group Finance, GIA and Compliance functions.

Since April 2019, meetings have taken place as dual Committee meetings of Standard Chartered PLC and Standard Chartered Bank, under the governance structure put in place to reflect the Group's corporate entity restructuring. Careful consideration has been given to agenda management and reporting to facilitate valuable discussions. Linkages between the Committee and audit committees within the Group's network have been strengthened to enable useful interaction and alignment.

This year, an External Quality Assurance Review was conducted by Grant Thornton on the GIA function and the Committee discussed the outputs of this, including suggestions for improvement, which were fed into GIA's 2020 Plan.

The Committee has been kept abreast of relevant industry reviews and consultations, in particular, the Independent Review of the Financial Reporting Council (FRC), and has supported the Group's input into this important matter. The Committee also discussed the recommendations arising from the Report of the Independent Review into the Quality and Effectiveness of Audit by Sir Donald Brydon, and proposed actions and implications for the Group.

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 it considered to be significant in the financial statements, and this report sets out the material matters that it has considered in these deliberations.

Focus has been placed on the auditor transition from KPMG to Ernst & Young (EY), to ensure a seamless and timely handover. EY has attended a number of Committee meetings to obtain insight into the Committee's ways of working.

Management reporting to the Committee from across the business has provided the opportunity for the Committee to challenge, probe, discuss and seek assurance from management, enabling the Committee to provide an independent perspective.

As a result of the Committee's work in 2019, assurance has been provided to the Board on the quality and appropriateness of the Group's financial reporting, and on internal audit, compliance and regulatory matters, to continue to safeguard the interests of our broader stakeholders.

The following pages provide insight and context into the Committee's work and activities during the year.

Naguib Kheraj
Chair of the Audit Committee

Activities during 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 and FRC publications on aspects of UK reporting
- ➔ 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 2019 are shown below.

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 262.

| 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 and provisioning levels In respect of high-risk credit grade exposures, the Committee was also briefed on business plans, including remedial actions and management assessment of the recoveries and collateral available. This analysis also included a post-implementation review of IFRS 9 and the operation and refinement of models and their impact on reported results |
| 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 |
| 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 any changes in methodology from prior years and significant valuation judgements |
| Taxation | Reviewed and considered management's judgements and assumptions with respect to tax exposure risks and ensured adequate disclosure in the financial statements has been made. This included coordination of the Group's effective tax rate, the quantum and basis of recognition of deferred tax assets 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 330 and 332 |
| Carrying value of investments in associates and joint arrangements | Reviewed and considered management's carrying value assessments on the Group's investments in PT Bank Permata, taking into consideration the conditional sale agreement entered into, 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 it had adequately assessed the recoverability of investments in subsidiaries, together with any intercompany indebtedness |
| Other areas of focus: | |
| Impairment of aircraft and shipping assets | Reviewed and considered, on a quarterly basis, management's assessments of impairment losses on aircraft and shipping operating lease assets, including the assumptions used to determine asset ViU and market valuations and management's decision to exit the shipping leasing business |
| Accounting policies for interest and trading income | Reviewed management's recommendation to change the Group's accounting policies for net interest income and net interest trading income, including the quantitative impact of these changes on the income statement and the consequent effect on reporting net interest margin |
| Classification of assets as held for sale | Reviewed management's assessment of whether assets or disposal groups should be reclassified as held for sale. This included reviewing the facts and circumstances for the proposed sale of aircraft and shipping assets, the Group's investment in PT Bank Permata and Principal Finance investments |
| Restructuring costs | Reviewed and considered, on a quarterly basis, income statement charges classified as restructuring, including a cumulative assessment of how items classified by management as restructuring tracked against the expected total of \$500 million over three years disclosed in the 2018 Annual Report |
| Capitalisation of software assets | Assessed the findings of management's review of the Group's software asset capitalisation processes, including recommendations for changes to controls and accounting adjustments resulting from revised estimates |
| Hedge accounting | Reviewed the ineffectiveness reported in operating income from hedge accounting and significant hedge terminations and the reasons for this |

Activities during the year continued

| | |
|--|---|
| Going concern and viability statements | → Reviewed management's process, assessment and conclusions with respect to the Group's viability statement, including principal and emerging risks and key assumptions. Ensured that the viability statement is consistent with the Group's Strategic report and other risk disclosures. Further details can be found on page 65 |
| 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, 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 |
| Examples of deeper discussions into specific topics | <ul style="list-style-type: none"> → Third-Party Risk Management (TPRM): Discussed progress made and priorities for the TPRM Programme. The Group's approach to ongoing TPRM for 2020 and beyond was also covered in this discussion → Independent review of FRC: Noted the Group's response to the Independent Review of the FRC → Modelling approach to IFRS 9 Expected Credit Losses: Discussed the Group's rationale for adopting a Monte Carlo simulation approach to modelling provisions for IFRS 9 Expected Credit Loss, compared with alternatives used more widely in the industry → Data Quality Risk: Discussed the work undertaken by the Group over the last three years in managing Data Quality Risk. As part of this, technology investments made to improve availability and quality of data were discussed → MiFID II: Discussed the Group's compliance with MiFID II, including current implementation and work underway to address gaps → Outsourcing strategy: Discussed an update on the Group's Outsourcing Strategy, including the Group's strategic direction and governance in place → Major Disputes and Significant Cross-Border Orders: Received and discussed updates on major disputes and significant cross-border orders facing the Group → IFRS 9 Models: Discussed updates on the Group's use of the IFRS 9 Corporate Probability of Default model used to calculate the year-end Expected Credit Loss, issues that have been experienced with the model and actions underway by management to address these issues → Privileged access management: Discussed the observations raised as part of the Group auditor's 2018 management letter and actions being taken by management to remediate the control deficiencies identified → Compliance surveillance: Discussed the Group's current position in relation to Compliance surveillance practices and capabilities, including further developments planned to enhance the Group's overall surveillance capabilities → Finance resourcing: Received and discussed a paper providing assurance that the accounting and financial reporting function is adequately resourced; the qualifications, experience and training of employees is appropriate; and the budget allocated is sufficient → The Report of the Independent Review into the Quality and Effectiveness of Audit by Sir Donald Brydon: Discussed this report and proposed actions and implications for the Group → Regulatory financial reporting: Discussed the Group's regulatory financial reporting, in light of recent PRA public disclosures → Liquidity systems strategy: Discussed the Group's liquidity reporting systems, including the strategy to reach desired target-state |

Activities during the year continued

| | |
|--------------------------------|--|
| Group Statutory Auditor | <p>Provided oversight of the work undertaken by KPMG as the Group's statutory auditor. In particular, the Committee:</p> <ul style="list-style-type: none"> → Reviewed and discussed the risks covered by KPMG's audit planning, seeking and receiving assurance that these risks have been addressed properly in the audit strategy → 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 → Conducted an annual performance and effectiveness review of KPMG. Input was received from Committee members, chairs of subsidiary audit committees, the Management Team, regional/country chief financial officers, members of the Group Finance Leadership Team and the GIA Management Team. The results of this input was 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 China, India, Singapore and the UAE. These provided insight into the challenges faced in the Group's markets from a statutory audit perspective, and provided the Committee with the local audit partner's assessment of the Group's control systems 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 and engagement with local regulators → The Committee met privately with KPMG → As Audit Committee Chair, Naguib met regularly with KPMG during the course of the year <p>The Company complies with the Statutory Audit services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee responsibilities) Order 2014. KPMG has been the Group's statutory auditor for more than 47 years. In accordance with the Audit Practices Board's requirements, the lead audit engagement partner has held the role for less than five years (two years following appointment in 2018). The lead engagement partner has a background of auditing banks and understands the markets in which the Group operates.</p> <p>Following the 2017 Audit tender, EY will become the Group's statutory auditor for the financial year ending 31 December 2020.</p> |
| Audit transition | <ul style="list-style-type: none"> → Received and discussed updates on the status of the transition to EY as the Group's auditor by 2020 and to meet independence requirements by 1 June 2019 → Reviewed and discussed EY's preliminary Audit Plan and sought and received assurance that EY's handover with KPMG and transition as auditor to the Group is taking place effectively and seamlessly → As Audit Committee Chair, Naguib met periodically with EY during the course of the year |
| Non-audit services | <ul style="list-style-type: none"> → 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 → In 2019, the Group spent \$0.7 million on non-audit services provided by KPMG and \$7.4 million on audit-related services such as quarterly and half year reviews and regulatory reporting <p>Further details on non-audit services provided by KPMG can be found in Note 38 on page 358 and the Group's approach to non-audit services on page 144.</p> |
| Internal controls | <ul style="list-style-type: none"> → Discussed reports from 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 discussed 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 provided 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 2018 (and items remaining open from 2016 and 2017) 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 <p>Further details on internal controls can be found on page 141.</p> |

Activities during the year continued

Group Internal Audit

In 2019, an external assessor, Grant Thornton (selected by the Committee from a competitive request for proposal process), conducted an external quality assurance review on the GIA function, which assessed the requirements of GIA against key professional and regulatory bodies governing the practice of internal audit. The Committee was assured to note that against the ratings prescribed by the Institute of Internal Auditors, GIA 'generally conforms' to the requirements of these standards. Some recommendations for improvement were made, which were discussed by the Committee, and these have been fed into GIA's 2020 plan.

GIA identified seven areas of critical risk to be covered in the 2019 audit plan. The objective was to ensure that there was sufficient audit coverage throughout the year for GIA to provide an opinion on each of these critical risk areas. Updates on these critical risks have been provided through GIA reporting to the Committee over the course of the year.

The seven areas of critical risk were:

- Information and cyber security
- Change delivery
- End-to-end processes, including Global Business Services
- Financial crime (sanctions and anti-money laundering)
- Models
- Completeness and reporting of management information relating to risks
- Data quality

In 2019, for the most significant matters being monitored by GIA, business and/or regional management were invited to attend meetings to provide updates on the steps being taken to enhance the control environment and address internal audit findings.

The Committee:

- Reviewed the adequacy of 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, and reviewed and monitored GIA's progress against its annual audit plan and the review and monitoring of post-audit actions. Changes to the audit plan and people changes were also discussed by the Committee
- Reviewed the refreshed GIA functional strategy and approved GIA's 2020 audit plan
- Reviewed and approved the refreshed GIA charter
- Received reports from the Global Head, Audit Quality Assurance (QA) on the QA function's view of the control environment in GIA

The Committee is satisfied with the independence of the GIA function. Throughout the year, Naguib met regularly with the Group Head of Internal Audit and the GIA Management Team.

Group compliance

Regular compliance reporting to the Committee sets out the work carried out by Compliance function, significant compliance and regulatory risks facing the Group, and key actions being taken to address and mitigate these risks.

In 2019, the Committee was updated on the following:

- Key supervisory areas of focus, the status of the Group's core college regulatory relationships and enforcement matters
- The function's operating model, including an overview of the Conduct, Financial Crime and Compliance budget and organisational changes to simplify the leadership structure
- The Group's compliance with MiFID II
- Trade and communications surveillance across the Group
- Compliance and Regulatory Risk within Private Banking
- Revisions to the Volcker Rule

The Committee reviewed a detailed update on compliance resourcing and confirmation was received from management that the function is adequately resourced.

The Committee also reviewed and discussed the 2020 Compliance Plan and priorities.

As Committee Chair, Naguib met regularly throughout the year with the Group Head, Conduct, Financial Crime and Compliance.

The Board Financial Crime Risk Committee received reports on financial crime compliance related matters.

Activities during the year continued

Speaking Up

Speaking Up is the Group's confidential and anonymous whistleblowing programme (the Programme).

The Programme has been designed to comply with the Group's UK lead regulators, the PRA and the Financial Conduct Authority (FCA) Whistleblowing Rules. Our whistleblowing channels are available to anyone – colleagues, contractors, suppliers and members of the public – to raise concerns confidentially and anonymously.

Through the Compliance Regulatory Report, the Committee was provided with a regular update on the Programme.

The Committee discussed an annual report on the operation and effectiveness of the Programme which was subsequently tabled to the Board. The report provided the Committee with assurance of the Group's ongoing compliance with the Whistleblowing Rules. The Committee also discussed the focus of the Programme for 2020.

In 2019, Naguib regularly received Speak Up management information reports with details of Speak Up cases and themes. Naguib also met with the Head, Speaking Up.

Further details on Speaking Up may be found on page 54.

Interaction with regulators

Typically 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. In 2019, the PRA also attended one of the Committee's meetings as an observer. As Committee Chair, Naguib attended a trilateral meeting with KPMG and the PRA, met with the PRA and FCA separately, and met with local regulators in countries visited during the year.

Linkages with subsidiary Audit Committees

There are strong linkages and interactions in place between the Committee, regional hub audit committees and banking subsidiary audit committees. In 2019, the Committee discussed a Group standard setting out principles for interaction, elevation should audit concerns arise, linkages between audit committee chairs and cascade of relevant information. Details of the annual call held with Naguib, as Audit Committee Chair, and the chairs of banking subsidiary audit committees can be found on page 82.

Committee effectiveness review

During 2019 an external Board effectiveness review was conducted by IBE, and separately, but in parallel, a review was also conducted by the PRA on the effectiveness of the Committee.

Key observations from the 2019 external effectiveness review

The feedback on the Committee's functioning and effectiveness was positive and it specifically highlighted that:

- The Committee is working well
- The Committee should continue to encourage Management to escalate potential issues in a timely manner

2020 Action Plan

- Continued oversight and focus on key areas of the Committee's remit, such as IFRS 9 models and MiFID II compliance
- As with all Committees, keep under review the quality of papers to ensure clarity of purpose and alignment to the forward-looking agenda

Board Risk Committee



"The Committee remains fully supportive of the Enterprise Risk Management Framework's goal of improving the Group's risk management to enable a risk culture that encourages appropriate behaviours and outcomes"

Committee composition

| | Scheduled meetings | Ad hoc |
|--------------------|--------------------|--------|
| D P Conner (Chair) | 8/8 | 1/1 |
| N Kheraj | 8/8 | 1/1 |
| G Huey Evans, OBE | 8/8 | 0/1* |
| C Tong | 8/8 | 0/1* |

Carlson Tong joined the Committee on 21 February 2019.

Om Bhatt stepped down from the Committee on 23 February 2019.

*Gay Huey Evans and Carlson Tong were absent from the December ad hoc Committee meeting due to prior business commitments.

Other attendees at Committee meetings in 2019 included:

Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group General Counsel; Treasurer; Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance; Group Head of Internal Audit; Group Statutory Auditors and Group Company Secretary.

Jasmine Whitbread and Christine Hodgson attended one Committee meeting in 2019 as part of their ongoing engagement programmes. Jasmine also attended part of a Committee meeting to discuss the Conduct Risk Appetite Statement, in her capacity as Chair to the Brand, Values and Conduct Committee.

EY attended three Committee meetings as an observer. As part of, and in addition to, each scheduled Committee meeting, the Committee held private members-only meetings.

The Committee's membership comprises 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 69 to 71.

Main responsibilities of the Committee

The Committee is responsible for exercising oversight of and reviewing prudential risk. It reviews the Group's overall Risk Appetite Statement and makes recommendations 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, reviewing reports on principal risks to the Group's business and ensuring effective due diligence on material acquisitions and disposals. The Committee reports to the Board on its key areas of focus following each Committee meeting. Since April 2019, meetings have taken place as dual Committee meetings of Standard Chartered PLC and Standard Chartered Bank, under the governance structure put in place to reflect the Group's corporate entity restructuring.

The Committee has written terms of reference that can be viewed at sc.com/termsofreference

As Chair of the Board Risk Committee, I am pleased to present the Board Risk Committee's report for the year ended 31 December 2019.

Throughout the year, focus has been placed on Information and Cyber Security (ICS) Risk and the Group's Transformation and Remediation Programme (TRP), designed to manage the risks posed by rapidly evolving security threats and technology adoption. This remains an ongoing area of focus and priority for the Committee, to ensure that the Group's information and technology assets are suitably safeguarded.

The Committee has been reviewing how the Group's approach to the management of Operational Risk is developing, recognising the significant financial and reputational losses that could result, should an Operational Risk failure occur. The Committee's focus on this will continue in 2020.

Recognising that climate change remains one of the greatest challenges faced by the world today, Climate Risk management has been a key focus for the Committee. Discussions have been held on the Group's approach to the management of climate risks, the roadmap to develop and implement a Climate Risk assessment framework, the Group's response to supervisory expectations from the Prudential Regulation Authority (PRA) and overall progress being made. Needless to say, this will remain an important priority going forward.

The Committee was supportive of the elevation of Model Risk as a Principal Risk Type, and has invested time in reviewing management's action plans to improve current capabilities in Model Risk Management (MRM).

Mindful of the risks associated with the transition from the London Interbank Offered Rate (LIBOR) to alternative risk-free rates, the Committee has sought and received assurance that the Group's programme of work is managing all aspects of the transition, including the financial implications, legal risks and consequences for clients.

Given the ever changing external environment, the Committee continues to discuss key macroeconomic and geopolitical risks and challenges faced by the Group, and probe how these are being managed and mitigated by management.

Effective risk management is a critical component in providing consistent and sustainable performance for the Group's broad range of stakeholders. With the launch of the Enterprise Risk Management Framework (ERMF) in January 2018, the Committee remains fully supportive of the ERMF's goal of improving the Group's risk management to enable a risk culture that encourages appropriate behaviours and outcomes.

The following pages provide insight and context into the Committee's work and activities during the year.

David Conner
Chair of the Board Risk Committee

Activities during the year

| | |
|---|--|
| Risk Appetite | <p>Reviewed and challenged the formulation of the Group's Risk Appetite Statement, in order to assure that it is effective in setting appropriate boundaries in respect of each Principal Risk Type.</p> <p>Considered and recommended the Group's Risk Appetite to the Board for approval.</p> <p>As part of the 2019 interim review of Risk Appetite, changes were largely limited to refinements to existing metrics, although new metrics were proposed for Operational Risk and Model Risk, as well as a revision to the Conduct Risk Appetite Statement and related metrics.</p> <p>As part of the 2019 annual review of Risk Appetite, proposed changes were reviewed by the Committee for recommendation to the Board, which included:</p> <ul style="list-style-type: none"> → Climate Risk: a Risk Appetite Statement was introduced → Credit Risk: new metrics were proposed to monitor the quality of originations via setting a threshold for Expected Credit Loss for year-to-date originations and for balance of payment financing to emerging market sovereign exposures → Capital and Liquidity Risk: a new metric was proposed to monitor the Group's capacity for recovery from stress → Operational Risk: 13 new metrics were proposed to ensure comprehensive coverage across the sub-risk types. A new metric was proposed for Model Risk to cover material models that were not currently captured by the existing metrics. This addressed the Committee's feedback to consider FM valuation models in the Model Risk Appetite metrics → ICS Risk: three new metrics were proposed to provide a holistic view of security controls for Information and Access Management, to detect malicious activities in the Group's network and to monitor non-compliance of cyber regulations <p>Monitored actual exposures relative to Risk Appetite limits using regular Risk Information Reports provided by management.</p> <p>Tracked a broad range of risk metrics that are reported to the Committee periodically.</p> <p>The Board Financial Crime Committee reviews the Risk Appetite Statement and metrics for Financial Crime Risk.</p> <p>Further details of the Group's Risk Appetite are set out on page 207.</p> |
| Enterprise Risk Management Framework | <p>The ERMF sets out the principles and standards for risk management across the branches and subsidiaries of the Group.</p> <p>The Committee:</p> <ul style="list-style-type: none"> → Reviewed proposed material changes to the ERMF, arising from the 2019 annual review, and recommended these changes to the Board for approval → Discussed the approach and key outcomes of the 2019 annual effectiveness review of the ERMF. Affirmation was received from the Group Chief Risk Officer that the Group's risk management and internal control framework is materially effective, and highlights risks and improvement areas for management attention |
| Principal Risk Types | <p>The Group's Principal Risk Types are reported on at each scheduled Committee meeting, through a Board Risk Information Report, which accompanies the Group Chief Risk Officer's Report. In addition, the Committee had deeper discussions on the following topics:</p> <ul style="list-style-type: none"> → ICS Risk <p>ICS Risk is the potential for loss from a breach of confidentiality, integrity and availability of the Group' information systems and assets through cyber-attack, insider activity, error or control failure.</p> <p>The Committee:</p> <ul style="list-style-type: none"> → Discussed regular reports from management on the work underway to improve the Group's defences and create stronger control frameworks, focusing on what has gone well and could have gone better throughout the year → Discussed regular reports on the Group's Transformation and Remediation Programme (TRP) and ICS Risk profile → Reviewed the Group's ICS three-year strategy and made a recommendation to the Board for approval → Discussed the findings of the Group's Cyber Security stress tests and the resulting management actions → Regularly sought assurance that the first, second and third lines of defence are aligned in progressing the Group's ICS priorities <p>Sir Iain Lobban, who is one of the external adviser members of the Board Financial Crime Risk Committee and an independent adviser to the PLC Board on cyber and security threats, joined the Committee meetings for these discussions, together with the Group Chief Operating Officer, Group Chief Information Officer and the Group Chief Information Security Risk Officer.</p> |

Activities during the year continued

Principal Risk Types continued → **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 (including legal risks).

The Committee:

- Discussed the risk profile for non-Principal Risk Types under the Operational Risk Principal Risk Type. The Committee discussed how the Group's management of Operational Risk is developing to reach desired end-state
- Discussed the Group's approach to managing Operational Risk, including key performance indicators, resourcing and costs

→ **Model Risk**

Model Risk is the potential loss that may occur as a consequence of decisions or the risk of mis-estimation that could be principally based on the output of models, due to errors in the development, implementation or use of such models. Model Risk was elevated as a Principal Risk Type in December 2019 (effective 2020).

The Committee:

- Reviewed management's action plans to improve current capabilities in MRM
- Discussed MRM benchmarking undertaken by an external consultant
- Sought and received assurance on management's interaction with the PRA on MRM
- Supported the elevation of Model Risk as a Principal Risk Type for the Group, due to increased regulatory requirements and enhancements to the Group's approach to MRM

Committee members attended four training sessions on Model Risk in 2019 to deepen their knowledge.

→ **Capital Risk and Liquidity Risk**

Capital Risk is the potential for insufficient level, composition or distribution of capital to support the Group's normal activities. Liquidity Risk is the risk that the Group may not have sufficient stable or diverse sources of funding to meet its obligations as they fall due.

The Committee receives a Treasurer's report which covers market developments, liquidity, capital, recovery and resolution planning, together with rating agency updates.

During the year, the Committee 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 submission to the PRA and Bank of England Stress Test submissions (see section on stress testing for further details); 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.

The Committee also considered and discussed the Group's Individual Liquidity Adequacy Assessment Process for submission to the PRA, which considers the Group's liquidity position, its framework and whether sufficient liquidity resources are being maintained to meet liabilities as they fall due and Bank of England Stress Test submissions (see section on stress testing for further details).

Further details on Capital and Liquidity Risk are set out on page 217.

→ **Credit Risk**

Credit Risk is the potential for loss due to failure of a counterparty to meet its agreed obligations to pay the Group.

The Committee received and discussed updates in Credit Risk Taking Policies/Portfolio. These discussions were further enhanced through deep dives into various country and business/client segments.

→ **Country Risk**

Country Risk is the potential for losses due to political or economic events in a country.

The Committee:

- Discussed the social unrest in Hong Kong and the impacts for the Group
- Discussed how risks relating to the Belt and Road Initiative (BRI) are being managed and US restrictions on Chinese companies

Further detail on the Group's Principal Risk Types can be found on page 209.

Activities during the year continued

| | |
|--|--|
| Stress testing | <p>The objective of stress testing is to support the Group in assessing that it:</p> <ul style="list-style-type: none"> → Does not have a portfolio with excessive risk concentration 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 key business model risks and 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 impact as required <p>The Committee provided oversight, challenge and approval for:</p> <ul style="list-style-type: none"> → The stress test results for the 2019 Bank of England Stress Test scenario (Annual Cyclical Scenario) which the Group, along with the other largest UK banks, was required to undertake → The scenario (options, narrative and key variables) and stress test results for the 2019 Group Internal Capital Adequacy Assessment Process Stress Test, including the Reverse Stress Test → The stress test results for the 2019 Group Recovery Plan Stress Test → The stress test results for the 2019 Biennial Exploratory Scenario which the Group, along with the other largest UK banks, was required to undertake <p>Further details of stress testing are set out on page 208.</p> |
| Internal controls | <p>Discussed reports from the Group Head of Internal Audit which provided summaries of GIA's appraisals of controls across key risks, subject to the Committee's oversight, together with the key risk issues identified by GIA's work and management actions put in place to address the findings.</p> <p>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 GIA's appraisal of controls across key risk types, subject to each respective Committee's oversight. Collectively, the reports received by these Committees provide assurance that there are effective internal controls within the Group.</p> |
| Remuneration as a risk management tool | <p>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 incentives for the Group Chief Executive and other employees. 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.</p> <p>Further details concerning the Group's approach to using remuneration as a risk management tool are set out in the Directors' remuneration report.</p> |
| Regulatory | <p>→ BCBS 239 Principles</p> <p>The Committee approved updated internal conditions for compliance with BCBS 239 Principles.</p> <p>The Committee noted the Group's level of compliance with the BCBS 239 Principles (as at 31 December 2018) which was submitted to the PRA. The outcome of this self-assessment confirmed that the Group was materially compliant with nine Principles and fully compliant with two Principles.</p> <p>The Committee will receive an update on the level of compliance (as at 31 December 2019), once the outcome of the self-assessment is available on 28 February 2020.</p> |
| Group regulator communications | <p>The Committee discussed key communications from the PRA and FCA, where risk was the main theme.</p> |
| Recovery plan | <p>The Committee received a briefing on the main components of the Group's Recovery Plan, ahead of discussion and subsequent approval of the submission to the PRA of the Group's Recovery Plan, further details of which can be found on page 217.</p> |
| Examples of deeper discussions into specific topics | <ul style="list-style-type: none"> → Intra-group funding limits and controls: Discussed the Group's intra-group funding limits and controls, including an overview of key revisions made to the Group's Intra-group Limit Application Policy → Industry Portfolio Mandates (IPMs): Discussed the Group's approach to developing and rolling out the Group's IPMs, which had been developed to simplify processes and procedures and to increase focus on clients → Enterprise Risk Review (ERR) function: Discussed reviews undertaken by the ERR Credit Risk Review team and the ERR Liquidity Risk Review team, including how coverage of ERR has been expanded. Feedback was provided on the structure and content of the forward-looking plan |

Activities during the year continued

Examples of deeper discussions into specific topics continued

- **Climate Risk management:** Discussed the Group's approach to the management of risks arising from climate change (climate risks), the roadmap to develop and implement a Climate Risk assessment framework, and the Group's response to supervisory expectations from the PRA. Later in the year, progress made was discussed by the Committee and it was recognised that Climate Risk is a material cross-cutting risk manifested through other Principal Risk Types. The Committee and members of the Board received training on Climate Risk in 2019. Further detail on Climate Risk can be found on page 231
- **Corporate & Institutional Banking Risk Review:** Discussed the key business risks and challenges faced by the Corporate & Institutional Banking business
- **Macro-economic and geopolitical risks:** Discussed the key macroeconomic and political risks faced by the Group over the next two years
- **Technology obsolescence:** Discussed the remediation of technology obsolescence including timelines and funding allocated
- **Operational resilience:** Following emerging regulatory requirements pertaining to the management of operational resilience, the Committee discussed the preparations underway by the Group
- **Internal ratings-based (IRB) models performance and initiatives:** Received and discussed an update on the Credit IRB models, used for calculation of Pillar 1 Risk-Weighted Assets (RWAs), including the IRB model's performance as at December 2018 and key 2019 IRB model initiatives. Sought and received assurance that the IRB models continue to perform adequately and that the validation process remains robust
- **RWAs strategic review:** Discussed and provided feedback on the RWA strategic review, launched to ensure the accuracy of the Group's end-to-end RWA management processes and calculations
- **Transition from LIBOR to risk-free rates:** In July 2017, the FCA announced that it would no longer support the London Interbank Offered Rate (LIBOR). The Committee received updates during the course of the year from an industry and Group perspective on the transition from LIBOR to alternative risk-free rates. The programme of work to manage this transition was discussed, including the work undertaken to manage the risks associated with this transition, in particular, the financial implications, legal risks and consequences for clients
- **Retail Banking (RB) Risk Review:** Discussed the key risks and challenges faced by RB and the actions taken and planned by management to mitigate these risks
- **Technology Risk:** Discussed the activities underway to manage and reduce technology risk
- **SC Ventures business ventures:** SC Ventures is the Group's financial technology investment entity, created to facilitate innovation and culture change, invest in external fintech capabilities and build alternative business models. Following on from a discussion on SC Ventures governance at the end of 2018, the Committee discussed the Innovation Investment Fund, established to invest up to \$100m in financial technology companies, supporting the Group's innovation strategies and initiatives, in line with the Group's Risk Appetite

Committee effectiveness review

As part of the 2019 external Board effectiveness review conducted by IBE and separately, but in parallel, a review was also conducted by the PRA on the effectiveness of the Committee.

Key observations from the 2019 external effectiveness review

The feedback on the Committee's functioning and effectiveness was positive and it specifically highlighted that:

- The Committee is engaged and diligent
- Committee papers are lengthy, and certain papers could highlight to a greater degree areas for improvement
- The Committee might benefit from a 'big picture' horizon scanning session

2020 Action Plan

- As with all Committees, keep under review the quality of papers to ensure clarity of purpose and alignment to the forward-looking agenda
- Review the forward-looking agenda to create dedicated space for a strategic 'horizon-scanning' discussion
- Representatives from the first, second and third lines of defence to provide perspective and assurance on key areas of the Committee's remit, for example, ICS
- Coordinate with the Group Chairman to ensure the review of ICS Risks by the Committee versus the Board is effective, with the Committee focused on more detail and the Board focused on higher level strategic issues

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, receives regular reports on risk management, and tracks a wide range of risk metrics through a Board 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. Coverage of Principal Risk Types and regulatory matters are also included in this report. By way of example, regular updates on US-China trade tensions and Brexit have been reported on and discussed throughout the year.

The Committee has the authority to request and receive relevant information consistent with the requirements of BCBS 239 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 the Half Year Report, and has also reviewed the disclosures regarding the work of the Committee.

Interaction with the Group Chief Risk Officer

David Conner meets individually with the Group Chief Risk Officer regularly between formal Committee meetings. These meetings allow open discussion of any matters relating to issues arising from the Committee's formal discussions and inform the forward-looking agenda.

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. David Conner also meets individually with senior leaders of the risk function.

Interaction with regulators

As Committee Chair, David Conner meets periodically with the Group's UK lead regulators, the PRA, as well as the FCA. In addition, and on an annual basis, the Committee meets with the PRA without members of management being present. The purpose of these meetings is to enable a discussion between the Committee and the PRA concerning prudential focused topics. In 2019, the PRA also attended one of the Committee's meetings as an observer.

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.

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 an overview of the changes to the Risk function in 2019 and management's forward-looking view of the Risk function.

Linkages with subsidiary Board risk committees

In conjunction with the Chair of the Board Financial Crime Risk Committee, David Conner co-hosted an annual call with the chairs of subsidiary board risk committees. Details of this call can be found on page 82.

Brand, Values and Conduct Committee



“Listening to the views, opinions and expectations of our people has always been central to the work of this Committee”

Committee composition

| | Scheduled meetings |
|-----------------------|--------------------|
| J M Whitbread (Chair) | 4/4 |
| C M Hodgson, CBE | 4/4 |
| N Okonjo-Iweala | 4/4 |
| D Tang* | 3/3 |

* David Tang was appointed to the Committee on 12 June 2019.

Dr Han Seung-soo and Orn Bhatt stepped down from the Committee on 23 February 2019.

Other attendees at Committee meetings in 2019 included:

Group Chairman; Group Chief Executive; Group Head, Human Resources, the Group Head Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance and Group Company Secretary.

Details of the Committee members experience can be found on pages 69 to 71.

Main responsibilities of the Committee

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 workforce engagement, Reputational Risk, sustainability priorities and the approach to main government and regulatory relationships.

The Committee reports to the Board on its key areas of focus following each Committee meeting.

 The Committee has written terms of reference that can be viewed at sc.com/termsofreference

Listening to the views, opinions and expectations of our people has always been central to the work of this Committee. This year, prompted by the new workforce engagement provisions brought in by the UK Corporate Governance Code 2018, the Board asked the Committee to take on the responsibility to review the Group's framework facilitating meaningful and direct engagement between the Board and the workforce. In light of this, the Group's established framework for employee engagement was enhanced during the year with two additional interactive sessions between Board members and employees, supported by online chat technology. This provided the opportunity for members of the Board to connect directly with thousands more employees globally. The Committee was encouraged by the level of workforce engagement and the feedback received. We discussed the key themes arising and asked management to develop a programmatic approach pulling together all sources of inputs and closing the feedback loop to strengthen our accountability to the workforce.

Sustainability remained high on our agenda. Having articulated our Sustainability Philosophy for the first time in 2018, the Committee oversaw the steps taken by Management this year to integrate our sustainability position statements and aspirations into business decision-making. These include strengthening our sustainable finance position for clients, with the complete withdrawal from new coal-fired power stations and the launch of sustainable finance products, including the world's first sustainable deposit.

The Committee continued its focus on culture and conduct. The Group's Culture Dashboard is now well established, providing a view of progress being made in embedding our valued behaviours. The Group's Conduct Dashboard is a work in progress this year, as the Committee urged management to simplify and deliver by year end. Nonetheless, the Committee was provided with assurance of how Conduct was being embedded throughout the Group across the three lines of defence.

Two of the Committee meetings were held overseas this year, in China and Germany, where the Committee took the opportunity to hold engagement sessions with local teams to seek greater insight at a local level on culture, conduct, brand and reputational matters, providing a valuable touch point with teams in our key markets.

The Committee regularly reviewed how Reputational Risk is being managed by the Group, taking a thematic approach to these reviews to help focus discussions on the impact of Reputational Risk.

Progress on the Brand refresh campaign launched in 2018 was reviewed by the Committee. The continued strength of the 'Here for good' brand promise was discussed, with clear brand metrics enabling the Committee to review the headway being made in the Group's approach.

Group Internal Audit reported regularly to the Committee with helpful insights gleaned from audits throughout the Group, highlighting where support is needed and how this support can best be delivered considering the specifics of the region or issue.

All these elements across the Committee's terms of reference, will be taken forward in 2020, with the United Nations Climate Change Conference (COP26) providing particular impetus for our sustainability agenda. We are pleased to have started 2020 with our Opportunity2030 report, highlighting the private sector investment opportunity in delivering the Sustainable Development Goals, and will continue to encourage the Group to take a leadership position in this field.

Jasmine Whitbread
Chair of the Brand, Values and Conduct Committee

Activities during the year

Workforce engagement framework

To satisfy the UK Corporate Governance Code 2018 (the Code) requirements, the Board first considered the three engagement provisions set out in the Code and elected to take the fourth approach, developing our own framework for meaningful and direct engagement. This method was chosen to ensure the representative views from across our diverse markets and employee base were captured, which the Board felt would not be satisfied with any of the three provisions set out in the Code.

The Committee took on responsibility to ensure workforce policies and practices were consistent with the Group's valued behaviours, as well as ensuring effective levels of workforce engagement.

To address this principle and supporting provisions in the Code the Committee's oversight included:

- Reviewing the newly established Workforce Engagement Framework, a structured framework of employee insights and data reported to the Committee, supplemented by the Board's direct engagement through their overseas Board programme and new interactive online sessions
- Discussed the new global interactive online sessions between Board members and employees, and the openness of employee questions, ranging from talent management to the organisational structure chart
- Discussed the extension of the existing engagement survey, MyVoice, to include 3,000 non-employed workers for the first time, as well as over 71,000 employees
- Discussed the importance of ensuring the workforce were able to raise matters of concern to the Board
- Asked management to develop an approach to close the feedback loop and strengthen our accountability to the workforce
- Reviewed the approach to reporting on the Group's policies and practices with consideration to the Group's culture and valued behaviours

Workforce engagement framework: how we engaged during 2019



My Voice employee engagement survey



Question and answer call with Board members



Culture Dashboard



Online chat with Board members



Disciplinary and grievance reports



Engagement during overseas boards, including town halls and engagement sessions



Speak Up data

Culture and valued behaviours

- An engagement session was held in China with the Management Team, which focused on their journey to building a culture of innovation and how the Group could best respond to cultural and conduct matters. This session helped to bring to life matters of culture, brand and conduct from a country perspective by using data and anecdotes to illustrate their stories
- Reviewed the Group's approach to Diversity and Inclusion and discussed the proposed 2019 programme of work in light of the Group's unique footprint
- Discussed the results of the employee MyVoice survey, assessing and monitoring the Group's culture and valued behaviours. One area of focus in an overall positive story fed back by the MyVoice survey was the perceived lack of opportunities in the Group for career progression. The corrective actions being taken by management to address this item were also discussed
- Discussed Futuremakers by Standard Chartered, the global initiative to tackle inequality and promote greater economic inclusion for young people in the Group's communities and empower the next generation to learn, earn and grow

Brand

- Received a report on the brand metrics and discussed the learnings and insights from them
- Discussed steps the Group is taking in respect of raising the profile of the Group's Corporate Narrative
- Discussed the Group's Brand Refresh campaign, focusing on where investment can best enhance the brand's impact
- In Germany, an engagement session was held with the Management Team on culture, conduct, brand and reputational matters. One area of focus was the branding journey of the Frankfurt office

Activities during the year continued

| | |
|--|--|
| Conduct | <ul style="list-style-type: none"> → Discussed the steps being taken by management to embed conduct into the three lines of defence → Regular progress updates on the development of the Conduct Dashboard |
| Reputational Risk Management | <ul style="list-style-type: none"> → Reviewed the enhanced Reputational Risk reporting, broadening the Committee's insights into Reputational Risk and key environmental, social and governance issues → Discussed the work being undertaken by the Group to understand positive and negative reputational risk drivers across its markets, drawing together insights from Reputational Risk and Corporate Affairs → Received an update on the key Reputational Risk insights and themes being tracked across the Group → Discussed enhancements to the Reputational Risk reporting following the launch of the Reputational Risk Dashboard → Sought and received assurance on how the Group's Position Statements are aligned to the Group's Risk Appetite |
| Sustainability | <ul style="list-style-type: none"> → Discussed the progress in delivering the Group's sustainability strategy, framed by the Group's sustainability philosophy → Received progress updates from the Sustainable Finance team on sustainable deposits and embedding sustainable deposits in the mainstream market → Discussed industry-wide metrics and indices in sustainability → Discussed growth opportunities in sustainable finance → Provided with insight into how stakeholder engagement is being used to promote the Group's message particularly in the area of sustainability |
| Government and regulatory relationships | <ul style="list-style-type: none"> → Reviewed the Group's approach to its main government and regulatory relationships across its key markets, with a view to improve the quality of these relationships → Provided input on the areas of priority for the Group, including regulatory reform, Brexit, Belt & Road initiative, climate change, Fintech and innovation, and country/regional specific issues |

Committee effectiveness review

As part of the 2019 external Board effectiveness review conducted by IBE, a review of the Committee was conducted. The feedback from IBE was positive and there was an overall feeling that the Committee was continuing to function diligently and thoroughly. The Committee was encouraged to keep the Board informed and connected on their work, especially in relation to people-related issues and the corporate social responsibility agenda.

2020 Action Plan

The 2020 Action Plan for the Committee reflects the feedback from the review along with the good practice suggestions from the external Board report:

- Review and recommend the plans for Board engagement with the workforce and ensure good communications on its progress to the Board
- Continue to drive the implementation of the Conduct Dashboard
- Ensure regular review of the Group's progress against its sustainability priorities and external commitments
- Develop closer ways of working with the Remuneration Committee on common topics around culture, values and brand

Governance and Nomination Committee



“We recognise the critical role we have in ensuring robust succession planning is in place and that the composition of the Board and its committees continue to evolve”

Committee composition

| | Scheduled meetings | Ad Hoc |
|------------------|--------------------|--------|
| J Viñals (Chair) | 4/4 | 1/1 |
| D P Conner | 4/4 | 1/1 |
| C M Hodgson, CBE | 4/4 | 1/1 |
| N Kheraj | 4/4 | 1/1 |
| J Whitbread | 4/4 | 1/1 |

Other attendees at Committee meetings in 2019 included: Group Chief Executive; Group Head, HR; Group Company Secretary

Biographical details of the committee members can be viewed on pages 69 to 71.

Main responsibilities of the Committee

The Committee has responsibility for keeping the size, structure and composition of the Board and its committees under review. As part of the Committee's succession planning for the Board, it takes into account the Group's strategy and challenges, and makes recommendations to the Board in respect of any adjustments to the Board's composition.

The Committee also: keeps under review the leadership needs of, and succession plans for, the Group in relation to both executive directors and other senior executives; has oversight of the process by which the Board, its committees and individual directors assess their effectiveness; keeps the diversity of the Board under review and monitors progress towards achieving its objectives in this area; considers any potential situational conflicts of interest declared by Board members; considers the impact of material changes to corporate governance regulation and legislation affecting the Group, and has oversight of the Group's approach to subsidiary corporate governance.

The Committee reports to the Board on its key areas of focus following each committee meeting.

 The Committee has written terms of reference that can be viewed at sc.com/termsofreference

As a Committee, we recognise the critical role we have in ensuring robust succession planning is in place and that the composition of the Board and its committees continue to evolve, providing effective oversight of the Group's strategy. Ensuring we have a truly diverse Board comprising individuals with a range of skills, backgrounds, experience and perspectives remains key to the Board's continuing effectiveness. The Board's Diversity Policy sets out the approach we take to ensure that the Board continues to make progress in this area.

Over the course of 2019, the Committee spent a significant amount of its time, with the assistance of external search firms, identifying key criteria to strengthen the pipeline of future Board candidates, which included: banking, finance, risk, accounting experience, geographical representation and diversity, in its broadest sense.

The Board's composition and that of some of its committees changed in the early part of 2019, with the retirement of two of our longer standing Board members and the appointment of Carlson Tong, which were highlighted in last year's report. In June 2019, the Committee recommended that David Tang be appointed to the Board. David's appointment added further market representation and valuable insight of the tech sector to the Board discussions. David is based in Beijing, China and has more than 30 years of international and Chinese operational experience in the tech and venture capital industries.

The focus on succession planning continues to be broader than the Board and its committees. We also focused in detail on succession readiness and plans for the executive directors, the Management Team and other senior executives to assure ourselves that key roles have credible plans with suitable flexibility for the immediate to longer term.

As part of its governance oversight role, the Committee received updates from the four Regional CEOs who each have responsibility for the subsidiary governance processes across their regions, to provide a holistic view of the governance challenges faced across the Group's footprint. The Committee also reviewed the changes to the Group's corporate governance arrangements, to reflect the new corporate entity structure following the establishment of the Hong Kong regional hub, and to ensure robust oversight and linkages between Standard Chartered Bank and Standard Chartered Bank Hong Kong and their subsidiaries.

The Committee paid significant attention to enhancing the effectiveness of the Board and its committees. An externally facilitated Board effectiveness review was commissioned in the middle of the year which concluded that the Board continues to operate effectively while also signalling several areas for improvement. Separately, but in parallel, the Prudential Regulation Authority (PRA) undertook their own Board effectiveness review. More details can be found on page 84.

The Committee also provided oversight and recommendations on how the Board should best meet the new requirement to formalise its approach to engage directly with the workforce – details of which are set out on page 82.

Finally, the International Advisory Council (IAC) held meetings in London and Nairobi. Discussions centred around the main long term drivers shaping the world and their strategic implications for the Group.

José Viñals

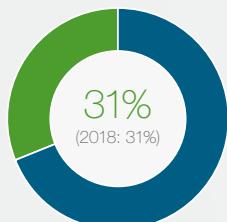
Chair of the Governance and Nomination Committee

Board composition as at 31 December 2019

Gender diversity

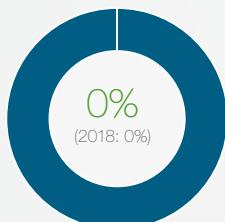
Board

Female
4
Male
9



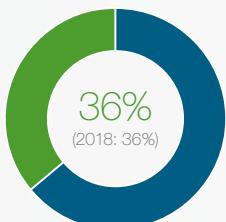
Executive

Female
0
Male
2



INED (including Chair)

Female
4
Male
7



Activities during the year

Board and senior talent succession planning

- Discussed the composition of the Board at each meeting of the Committee, and considered the orderly succession of current INEDs as well as the skills, knowledge, experience, diversity (in the broadest sense) and attributes required of future INEDs, both immediately and in the medium to longer term. In considering the Board's succession, the Committee take into account the length of tenure of the INEDs, and the importance of regularly refreshing the Board membership
- Systematically reviewed a number of independent non-executive director long and short lists throughout the year to identify potential candidates with a diverse range of skills, capabilities, experience, knowledge and perspectives
- Engaged the executive search firms Egon Zehnder* and Heidrick & Struggles*, to conduct a number of rigorous and transparent reviews of the market to support the Board succession plan, both in the short and medium term. The range of experience and skills sought in line with the objective of securing a truly diverse Board, included: banking; risk; accounting; geographical; tech; and retail
- David Tang emerged as a highly regarded candidate from one of the search processes, with extensive business experience across the GCNA region, particularly China and with significant knowledge of emerging technologies
- Discussed David Tang's candidacy against objective criteria and in the context of other candidates, and recommended him to the Board for appointment as an INED
- Provided oversight of detailed executive and senior management succession plans, including considering the diversity of these plans
- Reviewed succession plans for the committee chair roles, identifying appropriate individuals with the necessary skills and attributes to provide emergency cover as required, as well as on a longer-term basis, including acknowledging and addressing where gaps exist

* Egon Zehnder and Heidrick & Struggles are signatories to the voluntary code of conduct for executive search firms. Egon Zehnder and Heidrick & Struggles both also supply senior resourcing to the Group

Board and committee effectiveness review

- Discussed the PRA's plans to undertake their own Board effectiveness review during 2019
- Provided oversight of the process for the independent, externally conducted effectiveness review of the Board and its committees, including the selection process, which resulted in Ffion Hague of Independent Board Evaluation (IBE) being commissioned to facilitate the review
- Noted the feedback, observations and recommendations from both IBE's and the PRA's effectiveness review of the Board and agreed that the 2020 Action Plan would be discussed and finalised by the Board as a whole
- Discussed the feedback, observations and recommendations from both IBE's and the PRA's effectiveness review of the Committee, and agreed the content of the 2020 Action Plan

➤ Details of this year's externally conducted Board and committee effectiveness review, including the process which we followed and the observations from the review, can be found on page 84

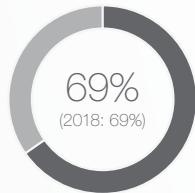
Board Diversity Policy

- Reviewed progress made in 2019 against the agreed objectives set out in the Board Diversity Policy, including how the Board has performed in achieving its stated aim to have 33 per cent female representation on the Board. Discussed the role of the Board Diversity Policy in advancing the composition and effectiveness of the Board

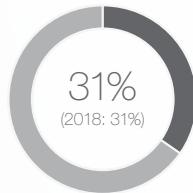
➤ Further details of progress the Board has made against the key objectives of the Board Diversity Policy are set out on page 104

Experience

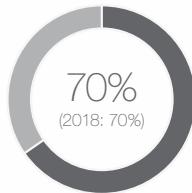
International experience



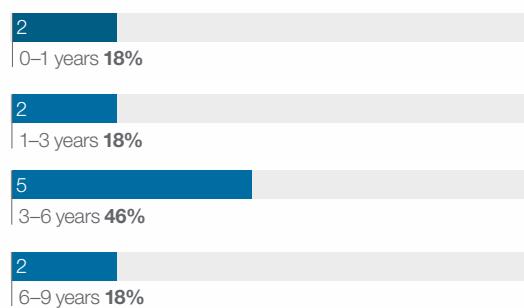
Representation from key markets



Banking, risk, finance, accounting experience amongst INEDs



Nationality: The nationality of our directors does not in itself demonstrate the diversity of the Board's composition. Between them, the directors have significant experience of either living, working or managing operations across the markets in which we operate

INED tenure**Activities during the year continued**

| | |
|--|--|
| Subsidiary governance | <ul style="list-style-type: none"> → Received updates from the four Regional CEOs on the Group's approach to subsidiary governance. Received assurance of effective oversight and compliance with the Group's Subsidiary Governance Policy → Discussed linkages between banking subsidiaries and the Group, and the process for escalation of key risks → Considered the interim corporate governance arrangements following the changes to the Group's hub entity structure, resulting from the establishment of the Hong Kong regional hub (comprising Hong Kong, China, Korea and Taiwan), including the Board structure and composition of the Court of Standard Chartered Bank |
| International Advisory Council | <ul style="list-style-type: none"> → Continued to provide oversight of the development of an IAC to support the Group in its strategic thinking → Provided comments on the initial IAC membership and provided input on the composition, ensuring diversity of expertise and representation from a range of sectors and geographies → The IAC met twice, in London and Nairobi, and focused on the impact of the key global economic, social, political and technological trends on the Group's strategy over the medium and longer term |
| Conflicts of interest | <ul style="list-style-type: none"> → 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. Also noted directors' other directorships and business interests, taken during the year in the context of time commitment, overboarding and regulatory requirements in this area |
| Assessment of the non-executive directors' independence | <ul style="list-style-type: none"> → Considered the independence of each of the non-executive directors, taking into account any circumstances likely to impair, or which could impair, their independence → Noted the thorough process undertaken to assess individual director performance and effectiveness, taking these reviews into account along with tenure and succession plans in making its recommendation to appoint the independent non-executive directors for a further year |
| Terms of reference | <ul style="list-style-type: none"> → Conducted a review of the Committee's Terms of Reference during the year, taking into account the responsibilities, obligations and best practice principles it has in the UK and Hong Kong |

Implementation of the Board Diversity Policy

The Board Diversity Policy (the Policy) sets out the approach the Board takes to ensuring that diversity, in its broadest sense, remains a central feature of the Board. The Policy acknowledges that we have a distinctive global footprint and international outlook, and a long history of diverse Board membership.

We strive to maintain this diversity, recognising that it brings a richness of perspective to the Board discussion and significant benefits to its overall effectiveness. The Policy focuses the Committee as it considers Board succession planning, ensuring that the Board's composition continues to evolve while promoting a diverse

range of individuals from: different social and ethnic backgrounds; gender; experience; knowledge; skill sets; personal strengths and attributes; with a geographic and sector perspective. Aligned to the Policy's broad ambition, it has five specific objectives which the Board remains 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 comprises 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 diversity of the executive pipeline as well as the diversity of the Board, including progress being made on reaching the Board's gender target

The Committee conducted an annual review of the Policy during 2019, to ensure that it continues to promote and drive diversity in its broadest sense, while continuing to take account of best practice initiatives, including the Parker Report into ethnic diversity, the Hampton-Alexander Review on women in leadership positions and the UK Corporate Governance Code 2018.

The Policy is implemented through the Committee, which considers its objectives as part of overall succession planning discussions alongside its selection and recommendation of individual candidates.

Details of the Board's diverse composition are set out on pages 69 to 71 of this report, and that of the Management Team can be found on pages 72 to 74.

Details of the Group's wider policy on diversity and inclusion, including gender balance across the Group can be found on page 49 of this report.

 A copy of the full Board Diversity Policy can be viewed at sc.com/boarddiversitypolicy and further details on the Group's approach to diversity and inclusion can be viewed at sc.com/diversity-and-inclusion

Progress against the key objectives set out in the Board Diversity Policy are set out below:

| Board Diversity Policy objectives | Progress update |
|--|---|
| Increasing the representation of women on the Board with an aim to have a minimum of 33 per cent female representation | → Increasing gender representation on the Board remains a key focus for the Committee as it considers Board succession planning, ensuring that female candidates are fairly represented on long and short lists; this can be more challenging depending on the criteria and geographical representation being sought. Although two male INEDs were appointed during 2019, the proportion of female directors remained unchanged at 31 per cent, as two male INEDs retired. The representation of women on the Board continues to trend upwards, increasing from 10 per cent in 2014 to 31 per cent today |
| Ensuring that our Board reflects the diverse markets in which we operate | → What sets Standard Chartered apart is our diversity of people, cultures and networks. The Board reflects many of the regions in which we operate, including the UK, North America, Asia and Africa. Many of the INEDs have additional experience of having worked, lived and managed operations across many of the Group's markets. As part of the Committee's work during 2019 on succession planning, it has considered a significant number of potential future INED candidates who are representative of some of our key regions and markets, resulting in the appointment of Carlson Tong, based in Hong Kong and David Tang, based in Beijing |
| Ensuring that the Board is comprised of a good balance of skills, experience, knowledge, perspective and varied backgrounds | → Throughout 2019, the Committee has focused on identifying the skills and expertise required more immediately, as well as those required in the medium to longer term. The Committee systematically reviewed candidate longlists to identify potentially suitable INED candidates. Areas of particular focus in 2019 included significant accounting, risk, banking and finance experience, retail and expertise in tech and cyber, as well as deep experience and knowledge of operating across the Greater China, North Asia Region |
| Only engaging search firms who are signed up to the Voluntary Code of Conduct for Executive Search Firms | → During 2019, we only engaged search firms signed up to the Voluntary Code of Conduct. The Committee engaged Egon Zehnder and Heidrick & Struggles to assist it in identifying and building a pipeline of high-quality potential INED candidates. Egon Zehnder and Heidrick & Struggles are both signed up to the Voluntary Code of Conduct and remain committed to supporting our ambitions to widen all aspects of diversity on the Board |
| Reporting annually on the executive pipeline as well as the diversity of the Board, including progress being made on reaching the Board's gender target | → The Committee takes an active role in reviewing the succession planning for the executive directors, the Management Team and senior management below the Management Team. In recent years, we have improved our reporting of Board and senior talent succession planning, as well as reporting on the value and importance of continuing to widen the diversity of the Board |

Committee effectiveness review

As part of the 2019 external Board effectiveness review conducted by IBE, a review of the Committee was conducted and separately, but in parallel, a review was also conducted by the PRA on the effectiveness of the Committee.

Key observations from the 2019 external effectiveness review

The feedback on the Committee's functioning and effectiveness was positive and it specifically highlighted that:

- The Committee functions well, with regular reviews of Board member tenure dates and appropriate discussions in respect to succession planning and for Board roles. These are reported back to the Board by the Committee Chairman in comprehensive reports
- The succession and INED selection processes are regarded as very inclusive and transparent but can also be very lengthy. However, this does not impact the quality of the successful candidates
- There is a general feeling that the succession process has improved, and the Committee has better information and visibility of high-potential individuals within the business

2020 Action Plan

The 2020 Action Plan for the Committee reflects a combination of good practice suggestions from the external report, along with others highlighted by a combination of IBE and the PRA:

- Develop a Board manual, involving Board and Governance and Nomination Committee input, with clear guidelines for the appointment processes and for the associated succession plans
- Introduce a formal template of Board skills and a matrix that tracks existing skills, knowledge, diversity and experience to support the Committee's appointments and succession planning processes
- Review the Board induction programme and insight opportunities to create a more tailored programme for new Board and committee members
- Continue to ensure sufficient time is allocated in the annual calendar for the Committee to have more contact with high-potential employees

Board Financial Crime Risk Committee



"We continue to strive to position ourselves as a leader in the war on financial crime"

Committee composition

| | Scheduled meetings |
|---------------------------------|--------------------|
| G Huey Evans, OBE (Chair) | 4/4 |
| D P Conner | 4/4 |
| C M Hodgson, CBE | 4/4 |
| N Kheraj | 4/4 |
| C Tong* | 4/4 |
| External adviser members | |
| B H Khoo | 4/4 |
| Sir Iain Lobban | 4/4 |
| F Townsend** | 4/4 |

* Carlson Tong joined the Committee on 21 February 2019.

** Fran Townsend stepped down from the Committee on 31 December 2019.

Other attendees at Committee meetings in 2019 included: Group Chairman; Group Chief Executive; Group Chief Risk Officer; Group General Counsel; Global Co-Heads, Financial Crime Compliance; Group Head of Internal Audit; Group Head, Conduct, Financial Crime and Compliance and Group Company Secretary.

Byron Grote attended one Committee meeting in 2019 as part of his ongoing engagement programme.

As part of, and in addition to, each scheduled Committee meeting, the Committee held private members-only meetings.

The Committee's membership is currently comprised of five independent non-executive directors and two independent external adviser 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 69 to 71.

Main responsibilities of the Committee

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 reports to the Board on its key areas of focus following each Committee meeting.

The Committee has written terms of reference that can be viewed at sc.com/termsofreference

As Chair of the Board Financial Crime Risk Committee, I am pleased to present the Board Financial Crime Risk Committee's report for the year ended 31 December 2019.

2019 was a year of significant milestones, with the resolution of legacy sanctions compliance and financial crime controls investigations in the US and UK in April, and the termination of the compliance monitorship by the US Department of Justice on 31 March. The end of 2019 marked a further milestone, when the term of the Independent Consultant appointed by the New York State Department of Financial Services (NY DFS) ceased and the business restrictions, previously imposed by the NY DFS, ceased to be in effect as of 31 December 2019. The Group remains committed to its mission of 'partnering to lead in the fight against financial crime' and is delivering on the remediation actions arising from the 2019 resolutions.

The Committee has overseen the significant effort and investment placed on the Group's mission and recognises that an effective compliance programme has been developed to make the Group both safer and stronger. We continue to strive to position ourselves as a leader in the war on financial crime.

The Committee is fully supportive of the Group's input and participation into FCC information sharing initiatives. Regular reporting has enabled the Committee to understand how the Group is playing a leading role and has encouraged further development of this important contribution, an example of which is the Group's feature on money laundering linked with the illegal wildlife trade in its brand campaign, a key theme of the Group's Here for good brand promise.

It was pleasing to note that Standard Chartered had been recognised by the US Treasury's Financial Crime Enforcement Network (FinCEN) for its contribution, through Bank Secrecy Act reporting, to three of the significant criminal cases nominated for award consideration, as part of the Law Enforcement Awards Programme.

The Committee receives periodic updates on initiatives the Group is leading, including delivery of the Correspondent Banking 'De-risking Through Education' Academy programme. It was good to see that the Financial Stability Board's May 2019 report on progress against de-risking cited Standard Chartered's Academy programme as a force to contribute to greater financial inclusion.

The Group made progress on its investments to enhance its financial crime technology, deploying machine learning from Silent 8 in support of its anti-money laundering and sanctions screening software, launching a tool with Quantexa to enable searches across c. seven billion historical transactions rapidly, and continuing to deploy its Mantas Transaction Monitoring platform. A key objective in 2020 is to complete the roll out of Mantas and to make greater use of the analytics features now in production.

Outside of Committee meetings and on a more informal basis, during an overseas Board visit to Germany, the Committee attended a roundtable discussion with FCC senior leaders to discuss a number of key priorities. A topic-focused discussion was also held with a representative from the National Crime Agency on UK efforts in fighting financial crime. These discussions provided useful opportunities to hear from the workforce and externally on financial crime-related matters.

The following pages provide insight and context into the Committee's work and activities during the year.

Gay Huey Evans

Chair of the Board Financial Crime Risk Committee

Activities during the year

| | |
|---|---|
| US supervisory remediation programme | <ul style="list-style-type: none"> → Exercised oversight of the activity required to comply with the requirements of the various financial crime compliance related Consent Agreements, Cease and Desist Orders and Deferred Prosecution Agreements with the US and UK authorities → More information about these Orders and Agreements can be found in Note 26 on page 332 |
| Assessment of financial crime risks | <ul style="list-style-type: none"> → Discussed reports on the financial crime risks faced by the Group across a number of the Group's client segments and geographies → Assurance was sought and received on the actions underway to strengthen controls in relation to these risks |
| Financial crime risk control environment | <ul style="list-style-type: none"> → Reviewed Group Internal Audit's view on the Group's control environment relating to Financial Crime Risk. Discussions included the grading of audit reports across FCC risk themes, gaps and deficiencies that have been identified. Assurance was sought and received concerning management's response and resulting management actions → Discussed an annual report from the Money Laundering Reporting Officer covering: responsibilities across the Group for anti-money laundering systems and controls and the structure within which they operate; an overall assessment of the FCC programme; an assessment on the operation of systems and controls; a summary of business issues; recommendations for action and a report from the Nominated Officer → Received regular reports from the Global Co-Heads, FCC setting out status updates on the financial crime objectives and key risks involved. In particular, progress being made to embed the Group's Effective and Sustainable standards was discussed. The Committee noted that the Group ended the year with Effective FCC programmes in all but one of its markets, but with further work to do in 2020 to support a conclusion that its FCC programmes are Sustainable → Discussed the action plans in place for data quality management relating to Financial Crime Risk in Transaction Banking and Retail Banking → Discussed an update on the risks and impacts of potential US secondary sanctions → Received an update on the future strategy for Transaction Monitoring capabilities across the Group's people, processes and technology |
| Financial crime future threats | <ul style="list-style-type: none"> → The Group has a Financial Crime Compliance Global Threat Assessment that looks at trends emerging from significant investigations and external events, to identify and evaluate the most significant financial crime threats faced by Standard Chartered, and to develop a set of key recommendations in response to these threats → In 2019, the Committee discussed thematic areas of exposure including: transnational money laundering operations; sanctions exposure and terrorist financing; bribery and corruption; illegal wildlife trade, and; cyber enabled fraud. The Committee probed into the actions in place to manage these risks |
| Group Risk Appetite Statement in relation to financial crime | <ul style="list-style-type: none"> → Reviewed and recommended to the Board the Group's Risk Appetite Statement, metrics and thresholds in relation to Financial Crime Risk → Regularly reviewed metrics measuring against Financial Crime Risk Appetite |
| Financial Crime Compliance function | <ul style="list-style-type: none"> → Discussed a report from the Global Head, Conduct and Financial Crime Compliance Assurance on the function, taking into account the current operating model and feedback from key stakeholders → Regularly discussed the engagement of people and the impacts of the Conduct, Financial Crime and Compliance Transformation Programme and actions to manage the risks |
| Financial crime compliance-related matters | <ul style="list-style-type: none"> → Received and discussed updates on significant FCC-related matters |

Activities during the year continued

| | |
|---|--|
| Financial crime compliance information sharing initiatives | <ul style="list-style-type: none"> → Discussed reports on FCC information sharing initiatives to which the Group contributes, in order to protect the integrity of the global financial system and improve the effectiveness of the contributions of financial institutions in fighting financial crime → Discussed how the Group contributes to industry thinking on reform and information sharing partnerships in a number of markets, as well as working with international fora such as the Wolfsberg Group → Discussed the Group's role in partnering with industry peers, non-governmental organisations and government officials, to engage in coordinated efforts to combat some of the world's most pernicious crimes, including human trafficking, terrorism, illegal wildlife trafficking and transnational organised money laundering networks |
| Committee meeting held overseas | <ul style="list-style-type: none"> → One of the four Committee meetings in 2019 was held as part of the overseas Board visit to Germany. During this visit, the Committee attended a roundtable discussion with FCC senior leaders to discuss the newly formed team, the regulatory environment in Germany, and in particular, implications for the Group's processes around Transaction Monitoring → At the end of the year, a topic-focused discussion was held with a representative from the National Crime Agency, as a guest speaker. An interactive discussion was held on UK efforts in fighting financial crime |

Committee effectiveness review

As part of the 2019 external effectiveness review, a review of the Committee was conducted by IBE.

Key observations from the 2019 external effectiveness review

The feedback on the Committee's functioning and effectiveness was positive and it specifically highlighted that:

- The Chair takes the Committee's work seriously and her commitment is appreciated by the rest of the Board
- There is some duplication between the Committee, the Board Risk Committee and the Brand, Values and Conduct Committee

2020 Action Plan

- Keep under review the Committee's role and composition
- Ensure papers support constructive discussion and are clearly aligned to the Committee's remit on FCC and the forward-looking agenda

Directors' remuneration report



"Listening to stakeholder feedback to improve the clarity of disclosure and strengthen alignment with shareholders and the wider workforce"

Committee composition

| | Scheduled meetings | Ad hoc |
|--------------------------|--------------------|------------|
| C M Hodgson, CBE (Chair) | 6/6 | 1/1 |
| L Cheung | 6/6 | 1/1 |
| B E Grote | 6/6 | 1/1 |
| N Kheraj | 6/6 | 1/1 |
| J M Whitbread | 6/6 | 1/1 |

Other attendees for relevant parts of Committee meetings in 2019 included: Group Chairman; Group Chief Executive; Group Head, HR; Global Head, Performance, Reward and Employee Relations; Group Chief Financial Officer; Group Chief Risk Officer; Group General Counsel; Group Head, Conduct, Financial Crime and Compliance; Group Company Secretary.

The Committee has written terms of reference that can be viewed at sc.com/termsofreference

Main responsibilities of the Committee

The Committee is responsible for setting the governance framework for remuneration for all employees. The Committee is well positioned against the requirements of the UK Corporate Governance Code to oversee workforce reward and related policies and ensure the alignment of reward and incentives with our culture. In particular, the Committee:

- Reviews and approves the Group's Fair Pay Charter which includes oversight of the development and implementation of workforce remuneration policies and practices, ensuring they are consistent with sound and effective risk management, the Group's culture and valued behaviours and long-term sustainable success
- Approves Group discretionary incentives, including adjustment for current and future risks
- Determines and agrees with the Board the remuneration framework and policies for the Group Chairman, executive directors and other senior executives, using the Fair Pay Charter principles and taking into account workforce remuneration and the alignment of incentives and reward with culture
- Oversees the identification of material risk takers and ensures their incentives are structured in accordance with the requirements of the prevailing remuneration rules

Directors' remuneration report

- Page 111 Remuneration alignment
- Page 114 The Remuneration Committee
- Page 116 Group-wide remuneration in 2019
- Page 119 Directors' remuneration in 2019
- Page 128 2020 policy implementation for directors
- Page 131 Summary of the directors' remuneration policy
- Page 133 Additional remuneration disclosures

Introduction

On behalf of the Remuneration Committee, I am pleased to present the directors' remuneration report for the year ended 31 December 2019. This report provides an overview of the Committee's work in the year both in relation to executive director and wider workforce remuneration.

Our Fair Pay Charter

Our Fair Pay Charter, introduced in 2018, sets out the principles we use to make remuneration decisions across the Group that are fair, transparent and competitive in order to support us in embedding a performance-oriented, inclusive and innovative culture and in delivering a differentiated employee experience. We have strengthened alignment to our principles in 2019 and are delighted to confirm that our first step in our living wages commitment has been met in all 59 markets where we have employees. We have further work to do against the stretching objectives the Committee has set.

On page 116 we set out our Fair Pay Charter principles and a summary of our progress implementing these across the Group. We will be publishing our first external Fair Pay Report in 2020 which sets out more detail around the work we are doing for employees globally.

Engagement with stakeholders to understand views on the directors' remuneration policy

In 2018 and early 2019 we conducted an extensive consultation exercise with shareholders to understand their views on our proposed directors' remuneration policy and our final policy took into account feedback received.

At the AGM, our new directors' remuneration policy received the support of only 64 per cent of shareholders. Following the meeting, we acknowledged that more needed to be done to understand and address the concerns raised by some shareholders on specific areas of the policy in the lead up to the AGM, particularly in respect of pensions.

We re-engaged with shareholders who represent approximately 60 per cent of our issued share capital, with the Investment Association who represents over 250 UK investment management firms, with other major shareholder advisory bodies and with other small shareholders who provided feedback to us.

- The majority of shareholders we engaged with supported the existing overall quantum and structure of total remuneration offered to the current executive directors in absolute terms and relative to peers. Notwithstanding this, they wished to see the concerns of some shareholders in relation to pension allowances resolved, while keeping the executive directors engaged and focused on the delivery of the strategy
- Where shareholders had concerns, these primarily related to the lack of alignment between pension arrangements for our current executive directors and the wider workforce. However, shareholders appreciated our commitment to move to a pension of 10 per cent of salary for new executive directors in the new policy
- Notwithstanding the executive directors' contractual entitlements, a number of shareholders expected a reduction in pension for our current executive directors
- Some shareholders expressed concerns that we had not explained as clearly as we could the structure of salary and pension arrangements and how they align with the wider workforce and the UK Corporate Governance Code
- A small number of shareholders had concerns over the introduction of the flexibility for the Committee to disapply proration for time on the vesting of long-term incentive plan (LTIP) awards in specific retirement circumstances. While the Committee did expect some concerns on this aspect of the policy, we consulted widely with major shareholders to explain the rationale and included additional clarity on the

circumstances in which this flexibility might be used based on their feedback. The Committee is also committed to providing clear and detailed disclosure in the event that it is used.

The views of the workforce were also considered. For further information see page 112.

Executive director pensions and salary in 2020

We considered carefully the feedback received during the engagement process, and the guidance on pensions published by the Investment Association in September 2019. The Committee reflected on the strength of stakeholders' views on executive pensions, balanced with the principles applied to the wider workforce in similar circumstances. Taking all of this into consideration, the Committee concluded that we should implement a change to resolve concerns as swiftly as possible.

In November 2019, the Committee announced that the pension allowance for Bill Winters, Group Chief Executive (CEO), and Andy Halford, Group Chief Financial Officer (CFO), would be reduced from 20 per cent of salary to 10 per cent of salary with effect from 1 January 2020, a reduction of 8 per cent in fixed pay. Our remuneration policy defines variable pay levels as a multiple of fixed pay, therefore this change also resulted in a reduction in the maximum variable pay opportunity of 8 per cent. This change aligned the executive directors' pension arrangement with all UK employees of Standard Chartered from the start of 2020. The Board agreed with this approach and is grateful to Bill and Andy for their willingness to accept the decision.

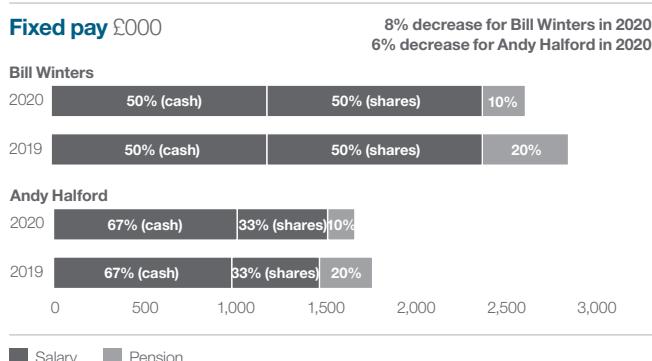
The pension allowance is set as a percentage of salary, both the cash and shares components. This is key to the alignment of the current executive directors' remuneration to other UK employees. Pension allowances as a percentage of only the cash part of salary would not be aligned to the wider workforce. In line with the UK Corporate Governance Code, only salary is pensionable.

Salary for executive directors is set in the same way as for all employees being contractually fixed, based on the role, the skills and experience of the individual, and reviewed annually with reference to relevant market benchmarks. The approach to setting salary levels for the executive directors conforms with the Investment Association's principle on base pay. The only difference in the way salary is operated between executive directors and other employees is that executive directors receive part of their salary in shares to increase alignment with shareholders.

The Committee decided, following its annual review of salary, that there should be no change to Bill's salary for 2020. The Committee awarded a salary increase of 3 per cent to Andy, from £1,471,000 to £1,515,000, with effect from 1 April 2020. In making this decision the Committee took into account Andy's development in role, including his responsibility for the finance, treasury, corporate development, strategy, investor relations, property and supply chain management functions, benchmarking against other FTSE and banking CFOs, and the fact that his last increase in April 2018 was his only one since appointment in 2014.

The Committee also considered the increases awarded to all employees in the UK as part of the 2019 review process which, on average, were 3.2 per cent. The salary increase for Andy is not compensation for the reduction in his pension allowance.

Fixed pay for Bill and Andy from 1 April 2019 and 1 April 2020 is illustrated below:



The structure of variable remuneration in 2020 continues to be set by the directors' remuneration policy approved at the May 2019 AGM, which is summarised on pages 131 to 132. Further information on the alignment of executive director pay with the wider workforce is set out on pages 112 to 113.

Our performance in 2019

In February 2019, we announced our refreshed strategic priorities, building on our strengthened foundations to generate significantly and sustainably higher returns in the medium term. We will invest to accelerate growth in our differentiated international network and affluent client businesses, eliminate residual drags by optimising our low-returning markets, streamline operations to enhance client satisfaction and drive productivity, and embrace digitisation and partnerships to reinforce our competitive advantage. The execution of these priorities is underpinned by an inclusive, innovative, performance culture that emphasises sustainability and conduct.

These priorities were incorporated into the 2019 annual incentive scorecard and into the performance measures of LTIP awards to incentivise the delivery of the refreshed strategy over the short and long term. When determining 2019 remuneration outcomes, the Committee evaluated performance against the Group's scorecard and considered:

- The improved financial performance of the Group, despite ongoing geopolitical and macroeconomic headwinds in the market: income growth of 2 per cent year-on-year or 4 per cent at constant currency, operating profit growth of 9 per cent year-on-year, and increased return on tangible equity (RoTE) (up 130 bps to 6.4 per cent)
- Strategic achievements including improved productivity, achievement of data analytics targets, out-performance of system stability targets and growth in our affluent business income (6 per cent year-on-year)
- Other achievements including the corporate entity reorganisation, which will lower costs of funding
- The share price performance in 2019
- The resolution of legacy sanctions compliance and financial crime controls investigations in the US and UK, and the historical remuneration adjustments made in respect of these matters
- The current and future risks identified by the Group's Principal Risk Type framework

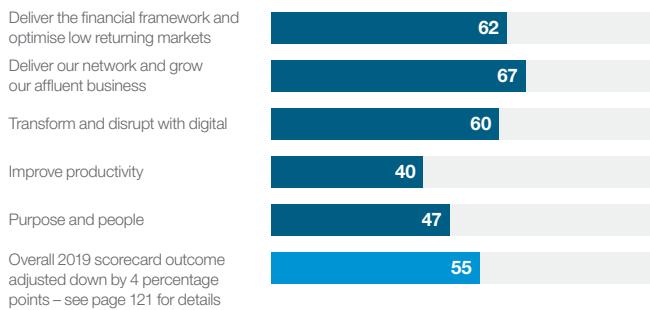
| Income \$bn | +2% | Operating profit \$bn | +9% |
|-----------------------------|---------|-----------------------|------|
| 2019 | 15.3 | 2019 | 4.2 |
| 2018 | 15.0 | 2018 | 3.9 |
| | | | |
| Return on tangible equity % | +130bps | Share price p | +19% |
| 2019 | 6.4 | 2019 | 692 |
| 2018 | 5.1 | 2018 | 583 |

The Group scorecard assessment was 59 per cent. In reviewing the scorecard outcome, the Committee considered the underlying business performance, current and future risks identified by the Group's Principal Risk Type framework, performance against the Board approved risk appetite, absolute levels of performance and the broader macroeconomic environment. The Committee considered carefully the balance between rewarding colleagues for stronger performance and delivering sustainable growth for shareholders. Considering performance and the overall competitiveness of total compensation across the Group, the Committee applied judgement to award incentives at a lower level, at a scorecard outcome of 55 per cent. This results in discretionary incentives in 2019 of \$1,278 million, representing an increase of 8 per cent on 2018 compared with a 9 per cent increase in underlying operating profit and no change to the ratio of variable compensation to pre-variable compensation profit before tax of 24 per cent.

2019 annual incentive awards for executive directors

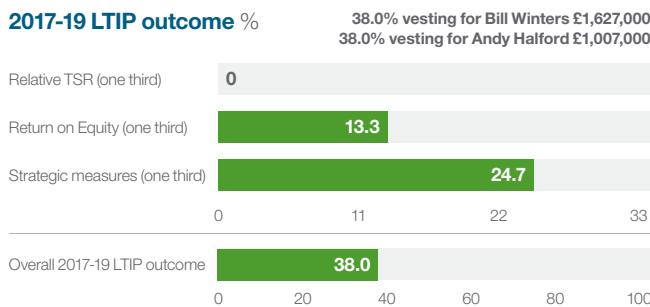
(further information on pages 120 to 122)

In combination with the Group performance outlined on page 109 the Committee considered individual performance to determine annual incentive outcomes. The Committee determined that Bill and Andy should receive annual incentives of 55 per cent of the maximum based on Group and individual performance (compared with 63 per cent and 60 per cent respectively in 2018). This results in an annual incentive award of 44 per cent of fixed pay for both Bill and Andy (compared with 50 and 48 per cent of fixed pay respectively in 2018).

2019 annual incentive outcome %**2017–19 LTIP awards vesting in March 2020**

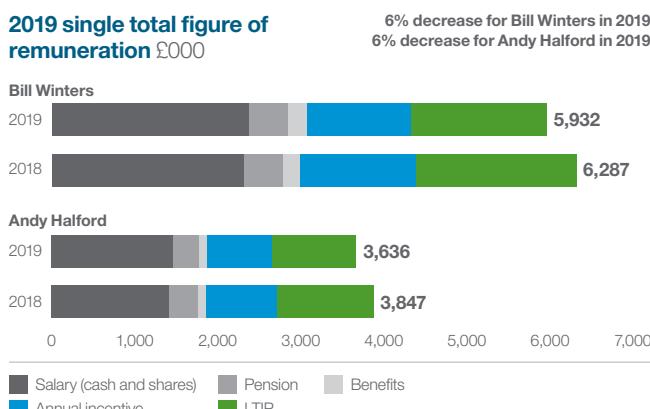
(further information on pages 123 to 124)

The 2017–19 LTIP awards are due to vest in March 2020 subject to performance over three years from 2017 to 2019. The chart below shows the level of vesting expected following an assessment of the performance conditions. This reflects total shareholder return (TSR) performance below median, an achievement of return on equity (RoE) of 5.6 per cent and improved performance against our strategic priorities, underpinning our progress towards our target to deliver higher returns in the medium term.

2017–19 LTIP outcome %**Single total figure of remuneration for 2019**

(further information on page 119)

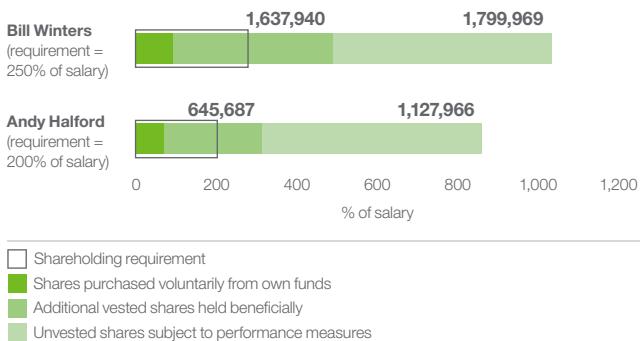
The 2019 annual incentive and expected 2017–19 LTIP vesting results in a 2019 single figure for Bill of £5,932,000 and for Andy of £3,636,000. This represents a year-on-year decrease for both of 6 per cent.

2019 single total figure of remuneration £000

A significant portion of Bill and Andy's total remuneration is delivered in shares which will be released over the next eight years. The deferral, retention and recovery provisions reinforce continued alignment with shareholder interests and the Group's long-term performance. As at 31 December 2019, both Bill and Andy had significantly exceeded their shareholding requirement as outlined below. Shares purchased voluntarily from their own funds are equivalent to 93 and 69 per cent of salary for Bill and Andy respectively.

Director shareholdings

Number of shares

**2020–22 LTIP awards to be granted in March 2020**

(further information on pages 122 to 123)

In accordance with UK banking regulations, the Committee considered performance in 2019 in order to determine the face value of the 2020–22 LTIP awards to be granted in March 2020. These will be 120 per cent of fixed pay at 31 December 2019 for both Bill and Andy. Depending on performance over the next three years, awards will vest and be deferred over seven years and an additional one-year retention period will apply post-vesting. Performance will be assessed based on RoTE with a Common Equity Tier 1 (CET1) underpin, TSR relative to a peer group, and the achievement of measures that are aligned to the Group's refreshed strategic priorities.

RoTE is one of the financial KPIs used to measure progress against our strategy (see page 111). The Committee considers target setting carefully before each grant and is committed to setting targets that are challenging and act as an effective incentive for executive directors to execute the strategy. The RoTE target range for 2020–22 LTIP awards is 8.5 to 11.0 per cent, which has been set considering the Group's current financial position and plan, and the market environment and outlook. This represents a continued increase in the stretch in threshold performance over recent years, most recently from an RoTE target range of 8.0 to 11.0 per cent for the 2019–21 LTIP.

The relative position of TSR compared with the peer group must be at least median for any amount to vest, and at upper quartile for full vesting.

For a number of years we have supported the use of environmental, social and governance (ESG) metrics by including them in the 'Purpose and People' component of the strategic measures. This year we are increasing our focus on sustainability metrics, in support of our commitment to the UN's sustainable development goals and the Paris climate agreement. Both the 2020 annual incentive scorecard and the 2020–22 LTIP will include metrics that embed sustainable and responsible practices into our business operations in relation to climate, infrastructure, environment and community engagement.

In the rest of this report we present the disclosures required by regulations, as well as additional information to explain how our executive remuneration aligns with our strategy, with shareholder interests, and with wider workforce pay.

I would like to thank all stakeholders who have provided their valuable input during 2019 and look forward to further engagement in 2020.



Christine Hodgson
Chair of the Remuneration Committee

All disclosures in the Directors' remuneration report are unaudited unless otherwise stated. Disclosures marked as audited should be considered audited in the context of the financial statements as a whole.

Remuneration alignment

During our consultation in 2019, a number of shareholders asked for greater clarity over the structure of remuneration, particularly fixed remuneration, for our executive directors. The remuneration decisions made by the Committee align with our strategy, our shareholders' interests to deliver long-term sustainable value and with the wider workforce in line with the principles set out in our Fair Pay Charter as illustrated below.

How does our executive remuneration align to our strategy?

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. The diagram below sets out how we align our strategy with the measures that determine variable remuneration for executive directors and the wider workforce.

In February 2019 we announced our six refreshed strategic priorities:

How we align our strategy and remuneration measures



The performance measures for our incentive scorecards are set across each of the strategic priorities...

Annual incentive and LTIP performance measures sit under each priority...

- Client satisfaction
- Network income growth
- Affluent business growth
- Income
- Costs
- Growth of high quality liabilities
- Working profit per FTE
- Delivery of digital platforms/partnerships
- Cash transactions digitally initiated
- Improve data analytics
- Diversity
- Inclusion
- Sustainability
- Employee engagement

The combination of these metrics help us to deliver shareholder returns...

...to drive shareholder returns...

- Operating profit
- Total shareholder return
- Return on tangible equity

And additional risk and control measures embedded in the annual incentive and LTIP support the sustainability of our business through good management of risk...

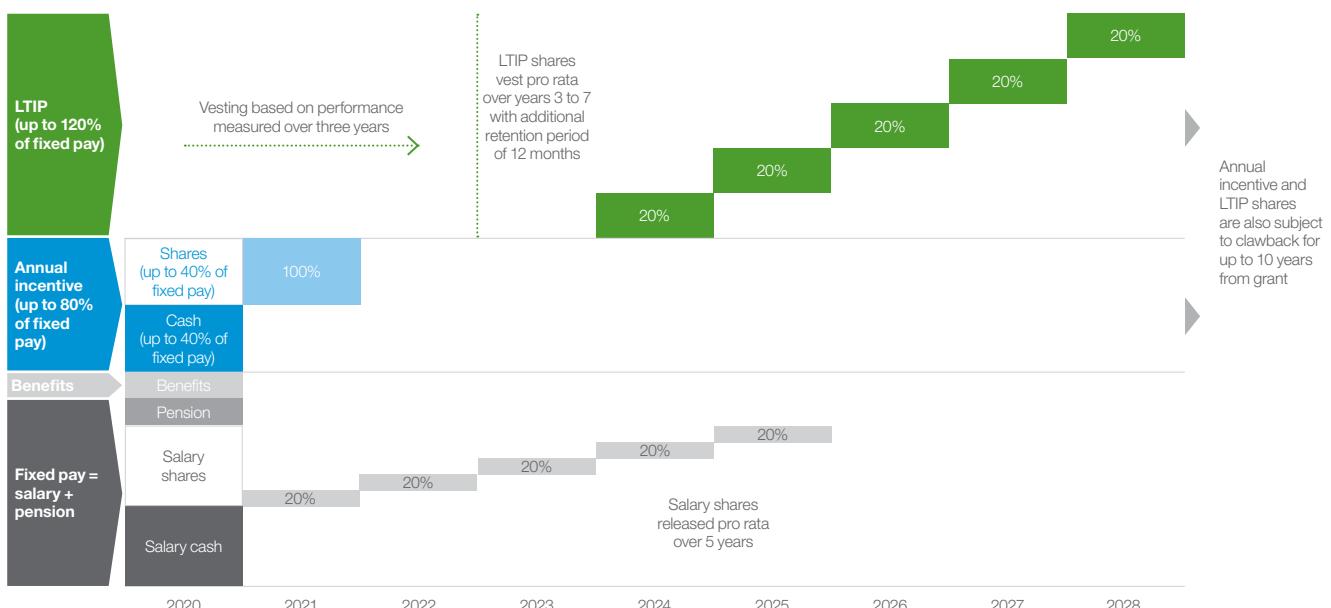
...within our risk and control framework

- Manage elevated residual risks
- Audit performance
- Maintain risk profile within risk appetite
- Risk and conduct management

How does our executive remuneration align with shareholder interests?

The diagram below shows how a portion of fixed pay, annual incentive and long-term incentive is paid in shares which are released up to eight years following grant, so that the final component of pay granted in 2020 is released in 2028.

This creates strong alignment between the interests of executives and shareholders to create long-term value. On a maximum opportunity basis, Bill Winters' total remuneration is delivered 68 per cent in shares (including those subject to performance conditions) and 32 per cent in cash.



How does our executive remuneration align with the workforce?

The Group's approach to remuneration is consistent for all employees and is designed to help ensure pay is fair and competitive in line with our Fair Pay Charter principles which apply globally. As we say in Principle 6 of the Charter, pay structure varies according to location. The diagram below shows how our executive director remuneration aligns with our UK workforce, being the most relevant market, as this is where they are based.

| All UK employees | | Executive directors and the Management Team | Executive directors only | |
|---|--|--|---|--|
| Salary | Pension: 10% of salary for all UK employees | Annual incentive | LTIP | Shareholding requirement |
| <ul style="list-style-type: none"> → Salary is the contractually fixed amount paid and set based on role, skills and experience → It is set and reviewed annually against relevant market benchmarks for all employees → Executive director salary is paid in a combination of cash and shares to align with shareholder interests → For other employees, salary is paid 100% in cash in line with market norms | <ul style="list-style-type: none"> → Pension is set as a percentage of salary for all employees (both the cash and shares components) → In line with the UK Corporate Governance Code, only salary is pensionable → The pension level of 10% of salary is the same across the UK workforce, aligned to the provisions of the UK Corporate Governance Code | <ul style="list-style-type: none"> → All UK employees participate in the annual incentive → The same Group scorecard is used to determine incentives for executive directors and other UK employees → Annual incentives are subject to risk adjustment provisions | <ul style="list-style-type: none"> → LTIP awards are granted to senior executives who have clear line of sight to influence the targets linked to the long-term performance of the Group → The grant of awards is dependent on performance in the year and the vesting of awards is dependent on performance over a three-year post grant period → LTIP awards are subject to risk adjustment provisions | <ul style="list-style-type: none"> → Executive directors have a shareholding requirement of 250% of salary for the CEO and 200% for the CFO → A post employment shareholding requirement equal to the full shareholding requirement for one year and 50% for an additional year applies to the executive directors |
| Benefits | | Sharesave | | |
| <ul style="list-style-type: none"> → The core benefits offered to executive directors and other employees are the same: private medical insurance, life assurance, income protection, accidental death and disability insurance and a cash benefits allowance → Executive directors receive a lower cash benefits allowance than other UK employees as a percentage of their salary → Executive directors have a role based provision of the use of a company vehicle and driver on account of the security and privacy requirements of the role → The CEO is entitled to a contribution to the preparation of his annual tax returns owing to the complexity of his tax affairs, in part due to his extensive travel on Group business → Employees are eligible for tax return preparation in the year of an international relocation owing to the complexity of their returns in those years | | <ul style="list-style-type: none"> → All UK employees are eligible to participate in the Sharesave plan, which enables employees to share in the success of the Group at a discounted share price | | |

How do we understand the views of our workforce?

The key components of the directors' remuneration policy were explained to the workforce through the Fair Pay Report published in 2019. Employees were encouraged to provide feedback on the report and how we are delivering on their expectations through our engagement surveys and directly using the Group's intranet where there is a Fair Pay Charter page.

In response to the UK Corporate Governance Code, we have reviewed how the Board engages directly with the workforce, experimenting with two interactive online sessions, details of which are set on page 48. These supplement the wide range of existing mechanisms that the Group uses to seek feedback from colleagues on remuneration as well as on other workforce policies and practices. In line with our commitment under our Fair Pay Charter to deliver fair and competitive reward to all colleagues, in 2019 our engagement survey included for the first time 3,000 non-employed workers as well as over 71,000 employees. The survey asked colleagues how they feel about different areas of reward, to help us understand the impact of our Fair Pay Charter:

- Their overall satisfaction with reward
- The Bank's support for their wellbeing and whether colleagues feel supported to work flexibly by their People Leader
- Their experience of giving and receiving constructive feedback about work performance
- The culture of inclusion and respect at work regardless of who they are (including seniority, age, gender, and physical capabilities)

We also conduct a survey that asks employees about their experience of the performance and pay review process, including whether they understand variable pay, whether they believe variable pay is fair, and whether they understand and have made decisions in line with the principles of our Fair Pay Charter. The results from both of these engagement surveys are analysed by various demographics, and summary trends and key findings on year-on-year movements in sentiment are presented to the Remuneration Committee for discussion. Results are also shared with the workforce along with relevant commentary on action being taken based on findings in our Fair Pay Reports. Further information on our workforce engagement framework is included in our Brand, Values and Conduct Committee report on pages 98 to 100.

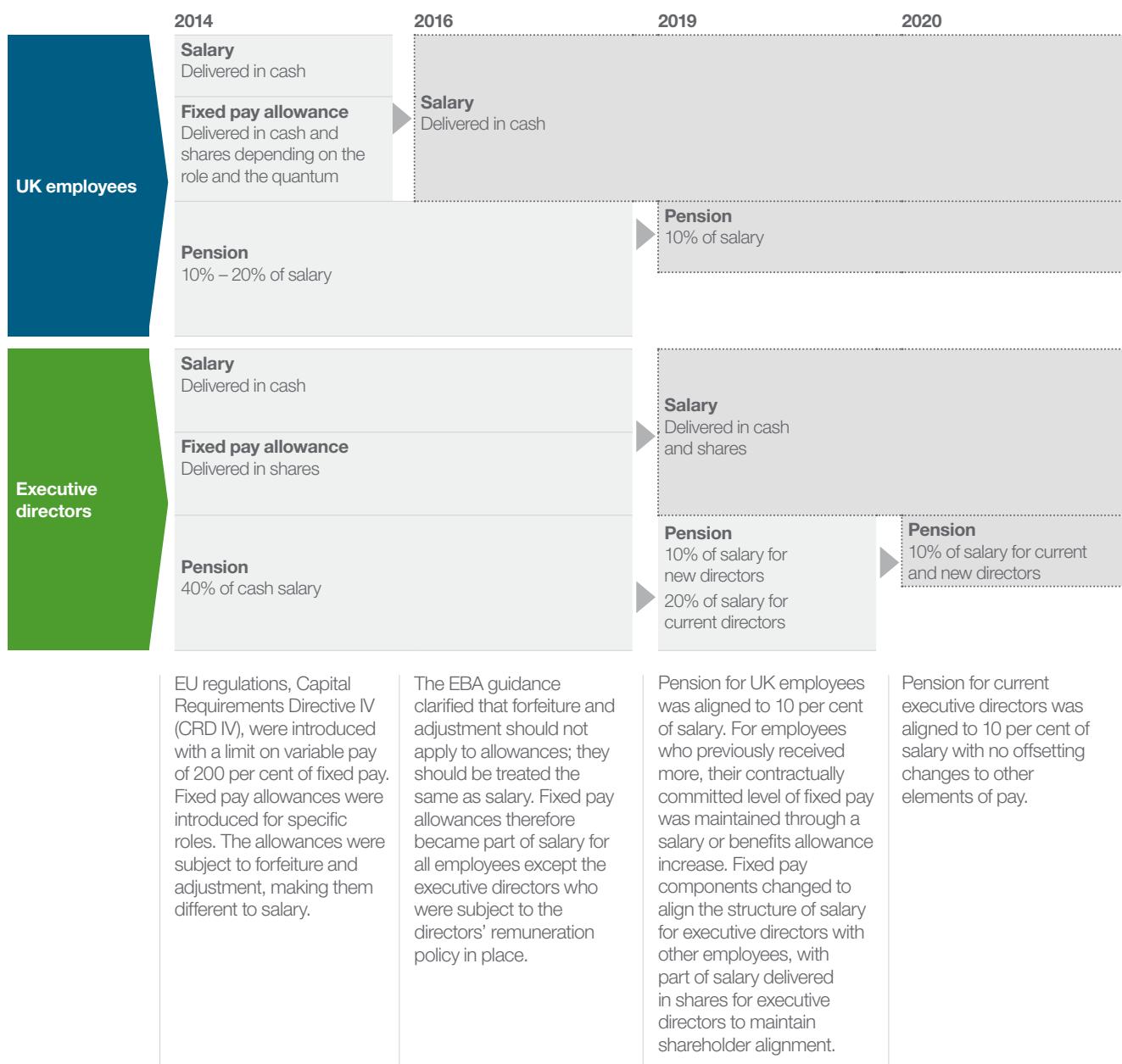
How is the executive directors' salary and pension structure aligned with the wider workforce?

During our stakeholder engagement process we committed to provide further clarity on the structure of salary and pension, and how it aligns with other employees and complies with the UK Corporate Governance Code and other investor guidance.

Salary is set in the same way for all employees. The changes we made to salary in our remuneration policy in 2019 were in line with the approach taken for other employees in 2016 when allowances and cash salary were combined. The only difference between the executive directors and the wider workforce is that part of their salary is delivered in shares, reinforcing alignment with shareholder interests. The diagram below illustrates the changes made since 2014 and how the approach for executive directors is aligned with the wider workforce.

Following the introduction of the maximum ratio between fixed and variable remuneration in 2014, in common with other banks we introduced fixed pay allowances as a new element of pay to ensure that total remuneration could remain competitive while complying with regulation. Following further guidance from the European Banking Authority (EBA) in 2015, it became clear that legally the fixed pay allowances needed to have equal contractual rights to salary, and as such were substantially indistinguishable from salary. To simplify pay and increase transparency, in 2016 we consolidated these allowances into salary for employees across the Group. In 2019, we aligned pension contributions at 10 per cent of salary for all UK employees, compensating employees where necessary if pension contributions were reduced so that their total fixed remuneration remained unchanged. Following this change, the executive directors were the only employees still receiving separate cash salary and share allowances, and our remuneration policy was changed to align the approach for executive directors with the wider workforce in 2019.

Following the reduction in executive director pension contributions, the way salary and pensions are operated across the Group is identical with two exceptions. Firstly, executive directors receive part of their salary in shares to increase alignment with shareholders. Secondly, unlike all other employees, executive directors have not been compensated for the reduction in their pension allowance and as a consequence have also seen a reduction in their variable pay opportunity.



The Remuneration Committee

The Committee is responsible for overseeing the remuneration of all colleagues, which includes determining the framework and policies for the remuneration of the Group Chairman, the executive directors and other senior management, and overseeing workforce remuneration, for alignment of reward, incentives and culture.

 The Committee has written terms of reference that can be viewed at sc.com/termsofreference

Shareholder voting and shareholder engagement

The table below shows the votes cast¹ at the AGM in May 2019 on remuneration-related matters.

| | For | Against | Withheld |
|---|-------------------------|-------------------------|------------|
| Advisory vote on the 2018 remuneration report | 583,988,637 (89.24%) | 70,448,005 (10.76%) | 4,932,769 |
| Binding vote to approve the 2019 directors' remuneration policy | 410,304,458 (63.80%) | 232,788,744 (36.20%) | 15,950,874 |

1 Number of votes is equal to number of shares held

As explained on page 108, during 2019 the Committee engaged extensively with shareholders on the development of the directors' remuneration policy, on the final policy proposals and after the AGM to listen to the concerns which influenced the voting results above. We sought feedback to understand the concerns, in particular in relation to the pension arrangements for our current executive directors. Some shareholders had concerns over the introduction of the flexibility for the Committee to disapply proration for time on the vesting of LTIP awards in specific retirement circumstances. The Committee took account of the feedback and introduced a set of criteria to be met first, before then making the decision on a case-by-case basis. The vesting of LTIP awards would not be accelerated.

Committee activities in the year

| | 15 January | 31 January | 25 February | 25 July | 30 September | 28 November |
|--|------------|------------|-------------|---------|--------------|-------------|
| Consideration of risk, control and conduct matters | ✓ | ✓ | | ✓ | ✓ | ✓ |
| Summary of engagement with shareholders and regulators, and consideration of feedback, and regulatory, investor, political and governance developments | ✓ | ✓ | | ✓ | ✓ | ✓ |
| Executive directors' remuneration | | | | | | |
| Review of the directors' remuneration policy and implementation approach | ✓ | ✓ | | ✓ | ✓ | ✓ |
| Review of fixed and variable remuneration | ✓ | | | | ✓ | ✓ |
| Annual and long-term incentive performance measures, targets and outcomes | ✓ | ✓ | ✓ | | ✓ | ✓ |
| Senior management remuneration | | | | | | |
| Review of remuneration proposals on recruitment and on termination of senior executives | ✓ | ✓ | | ✓ | ✓ | ✓ |
| Review of fixed and variable remuneration for senior management | ✓ | | | | ✓ | ✓ |
| Identification of material risk takers | | | | ✓ | | |
| Annual and long-term incentive performance measures, targets and outcomes | ✓ | ✓ | ✓ | | ✓ | ✓ |
| All employee remuneration | | | | | | |
| Group-wide discretionary incentives | ✓ | | | ✓ | ✓ | ✓ |
| Outcomes from the annual performance and reward review | ✓ | | | | ✓ | ✓ |
| Annual and long-term incentive performance measures, targets and outcomes | ✓ | ✓ | ✓ | | | ✓ |
| Group-wide reward strategy, the Fair Pay Charter and the gender pay gap | | ✓ | | ✓ | | ✓ |
| Review and consolidation of Group-wide remuneration policies | | | | | ✓ | |

The Committee held an additional meeting in 2019 to discuss strategic matters relating to the Group's approach to fair pay, wellbeing and the implications of the changing nature of work on remuneration. The Committee also held one additional meeting as a conference call.

The Committee dealt with certain less material matters on an ad hoc basis through email circulation.

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 adviser in 2017. It is the Committee's practice to undertake a detailed review of potential advisers 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 to the Group in the ordinary course of business including assurance, advisory, tax advice and certain services relating to Human Resources. The Committee considered PwC's role as an adviser 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 £100,000 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 and from Willis Towers Watson.

The CFO 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 their own remuneration.

Committee effectiveness review

As part of the 2019 external Board effectiveness review conducted by Independent Board Evaluation (IBE) and separately but in parallel, the PRA, a review was also conducted on the effectiveness of the Remuneration Committee.

The review highlighted that:

- The Committee is well organised. Meetings are run with clear focus, Committee processes are well structured, and members are well supported by the Group reward team
- Board members recognised the considerable work and time required by Committee members and the extensive engagement undertaken over the past year
- Board members appreciate the full and frequent briefings from the Committee on its activities

The 2020 action plan for the Committee reflects the feedback from the review and will focus on continuing to:

- enhance the clarity of disclosures
- ensure regular engagement with shareholders
- work closely with the Brand, Values and Conduct Committee on common topics around culture, values and brand

Priorities for the Committee in 2020

Specific priorities for the Committee in 2020, in addition to its usual scheduled activities, will be to:

- Review and approve the Group's share plan ahead of the shareholder vote at the 2021 AGM
- Continue to review the implementation of the Fair Pay Charter and the alignment of workforce policies and practices with its principles
- Monitor market trends to ensure the Group's remuneration remains competitive, in the context of improving performance and productivity
- Continue to assess the alignment between Group incentives and the delivery of the strategy and our desired performance-oriented, innovative, inclusive culture underpinned by conduct and sustainability
- Prepare to comply with the European Capital Requirements Directive V

How does our directors' remuneration policy address the key factors set out in the UK Corporate Governance Code?

Risk

- The Committee considers risk adjustment in respect of the Group scorecard and has a track record of applying discretion appropriately. Information on the 2019 adjustment is set out on page 121
- The rules of the LTIP give the Committee the necessary discretion to adjust vesting outcomes if it considers that they are inconsistent with underlying business performance
- Malus and clawback operate in respect of our annual incentive and LTIP
- The variable remuneration of employees in the audit, risk and compliance functions is set independently of the business they oversee

Alignment to culture

- As set out on page 111, the performance metrics used to determine variable pay outcomes directly align with our business strategy
- In line with our Fair Pay Charter, our incentive plans support us in embedding a performance-oriented culture and our principle that colleagues should share in the success of the Group. Our scorecard includes financial and strategic measures and all employees' performance is assessed by what is achieved and how it is achieved in line with our valued behaviours
- In combination with our risk procedures, our remuneration structure ensures that our valued behaviours are appropriately recognised and rewarded

Proportionality

- In line with our commitment to pay for performance, a significant proportion of executive director pay is delivered through variable remuneration based on performance metrics aligned to our strategy
- Executive directors are further aligned to long-term shareholder interests through the deferred release of salary, annual incentive and LTIP share awards over a period of 1-8 years with incentive awards also being subject to clawback for up to 10 years from grant
- Additional shareholding requirements are in place for executive directors to build and maintain a significant shareholding in company shares whilst in employment and post-employment for two years. Both executive directors currently significantly exceed the shareholding requirements

Predictability

- The range of possible rewards to individual executive directors is set out in the scenario charts on page 128 where we also demonstrate the impact of a 50 per cent share price appreciation over the three-year performance period of the LTIP
- Maximum award levels under all incentives are capped at twice fixed pay. Other than vesting levels which are driven by performance outcomes, the only source of variation in final payouts is the fact that a significant part of the variable remuneration is awarded in shares and so linked to the share price

Simplicity and clarity

- Simplicity is a key driver for the structure of our executive pay as far as possible, notwithstanding the complexity of operating as a European regulated bank
- In 2019, we received feedback from shareholders that our disclosure of the alignment of executive and wider workforce pay could be clearer, particularly with respect to salary and pension
- We have therefore set out additional information on the alignment of executive and wider workforce pay on pages 112 to 113 in support of our commitment to clarity

Group-wide remuneration in 2019

Our Fair Pay Charter

Our Fair Pay Charter sets out the principles we use to guide performance and reward decision-making globally, in support of our commitment to deliver fair and competitive reward to all colleagues.

We have made further progress in implementing the principles of our Charter during 2019, with a focus on activities to increase alignment within employee populations, and to increase transparency for People Leaders and colleagues, including:

- Introducing salary ranges in several markets, including Brunei, China, Indonesia, Nepal, Pakistan, Taiwan and Vietnam, to increase clarity for People Leaders, to enable greater consistency in decision-making, and to help mitigate the potential for bias in hiring decisions. Learning from the pilot roll-out in 2019 we will extend the practice to further markets in 2020
- Global implementation of living wages for employees, with work underway to assess the potential to extend the Group's living wage commitment to non-employed workers and other third parties
- Continuing the redesign of our benefits offering in a phased approach by location, to bring consistency to what we offer to

Fair Pay Charter principle

- | | |
|----------|--|
| 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 for them |
| 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 |

employees regardless of their seniority or tenure. During 2019, this included the introduction in Singapore and the UK of mybenefits, a flexible benefits offering which enables colleagues to choose the combination and level of benefits which best suit their individual needs, and the removal of seniority-based pension benefits for our most senior employees globally, to create greater alignment with the wider employee population

In March 2019 we published our first Fair Pay Report internally to all colleagues to explain how our performance and reward approach meets the principles of the Charter, and to provide an update on areas where we are working to enhance our approach. In addition to responses to engagement surveys, colleague feedback on the Fair Pay Report has helped to identify areas of focus for the Committee and HR as we work to embed further the Charter principles.

The second annual Fair Pay Report will be published internally in February 2020 alongside, for the first time, an external Fair Pay Report where you can read further details on our progress. Our Strategic report contains further information on colleagues, including a summary of our gender pay gap on page 49. Our full gender pay gap report is also available on our website.

Fair Pay Charter principle

- | | |
|-----------|---|
| 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 |

Determining Group-wide 2019 discretionary incentives

In determining 2019 incentives, the Committee considered:

- 2019 performance measured against the Group and business scorecards, and whether any risk-taking exceeded the Group's risk appetite
- Strategic achievements including improved productivity, data analytics targets met, out-performance of system stability targets and growth in affluent business income
- The need to position remuneration in the Group to pay good performers competitively and recognising the demonstration of valued behaviours
- Continued focus on competitive levels of pay and of taking a global approach to remuneration, considering wage inflation pressures in many of the emerging markets in which the Group operates
- The Group's capital position and current and future risks identified by the Group's Principal Risk framework
- The resolution of legacy sanctions compliance and financial crime controls investigations in the US and UK, and the historical remuneration adjustments made in respect of these matters

The Committee used its judgement to establish the right balance between total incentives that reflect the performance of the Group and its ability to attract, retain and reward colleagues that will drive

the delivery of the Group's strategy and sustainable growth for shareholders.

To determine risk adjustment to Group-wide discretionary incentives, the Committee reviews material events, historical events, risk appetite breaches and emerging areas of risk at each meeting. In 2019, the Committee assessed the operation and management of the principal risks and determined that risk adjustment to 2019 total discretionary incentives was appropriate to reflect the improvements that are required in 2020.

The Committee determined that total discretionary incentives in 2019, post the application of risk adjustment, should be \$1,278 million. This represents an increase of 8 per cent on 2018 and no change to the ratio of variable compensation to pre-variable compensation profit before tax of 24 per cent. The Committee believes that the total discretionary incentives for 2019 demonstrate a disciplined approach to pay in the context of the improved financial performance delivered and strong progress against our strategic priorities.

The total incentives figure for 2019 includes i) LTIP awards, the value of which will be determined by Group performance over the period 2020 to 2022 and ii) incentive awards made to individuals who left the Group during 2019 as part of restructuring, who were in service for at least nine months of the year.

The relationship between the remuneration of the Group Chief Executive (CEO) and all employees

The Group's approach to remuneration is consistent for all employees and is designed to help ensure pay is fair and competitive in line with our Fair Pay Charter. For the CEO and all colleagues:

- Externally sourced market data is used to help guide pay decisions
- Our incentive plans have a clear link to Group and business performance, through published scorecards
- The same Group scorecard is used to determine incentives for colleagues including the CEO

→ Each individual's performance, including conduct and achievement against personal objectives, is assessed at least annually and drives incentive decisions

→ LTIP awards are granted to senior executives who have clear line of sight to influence the targets linked to the long-term performance of the Group

Further details on the alignment of executive director and wider workforce remuneration is set out on pages 112 to 113.

Ratio of the total remuneration of the CEO to that of the UK lower quartile, median and upper quartile employees

| Year | Method | CEO £000 | Pay ratio | | |
|------|--------|-------------|-----------------|--------------------------|-----------------|
| | | | 25th percentile | 50th percentile (median) | 75th percentile |
| 2019 | A | 5,932 | 72:1 | 46:1 | 28:1 |
| 2018 | A | 6,287 | 80:1 | 51:1 | 30:1 |
| 2017 | A | 4,683 | 61:1 | 39:1 | 23:1 |

Additional ratios of pay based on salary and salary plus annual incentive

| Salary | CEO £000 | Pay ratio | | |
|--------|-------------|-----------------|--------------------------|-----------------|
| | | 25th percentile | 50th percentile (median) | 75th percentile |
| 2019 | 2,353 | 36:1 | 26:1 | 18:1 |
| 2018 | 2,300 | 39:1 | 27:1 | 16:1 |
| 2017 | 2,300 | 42:1 | 28:1 | 19:1 |

| Salary plus annual incentive | CEO £000 | Pay ratio | 25th percentile | 50th percentile (median) | 75th percentile |
|------------------------------|-------------|-----------|-----------------|--------------------------|-----------------|
| 2019 | 3,604 | 49:1 | 33:1 | 19:1 | |
| 2018 | 3,691 | 52:1 | 35:1 | 20:1 | |
| 2017 | 3,978 | 58:1 | 39:1 | 22:1 | |

- The pay ratios are calculated in line with the published methodology, using Option A to identify the UK lower quartile, median and upper quartile employees, in line with investor guidance stating a preference for this option
- Employee pay data is based on full-time equivalent pay for UK employees as at 31 December of the relevant year
- For each employee, total pay is calculated in line with the single figure methodology (i.e. fixed remuneration accrued during the financial year and the value of performance-based incentive awards vesting in relation to the performance year)
- Employee pay data excludes leavers, joiners and employee transfers in or out of the UK during the year, to help ensure data is on a like-for-like basis, and data for life assurance and long-term illness cover are based on the value of notional premia. 2019 salaries are reported excluding cash allowances following improvements to reporting capabilities as the result of the introduction of mybenefits in the year. The salaries and associated ratios for 2017 and 2018 have been re-calculated on this basis for consistency. No other calculation adjustments or assumptions have been made
- CEO pay is as per the single total figure of remuneration for 2019 and restated for 2018 to take account of the actual LTIP vesting in 2019. Further information on the single total figure is on page 119
- The 2019 ratio will be restated in the 2020 directors' remuneration report to take account of the final LTIP vesting data for eligible employees and for the CEO

- The Committee has considered the pay data for the three individuals identified for 2019 and believes that it is a fair reflection of pay at the relevant quartiles among the UK employee population. Each of the individuals identified was a full-time employee during the year and received remuneration in line with the Group remuneration policy, and none received exceptional pay
- Our LTIP is intended to link total remuneration to the achievement of the Group's long-term strategy and to reinforce alignment between executive remuneration and shareholder interests
- As set out on page 112, participation is therefore typically senior employees who have line of sight to influence directly the performance targets on the awards. The lower quartile, median and upper quartile employees identified this year are not participants in the LTIP
- The year-on-year decrease in the total remuneration pay ratio is primarily due to the CEO's lower LTIP vesting value reported in 2019 compared with 2018. This is due to the lower grant value of the 2017-19 LTIP award compared with the 2016-18 LTIP award (160 and 200 per cent of fixed pay respectively) and the decrease in share price over the vesting period of the 2017-19 award
- It is expected that the ratio will depend materially on long-term incentive outcomes each year, and accordingly may fluctuate. Therefore, the Committee also discloses the median pay ratios covering salary and salary plus annual incentive, as UK employees are eligible to be considered for an annual incentive based on Group, business and individual performance. These show a more consistent ratio over time

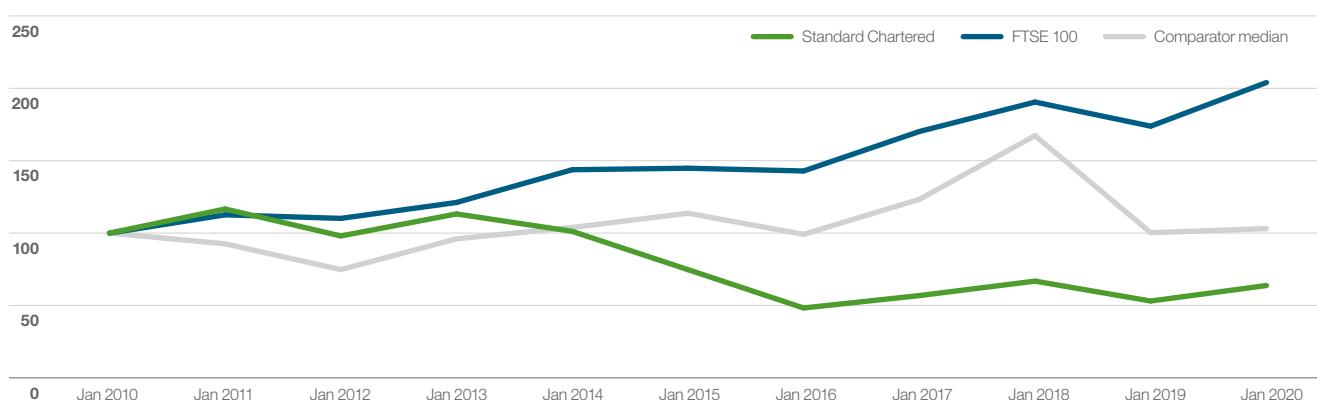
Salary and total remuneration used to calculate the ratio of pay

To provide further context, the table below shows the CEO and the employee percentile pay used to determine the 2019 pay ratios.

| | CEO £000 | 25th percentile £000 | 50th percentile (median) £000 | 75th percentile £000 |
|------------------------------------|-------------|-------------------------|----------------------------------|-------------------------|
| Salary | 2,353 | 65 | 90 | 128 |
| Salary plus annual incentive | 3,604 | 73 | 109 | 187 |
| Total remuneration (single figure) | 5,932 | 83 | 128 | 212 |

Group performance versus the CEO's remuneration

The graph below shows the Group's TSR performance on a cumulative basis over the past 10 years alongside that of the FTSE 100 and peer banks, and the table below shows the historical levels of remuneration of the CEO as well as the pay ratios described on the previous page. The FTSE 100 provides a broad comparison group against which shareholders may measure their relative returns.

Total shareholder returns since 2010

The table below shows the single figure of total remuneration for the CEO since 2010 and the variable remuneration delivered as a percentage of maximum opportunity.

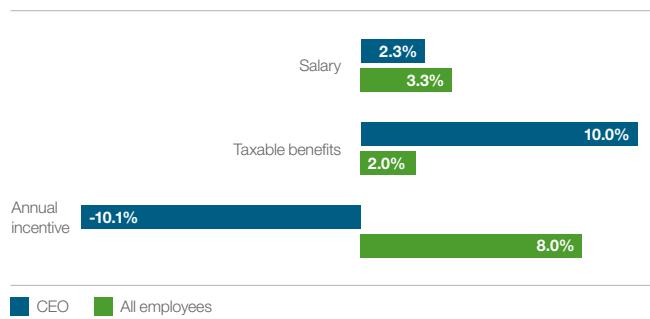
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------|-------|-------|-------|-------|--------------------|-------|-------|--------------------|-------|
| Single figure of total remuneration £000 | | | | | | | | | | |
| Peter Sands (CEO until 10 June 2015) | 7,970 | 7,779 | 6,951 | 4,378 | 3,093 | 1,290 | — | — | — | — |
| Bill Winters (appointed CEO on 10 June 2015) | — | — | — | — | — | 8,399 ¹ | 3,392 | 4,683 | 6,287 ² | 5,932 |
| Annual incentive as a percentage of maximum opportunity | | | | | | | | | | |
| Peter Sands | 70% | 70% | 63% | 50% | 0% | 0% | — | — | — | — |
| Bill Winters | — | — | — | — | — | 0% | 45% | 76% | 63% | 55% |
| Vesting of LTIP awards as a percentage of maximum | | | | | | | | | | |
| Peter Sands | 90% | 90% | 77% | 33% | 10% | 0% | 0% | — | — | — |
| Bill Winters | — | — | — | — | — | — | — | — | 27% | 38% |

1 Bill's single figure of total remuneration in 2015 includes his buyout award of £6.5 million to compensate for the forfeiture of share interests on joining from his previous employment

2 The 2018 single figure for Bill has been restated based on the actual vesting and share price when the 2016-18 LTIP awards vested in May 2019

CEO and all employee percentage change in remuneration 2018 to 2019

The chart below shows the percentage change in remuneration between the 2018 and 2019 performance years for the CEO and the wider employee population.



For the 'all employee' group, the percentage change in salary represents the Group's aggregate salary increase for the global employee population.

The taxable benefits comparison is based on UK employees as it is deemed the most appropriate comparison for the CEO given the varied requirements in the provision and tax treatment of benefits across different jurisdictions.

The reason for the increase in the taxable benefits for the CEO is set out in the notes to the single figure table on page 120.

The annual incentive data is based on the global employee population who are eligible to receive annual incentives.

Directors' remuneration in 2019

This section sets out how remuneration was delivered to the executive directors under the remuneration policy approved by shareholders in 2016 and, from May 2019, under the remuneration policy approved by shareholders at the 2019 AGM. It also sets out the 2019 fees paid to the Group Chairman and the independent non-executive directors (INEDs). Notwithstanding the change to executive director pensions effective 1 January 2020, the Committee was satisfied that the policy operated as intended in 2019 in terms of Group performance and quantum.

This section is subject to an advisory shareholder vote at the 2020 AGM.

Standard Chartered's remuneration policy was approved at the AGM held on 8 May 2019 and applies to the executive directors, the Group Chairman and INEDs for three years from that date. A summary is set out on pages 131 to 132. The full policy can be found on pages 108 to 115 of the 2018 Annual Report and on the Group's website.

Single total figure of remuneration for 2019 (audited)

The following table sets out the single total figure of remuneration for 2019 for the CEO and the CFO. The single figure consists of salary, pension, benefits and annual incentives receivable in respect of 2019 and the estimated values of 2017–19 LTIP awards vesting. All figures are in £000s. The diagram below shows the value of each element of Bill's single figure of remuneration and the relevant year of release.

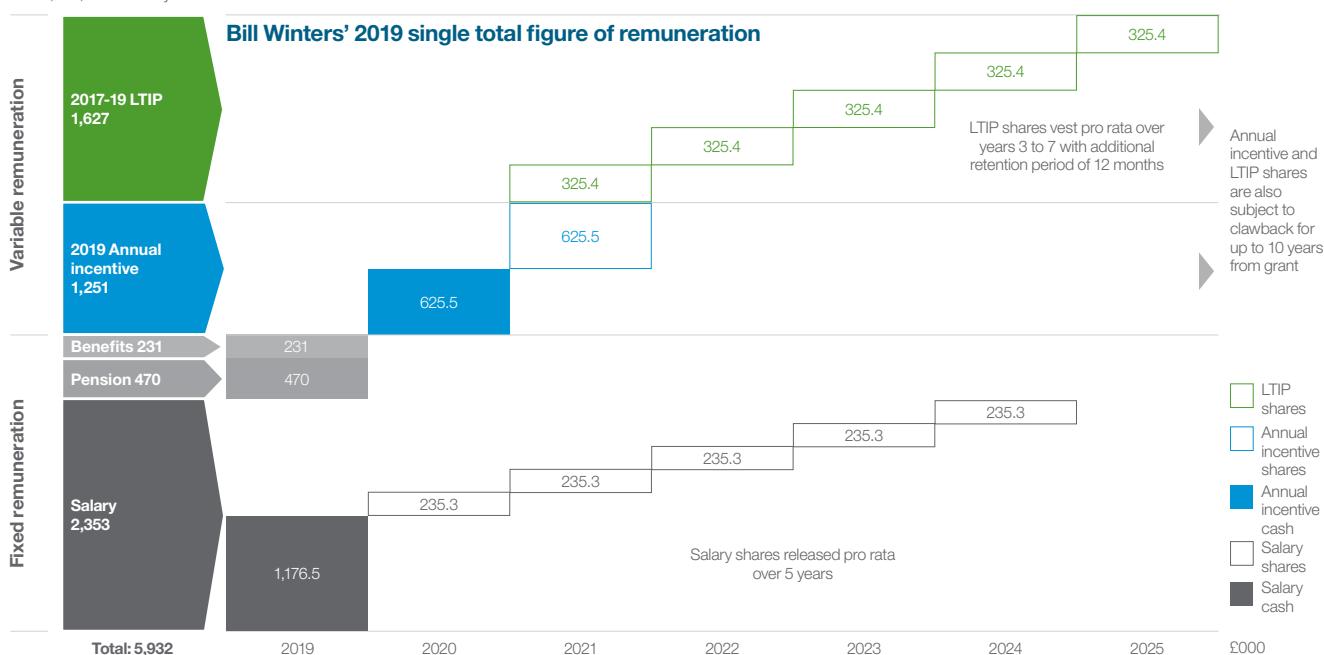
| | Bill Winters | Andy Halford |
|--|--------------|--------------|
| | 2019 | 2018 |
| Salary | 2,353 | 2,300 |
| Pension | 470 | 460 |
| Benefits ¹ | 231 | 210 |
| Total fixed remuneration | 3,054 | 2,970 |
| Annual incentive award ² | 1,251 | 1,391 |
| Vesting of LTIP award ³ | | |
| Value of vesting awards based on performance ⁴ | 1,627 | 1,546 |
| Value of vesting awards based on share price growth ^{5,6} | – | 380 |
| Total variable remuneration | 2,878 | 3,317 |
| Single total figure of remuneration | 5,932 | 6,287 |

Notes to the single figure table:

- 1 The benefits figures refer to UK tax years 2018/19 and 2017/18 respectively
- 2 Executive directors' annual incentive awards in respect of 2019 are delivered 50 per cent in cash paid in March 2020 and 50 per cent 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 120 to 122. Awards are subject to clawback for up to 10 years
- 3 The LTIP awards granted in March 2017 are due to vest in March 2020, based on performance over the years 2017 to 2019. Following an estimated assessment of the performance measures (RoE with CET1 underpin, relative TSR and strategic measures), 38 per cent of these awards are expected to vest. The final assessment of relative TSR performance will be conducted in March 2020, the end of the three-year performance period. Based on a share price of £6.92, the three-month average to 31 December 2019, the estimated value to be delivered is £1,627,000 to Bill and £1,007,000 to Andy

The final value will be restated in the 2020 directors' remuneration report based on final TSR performance and the share price at vesting. Awards are subject to malus and clawback for up to 10 years from grant. Further details are provided on pages 123 to 124

- 4 The values of vesting awards for 2018 have been restated based on the actual share price of £6.91 when the awards vested in May 2019
- 5 The share price used to estimate the value of vesting of the 2017–19 LTIP awards is lower than the share price on the award date of £7.45 and therefore the value attributable to share price growth is nil. The value of the awards vesting is reduced by £119,000 and £74,000 for Bill and Andy respectively when compared to the value at grant
- 6 The estimated amount of the LTIP award attributable to share price appreciation in 2018 is calculated based on the total value of the award minus dividend equivalents minus the face value of the award at the time of grant multiplied by the percentage of the award that vested



| | |
|---------------------------|---|
| Salary | Salary is the contractually fixed amount paid and set based on the role, and the skills and experience of the individual. It is set and reviewed annually against relevant market benchmarks. The same approach is used for all employees. For executive directors part of salary is paid in cash and part is paid in shares, to align with shareholder interests, which are subject to a retention period of five years with 20 per cent released annually. The number of shares allocated is determined by the monetary value and the prevailing market price of the Group's shares on the date of allocation. Bill's salary is paid 50 per cent in cash and 50 per cent in shares and Andy's salary is paid 67 per cent in cash and 33 per cent in shares. Bill's salary was increased 3 per cent effective 1 April 2019. |
| Pension | Pension is set as a percentage of salary and can be delivered as a contribution to the UK pension fund or paid as a cash allowance. Pension for Bill is delivered as a cash allowance and a £10,000 contribution to the UK pension fund. For Andy, the pension is delivered as a cash allowance. In line with the UK Corporate Governance Code, only salary is pensionable. |
| Fixed pay | Fixed pay, on which executive directors' variable remuneration is based, is the total of salary and pension. |
| Benefits | The core benefits provided to executive directors and other UK employees are the same: private medical insurance, life assurance, income protection, accidental death and disability insurance and a cash benefits allowance. Executive directors receive a lower cash benefits allowance than other UK employees as a percentage of their salary. In addition, the executive directors have the use of a company vehicle and driver. In line with Principle 6 of our Fair Pay Charter, this is a role-based provision given their executive role and the associated security and privacy requirements. The increase in Bill's benefits in 2019 was due to an increase in the value of the car benefit. In 2020, the value of the car benefit is expected to reduce through the transition to an electric vehicle, in line with our commitments to sustainability. Executive directors occasionally use a Group car service for travelling and their partners may travel to accompany attendance at Board or other similar events. The Group covers any tax liability that arises on these benefits. Bill is entitled to a contribution to the preparation of his annual tax returns owing to the complexity of his tax affairs, in part due to his extensive travel on Group business. |
| Fixed remuneration | Fixed remuneration is the total of fixed pay and benefits. |

Total variable remuneration awarded to directors in respect of 2019 (audited)

| | Bill Winters | | Andy Halford | |
|---|--------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| Annual incentive (£000) | 1,251 | 1,391 | 777 | 850 |
| Annual incentive as a percentage of fixed pay | 44% | 50% | 44% | 48% |
| LTIP award (value of shares subject to performance conditions) (£000) | 3,413 | 3,312 | 2,118 | 2,118 |
| LTIP award as a percentage of fixed pay ¹ | 120% | 120% | 120% | 120% |
| Total variable remuneration as a percentage of fixed pay | 164% | 170% | 164% | 168% |
| Total variable remuneration (£000) | 4,664 | 4,703 | 2,895 | 2,968 |

1 LTIP awards for the 2019 performance year will be granted to executive directors in March 2020 and are based on their 2019 fixed pay (as at December 2019)

Annual incentive awards for the executive directors (audited)

Annual incentive awards for executive directors are based on the assessment of the Group scorecard and an assessment of individual performance. The same Group scorecard is used for the executive directors and other employees.

For Bill and Andy, the Committee considered Group performance, their individual performance, 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 that each director had exhibited an appropriate level of conduct against targets set and was deemed to have met the gateway requirement to be eligible for an incentive.
- 2. Evaluate performance against the Group's scorecard:** The Group reported improved financial performance in 2019 despite the particularly challenging geopolitical and macroeconomic headwinds in the market. The impact of international trade tensions, low interest rates and social unrest in Hong Kong in the medium-term outlook were unanticipated at the time targets were set. Despite this, income, underlying profit before tax and RoTE all showed promising growth while cost discipline was maintained. Specific strategic achievements included improved client satisfaction, the performance against our digital transformation targets and the productivity benefits delivered through our corporate re-organisation. Over-and-above the scorecard outcome, we were pleased to return \$1 billion to shareholders through our share buy-back programme and to register share price growth during the year. Furthermore, the agreement to sell Permata Bank will release capital for reinvestment or further returns to shareholders.

Assessment of the 2019 Group scorecard (audited)

| Financial measures | Weighting | Threshold (0%) | Mid-point of target range | Maximum (100%) | Achievement | Outcome | |
|--|-------------|---|---|----------------|-------------|---------|------------|
| Income¹ | 7% | \$15.0bn | \$15.6bn | \$16.3bn | \$15.3bn | 2% | |
| Costs | 7% | \$10.4bn | \$10.1bn | \$9.8bn | \$10.1bn | 4% | |
| Operating profit¹ | 10% | \$3.9bn | \$4.3bn | \$4.7bn | \$4.2bn | 5% | |
| RoTE plus CET1 underpin² | 20% | 5.2% | 5.8% | 6.4% | 6.4% | 20% | |
| Funding optimisation³ | 6% | 1.6bp | 2.0bp | 2.4bp | -16.8bps | 0% | |
| | | <p>The funding optimisation targets were not met, primarily due to market conditions not foreseen when targets were set. In spite of this, the Group did deliver strong liability growth, enabling the realisation of normal levels of asset margins despite a number of macroeconomic liquidity challenges in the year.</p> | | | | | |
| Other strategic measures | Weighting | Target ^{4,5} | Assessment of achievement | | | | Outcome |
| Deliver our network and grow our affluent business | 15% | <ul style="list-style-type: none"> → Improve client satisfaction rating → Deliver client growth in target segments → Capitalise on China opportunities including through RMB and mainland wealth growth → Develop Africa through digital growth, client growth and improved client satisfaction → Ensure credit quality | <ul style="list-style-type: none"> → Client satisfaction improved, exceeding targets set. Further progress required in client growth despite strong performance in Retail and Private Banking → China performance on target illustrated by key industry awards for RMB and Belt & Road Initiatives and positive Greater China Qualified Priority Banking client growth → Exceeded targets for Africa, with significant client and digital growth; number one ranked bank for Debt Capital Markets and Transaction Banking as judged by external agencies → Exceeded targeted improvements on credit quality: asset quality improved with no new areas of stress | | | | 10% |
| Transform and disrupt with digital | 15% | <ul style="list-style-type: none"> → Develop ventures beyond 'traditional' business model and products → Deliver client-facing system stability and availability targets → Use partnerships, platforms, and technologies to improve client experience → Deliver growth in digital volumes → Improve data analytics to develop new products and attract new clients | <ul style="list-style-type: none"> → Progress on new ventures development marginally behind target → Exceeded system stability and availability targets → Client experience targets exceeded, development of over 60 emerging technology applications that reached the proof of concept stage → Successful online adoption growth and digital sourcing initiatives in Retail Banking, however overall digital volume growth marginally behind target → Targeted improvements in use of data analytics achieved | | | | 9% |
| Improve productivity | 5% | <ul style="list-style-type: none"> → Successfully deliver key milestones to create a Hong Kong hub entity structure → Execute organisation design and strategic people initiatives | <ul style="list-style-type: none"> → Programme to create Hong Kong entity delivered milestones ahead of target → Progress on organisational design and strategic people initiatives | | | | 2% |
| Purpose and people | 15% | <ul style="list-style-type: none"> → Maintain effective compliance and financial crime compliance controls → Successfully deliver cyber risk management plan milestones → Develop human capital by improving diversity, employee engagement and culture of inclusion metrics and by delivering conduct plans | <ul style="list-style-type: none"> → Exceeded target on compliance and achieved target for financial crime control → Slightly behind target in delivery on milestones within cyber risk management plan → Diversity targets met, slightly behind on employee net promoter score target, culture of inclusion and conduct targets exceeded | | | | 7% |
| Total | 100% | | Total scorecard assessment | | | | 59% |

In reviewing the scorecard outcome, the Committee considered the underlying business performance, current and future risks identified by the Group's Principal Risk Type framework and against the Board approved risk appetite, absolute levels of performance and the broader macroeconomic environment. The Committee considered carefully the balance between rewarding colleagues for stronger performance and delivering sustainable growth for shareholders. Considering performance and the overall competitiveness of total compensation across the Group, the Committee applied judgement to award incentives at a lower level, at a scorecard outcome of 55 per cent.

Total scorecard outcome for the executive directors and other employees

55%

- 1 Total income and operating profit are on an underlying basis. Certain items are presented as restructuring and other items that are excluded from the underlying results of the Group. These are income, costs and impairment and resulting operating profit relating to identifiable business units, products or portfolios from the relevant dates that they have been approved for restructuring, disposal, wind down or redundancy. 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 265
- 2 Normalised RoTE represents the ratio of the current year's profit available for distribution to ordinary shareholders, to the weighted average ordinary shareholders' equity less the average goodwill and intangibles for the reporting period. The CET1 underpin was set at the higher of 13 per cent or the minimum regulatory level as at 31 December 2019 (taking into account any transition rules or material changes in regulatory rules). Unaudited
- 3 Funding optimisation was an 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. Unaudited
- 4 A maximum/minimum performance threshold was set for each performance measure. For strategic measures, 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 a 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 can make an upwards or downwards adjustment to the scorecard outcome for personal performance, consistent with the approach for other employees who are eligible to be considered for discretionary incentives. When considering whether such an adjustment is appropriate, the Committee considers the particular areas of responsibility of the executive director together with the 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.

Bill Winters

A summary of some of Bill's 2019 achievements against his key personal objectives are set out below:

- Bill has delivered improved performance despite the significant macroeconomic and geopolitical headwinds that the business has faced in 2019 which is testament to the actions he has taken since appointment to create a stronger and more resilient bank
- This improved performance has been achieved under a continued focus on further enhancements to our risk and control framework, including the resolution of legacy sanctions compliance and financial crime controls investigations in the US and UK
- Bill has instilled discipline and a higher performance culture through the articulation of the refreshed people strategy

The Committee noted Bill's performance across each of his key objectives in 2019. Taking into account areas for further improvement, the Committee determined that neither an upwards nor downwards adjustment to the overall Group scorecard outcome was appropriate for 2019. Bill's annual incentive for 2019 was 55 per cent of the maximum opportunity. This equates to 44 per cent of fixed pay (50 per cent in 2018).

Andy Halford

A summary of some of Andy's 2019 achievements against his key personal objectives are set out below:

- Andy has built on the stronger foundations laid over the last two years and shown a tireless commitment to delivering the improvements to efficiency that are now flowing through to financial results
- Andy has led the drive to restructure the Group's legal entities, bringing about material financial benefits. This required substantial oversight of complex restructuring and careful management of key stakeholders including regulators, clients and investors
- Andy has strengthened his management team with key hires who bring both experience and additional diversity to his functions

The Committee noted Andy's performance against his key objectives in 2019. Taking into account areas for further improvement, the Committee determined that on balance neither an upwards nor downwards adjustment to the overall Group scorecard outcome was appropriate for 2019. Andy's annual incentive was 55 per cent of the maximum opportunity. This equates to 44 per cent of fixed pay (48 per cent in 2018).

LTIP awards for the executive directors to be granted in 2020 (unaudited)

The size of the award has been determined based on Group and individual performance during the year. LTIP awards for the 2019 performance year will be granted to Bill and Andy in March 2020 with a value of 120 per cent of fixed pay (£3.4 million and £2.1 million respectively). This is the maximum amount receivable, unless the share price appreciates. The amount that the executive directors will receive is dependent on the extent to which the performance conditions are met and the future share price.

Remuneration regulations for European 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 market 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 2023 to March 2027) subject to meeting the performance measures set out below at the end of 2022. All vested shares are subject to a 12-month retention period.

The performance measures for the 2020-22 LTIP awards are set out in the table on the next page and will be the same as the previous cycle.

The RoTE target range for 2020-22 LTIP awards is 8.5 to 11.0 per cent, which has been set considering the Group's current financial position and plan, and the market environment and outlook. This represents a continued increase in the stretch in threshold performance over recent years, most recently from an RoTE target range of 8.0 to 11.0 per cent for the 2019-21 LTIP.

The criteria used to select the peer 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 with which the Group competes for investor funds and talent. In aggregate, the peer group is intended to be representative of the Group's geographic presence and business operations. The constituents of the comparator group are reviewed annually, prior to each new LTIP grant.

The TSR comparator group for 2020-22 LTIP awards will be the same as for the 2019-21 LTIP and is detailed on the next page. 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 which starts from the date of grant.

Performance measures for 2020-22 LTIP awards

| Measure | Weighting | Amount vesting (as a % of total award) | Threshold performance target | Maximum performance target |
|--|-----------|---|---|-------------------------------|
| 1. RoTE ¹ in 2022 plus CET ¹ underpin of the higher of 13% or the minimum regulatory requirement | One-third | Maximum – 33.3% Threshold – 8.3% Below threshold – 0% | 8.5% | 11.0% |
| 2. Relative TSR ⁴ against the peer group | One-third | Maximum – 33.3% Threshold – 8.3% Below threshold – 0% | Median | Upper quartile |
| 3. Strategic measures | 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 | |
| Deliver our network and grow our affluent business | | | → Improve client satisfaction rating → Deliver network growth in target segments → Deliver affluent growth in target markets | |
| Transform and disrupt with digital | | | → Successfully deliver key digital partnerships, platforms and technologies → Improve data analytics to develop new products and attract new clients | |
| Improve productivity | | | → Improve working profit per FTE | |
| Purpose and people | | | → Improve diversity, employee engagement and culture of inclusion → Successfully embed sustainable and responsible practices in relation to climate, infrastructure, environment and community engagements | |
| Risk and controls | | | → Successfully deliver milestones within the risk management plan → Enhance compliance control effectiveness → Maintain risk profile within Group's risk appetite | |

1 Normalised RoTE represents the ratio of the current year's profit available for distribution to ordinary shareholders, to the weighted average ordinary shareholders' equity less the average goodwill and intangibles for the reporting period. Normalised RoTE normally excludes regulatory fines but, for remuneration purposes, this would be subject to review by the Remuneration Committee

2 If RoTE reaches 8.5 per cent then 8.3 per cent of the award vests. If RoTE reaches 11 per cent then 33.3 per cent of the award vests. If RoTE is between the threshold and maximum, vesting is calculated on a straight-line basis between these two points

3 The CET1 underpin will be dynamically set at the higher of 13 per cent or the minimum regulatory level as at 31 December 2022 (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, for example, in relation to Basel IV

4 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 TSR 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 with that of the comparators positioned immediately above and below it and straight-line vesting applies

5 An example of sustainability metrics is set out on page 129

The peer group for the TSR measure in the 2020-22 LTIP is unchanged from the 2019-21 award and is set out below:

| | | |
|-------------------|----------------|-------------------------------------|
| Banco Santander | Credit Suisse | KB Financial Group |
| Bank of America | DBS Group | Oversea Chinese Banking Corporation |
| Bank of China | Deutsche Bank | Société Générale |
| Bank of East Asia | HSBC | Standard Bank |
| Barclays | ICBC | State Bank of India |
| BNP Paribas | ICICI | UBS |
| Citigroup | JPMorgan Chase | United Overseas Bank |

Performance outcomes for 2017-19 LTIP awards (audited)

The single total figure of remuneration table shows that LTIP awards will vest in March 2020 with an estimated value of £1,627,000 and £1,007,000 for Bill and Andy respectively. Based on European regulations, the grant of LTIP awards takes into consideration performance during the year and forms part of variable remuneration for the year, as well as being subject to performance over the next three years. These LTIP awards were granted to Bill and Andy in 2017 with a face value of 160 per cent of fixed pay, to incentivise the continued execution of the strategy over the three-year period 2017 to 2019.

The awards were share-based and subject to the satisfaction of stretching performance measures over three years. The conduct gateway requirement must be met before any awards would vest. The awards were then subject to RoE and relative TSR targets and a qualitative and quantitative assessment of the strategic measures.

The Committee concluded that Bill and Andy exhibited appropriate conduct during the performance period and therefore the conduct gateway was met. The table below sets out the performance required, the 2017-19 performance achieved and the LTIP vesting outcome.

| Measure | Weighting | Performance for minimum vesting (25%) | Performance for maximum vesting (100%) | Assessment of achievement | Vesting outcome |
|---|-----------|--|---|--|--------------------|
| 1. RoE ¹ in 2019 plus CET1 underpin of the higher of 12% or the minimum regulatory requirement | One-third | 5.0% | 8.0% | RoE 5.6% and CET1 13.8% | 13.3% |
| 2. Relative TSR against the peer group | One-third | Median | Upper quartile | Performance currently estimated below median. TSR performance will be measured in March 2020 | 0.0% |
| 3. Strategic measures | One-third | | | Improved performance against our strategic priorities | 24.7% |
| Total 2017-19 LTIP awards vesting outcome | | | | | 38.0% |

| Strategic measure | Proof point | Assessment |
|--|---|--|
| Strengthen foundations in risk and control including financial crime remediation | <ul style="list-style-type: none"> ➔ Successfully execute the Group's financial crime risk, remediation, and unified conduct and culture programmes ➔ Liquidate and exit identified non-strategic assets | <ul style="list-style-type: none"> ➔ The Group has made significant progress in successfully executing against the Financial Crime Risk and other conduct-related mitigation and remediation programmes. Historical conduct and control issues were settled in early 2019. The Bank has taken further steps to satisfy the various requirements of the Settlement Agreement, demonstrating our Sanctions Compliance controls across the Group ➔ The Group exited \$25bn of the liquidation portfolio during the performance period. Significant progress is being made towards optimising RWA efficiency through various divestment and optimisation initiatives. In 2019, the Bank successfully entered into an agreement to sell off its stake in the Indonesian Bank Permata |
| Focus on clients and growth, and drive cross-bank collaboration | <ul style="list-style-type: none"> ➔ Grow Private Banking net new money and new to wealth clients in Retail Banking ➔ Maintain leadership position on the internationalisation of renminbi ➔ Retail Banking: achieve over 40% of income from Priority clients ➔ Deliver market share gains across Africa region | <ul style="list-style-type: none"> ➔ Improved growth in new to wealth (Priority) clients in Retail Banking, from 55,500 clients in 2016 to 74,000 clients in 2019. Private Banking delivered positive inflows for three consecutive years over 2017 to 2019 totalling \$5.5bn of net new money. The 2019 net new money performance was impacted by an outflow of \$0.8bn due to the business decision to exit the wealth intermediary business in 2019 ➔ Enhanced leadership on the internationalisation of renminbi, demonstrated by winning key industry awards including "Best RMB Bank" overall and in eight key markets in 2019, "Best Overall International Bank for the Belt & Road Initiative" in 2018 and "Best International Bank in the Region for Belt and Road Initiative" in 2019 ➔ China's management income has grown significantly over the performance period from \$0.7bn to \$0.9bn reflecting a +8% annual growth rate. Good progress has also been made on Greater China Qualified Priority Banking client growth ➔ Continued improvement in income generated from Retail Priority clients, from 40% at 2016 year-end to 48% in 2019, significantly above the 40% target |
| Improve efficiency, productivity, and service quality | <ul style="list-style-type: none"> ➔ Improve client satisfaction rating ➔ Cost discipline: deliver gross efficiency target ➔ Retail: progress towards achieving a cost income ratio of c.55% by 2020 | <ul style="list-style-type: none"> ➔ Client satisfaction has improved over the performance period. CIB client engagement survey scores have exceeded the targets set in each year, and progress has been achieved in Retail, Commercial and Private Banking against targets set ➔ \$3.2bn of gross efficiency savings were delivered during the performance period, exceeding targets set. The 2019 operating costs are in line to meet the target set for the year ➔ The Retail cost to income ratio has not achieved the target of 55%. The focus of the Retail strategy shifted during 2018, to target higher returns from growth in the affluent client base. Return on RWA in Retail improved by 74bps between 2016 and the end of 2019, meeting targeted returns from the revised strategic focus |
| Embed innovation, digitisation, and analytics | <ul style="list-style-type: none"> ➔ Drive innovation through new products, solutions and services for clients ➔ Grow percentage of Retail Banking clients with online/mobile adoption | <ul style="list-style-type: none"> ➔ Significant progress made in driving innovation to improve the client experience. Performance measured with reference to an Innovation Index which has exceeded the targets set in each performance year ➔ Continued growth in Retail Banking clients adopting online and mobile platforms from 40% at 2016 year-end to 54% at 2019 year-end |
| Invest in people, strengthen culture and conduct | <ul style="list-style-type: none"> ➔ Improve net promoter score within Group's employees ➔ Strengthen leadership succession and improve diversity as a percentage of the management population | <ul style="list-style-type: none"> ➔ Material improvement in employee net promoter score from +2.4 in 2016 to +11.5 in 2019 reflecting the progress made in our cultural transformation and improving the employee experience ➔ Gender diversity and African and China talent metrics improved over the performance period. Succession plans are in place for all critical roles |

1 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. The CET1 underpin was set at the higher of 12 per cent or the minimum regulatory level as at 31 December 2019 (taking into account any transition rules or material changes in regulatory rules). (unaudited)

The Committee recognises that the performance has not yet translated into shareholder returns above median, and on this basis the Committee determined that the overall vesting of the LTIP would be 38 per cent. No discretion has been applied to the vesting outcome of the LTIP in respect of performance targets or share price movement.

The awards will vest pro rata over 2020 to 2024 and shares will be subject to a six-month retention period post-vesting. Malus and clawback provisions apply.

The Committee considered the performance against the ESG metrics within the people and purpose element of the annual incentive scorecard and 2017-19 LTIP strategic measures, as well as the Group's wider progress on ESG metrics (further details on pages 43 to 56), and determined that the outcomes were appropriate and that the incentive structures do not raise ESG risks by motivating irresponsible behaviour.

Historical LTIP awards

The current position on vesting for all unvested LTIP awards from the 2017 and 2018 performance years based on current performance and share price as at 31 December 2019 is set out in the tables below. The TSR peer group for both awards is as set out on page 123.

Current position on the 2018–20 LTIP award: projected partial vesting

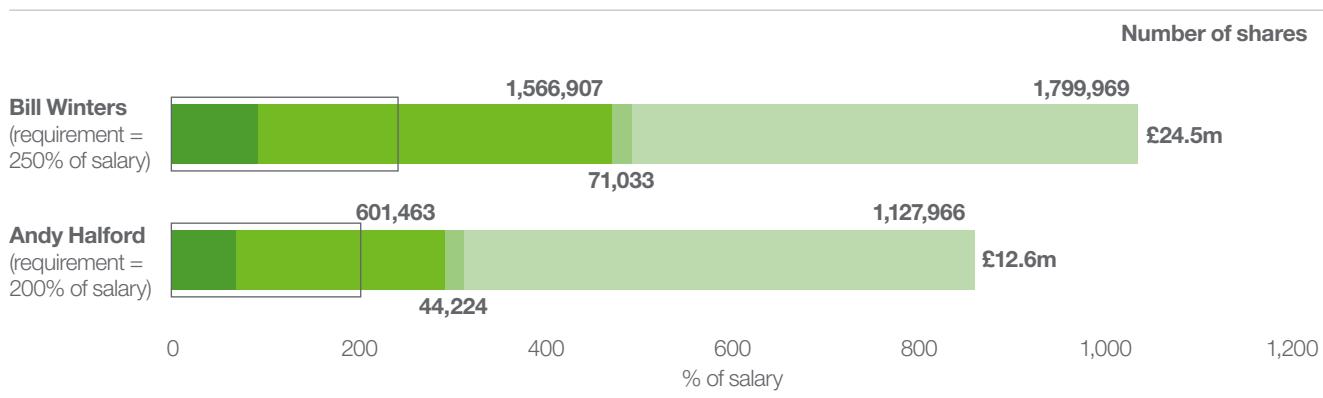
| Measure | Weighting | Performance for minimum vesting (25%) | Performance for maximum vesting (100%) | 2018-20 LTIP assessment |
|---|-----------|--|--|--|
| RoE in 2020 with CET1 underpin | One-third | 6.0% | 9.0% | RoE currently below threshold therefore indicative 0% vesting |
| Relative TSR performance against comparator group | One-third | Median | Upper quartile | Currently positioned above median therefore indicative partial vesting based on TSR performance as at 31 December 2019 |
| Strategic measures | One-third | Targets set for strategic measures linked to the business strategy | | Currently tracking above target performance therefore indicative partial vesting |

Current position on the 2019–21 LTIP award: projected partial vesting

| Measure | Weighting | Performance for minimum vesting (25%) | Performance for maximum vesting (100%) | 2019-21 LTIP assessment |
|--|-----------|--|--|--|
| RoTE in 2021 plus CET1 underpin of the higher of 13% or the minimum regulatory requirement | One-third | 8.0% | 11.0% | RoTE currently below threshold therefore indicative 0% vesting |
| Relative TSR performance against comparator group | One-third | Median | Upper quartile | Currently positioned above median therefore indicative partial vesting based on TSR performance as at 31 December 2019 |
| Strategic measures | One-third | Targets set for strategic measures linked to the business strategy | | Currently tracking above target performance therefore indicative partial vesting |

Executive directors' shareholdings and share interests including share awards (audited)

Executive directors are required to hold a specified level of shares, to be built up over a reasonable time frame 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 requirements are beneficially owned shares, including any vested share awards subject only to a retention period, and unvested share awards for which performance conditions have been satisfied (on a net-of-tax basis). The shareholding requirement for 2019 was expressed as a percentage of salary, set as 250 per cent of salary for the CEO and 200 per cent of salary for the CFO. As at 31 December 2019, both Bill and Andy had significantly exceeded their shareholding requirement as outlined below. Shares purchased voluntarily from their own funds are equivalent to 93 and 69 per cent of salary for Bill and Andy respectively. The following chart summarises the executive directors' shareholdings and share interests¹:



1 Bill Winters: shares held beneficially 1,566,907; unvested share awards not subject to performance measures (net of tax) 71,033; unvested share awards subject to performance measures 1,799,969. Andy Halford: shares held beneficially 601,463; unvested share awards not subject to performance measures (net of tax) 44,224; unvested share awards subject to performance measures 1,127,966

2 All figures are as at 31 December 2019 unless stated otherwise. There were no changes to any executive directors' interests in ordinary shares between 31 December 2019 and 27 February 2020. 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. The closing share price on 31 December 2019 was £7.124

3 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

4 The shares held beneficially include shares awarded to deliver the executive directors' salaries

5 As Bill and Andy are both UK taxpayers, tax on Sharesave is assumed at 0 per cent and marginal combined PAYE rate of income tax at 45 per cent and employee National Insurance contributions at 2 per cent (total 47 per cent) is assumed to apply to other unvested share awards – rates may change

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 investment strategies with regards to their Standard Chartered PLC shares, including hedging against the share price of Standard Chartered PLC shares.

| | Changes in interests during the period 1 January to 31 December 2019 | | | | | | | |
|---------------------------------|--|----------------------|-----------------------------------|------------------------|---------|-----------------------------------|---------------------------|--------------|
| | As at 1 January | Awarded ¹ | Dividends awarded ² | Exercised ³ | Lapsed | As at 31 December ⁴ | Performance period end | Vesting date |
| Bill Winters⁴ | | | | | | | | |
| Restricted shares (buy-out) | 314,916 | – | 17,226 | 332,142 | – | – | – | 22 Sep 2019 |
| LTIP 2016-18 | 496,390 | – | 4,710 | 138,735 | 362,365 | – | 11 Mar 2019 | 4 May 2019 |
| | 124,097 | – | – | – | 90,591 | 33,506 | 11 Mar 2019 | 4 May 2020 |
| | 124,097 | – | – | – | 90,591 | 33,506 | 11 Mar 2019 | 4 May 2021 |
| | 124,097 | – | – | – | 90,591 | 33,506 | 11 Mar 2019 | 4 May 2022 |
| | 124,100 | – | – | – | 90,593 | 33,507 | 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 |
| LTIP 2018-20 | 108,378 | – | – | – | – | 108,378 | 9 Mar 2021 | 9 Mar 2021 |
| | 108,378 | – | – | – | – | 108,378 | 9 Mar 2021 | 9 Mar 2022 |
| | 108,378 | – | – | – | – | 108,378 | 9 Mar 2021 | 9 Mar 2023 |
| | 108,378 | – | – | – | – | 108,378 | 9 Mar 2021 | 9 Mar 2024 |
| | 108,379 | – | – | – | – | 108,379 | 9 Mar 2021 | 9 Mar 2025 |
| LTIP 2019-21 | – | 133,065 | – | – | – | 133,065 | 11 Mar 2022 | 11 Mar 2022 |
| | – | 133,065 | – | – | – | 133,065 | 11 Mar 2022 | 11 Mar 2023 |
| | – | 133,065 | – | – | – | 133,065 | 11 Mar 2022 | 11 Mar 2024 |
| | – | 133,065 | – | – | – | 133,065 | 11 Mar 2022 | 11 Mar 2025 |
| | – | 133,067 | – | – | – | 133,067 | 11 Mar 2022 | 11 Mar 2026 |
| Andy Halford⁵ | | | | | | | | |
| LTIP 2016-18 | 296,417 | – | 2,812 | 82,844 | 216,385 | – | 11 Mar 2019 | 4 May 2019 |
| | 74,104 | – | – | – | 54,096 | 20,008 | 11 Mar 2019 | 4 May 2020 |
| | 74,104 | – | – | – | 54,096 | 20,008 | 11 Mar 2019 | 4 May 2021 |
| | 74,104 | – | – | – | 54,096 | 20,008 | 11 Mar 2019 | 4 May 2022 |
| | 74,105 | – | – | – | 54,096 | 20,009 | 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 |
| LTIP 2018-20 | 67,108 | – | – | – | – | 67,108 | 9 Mar 2021 | 9 Mar 2021 |
| | 67,108 | – | – | – | – | 67,108 | 9 Mar 2021 | 9 Mar 2022 |
| | 67,108 | – | – | – | – | 67,108 | 9 Mar 2021 | 9 Mar 2023 |
| | 67,108 | – | – | – | – | 67,108 | 9 Mar 2021 | 9 Mar 2024 |
| | 67,108 | – | – | – | – | 67,108 | 9 Mar 2021 | 9 Mar 2025 |
| LTIP 2019-21 | – | 85,094 | – | – | – | 85,094 | 11 Mar 2022 | 11 Mar 2022 |
| | – | 85,094 | – | – | – | 85,094 | 11 Mar 2022 | 11 Mar 2023 |
| | – | 85,094 | – | – | – | 85,094 | 11 Mar 2022 | 11 Mar 2024 |
| | – | 85,094 | – | – | – | 85,094 | 11 Mar 2022 | 11 Mar 2025 |
| | – | 85,096 | – | – | – | 85,096 | 11 Mar 2022 | 11 Mar 2026 |
| Sharesave | 1,612 | – | – | 1,612 | – | – | – | 1 Dec 2018 |
| Sharesave | 1,807 | - | - | - | - | 1,807 | - | 1 Dec 2022 |

1 For the LTIP 2019-21 awards granted to Bill Winters and Andy Halford on 11 March 2019, the values granted were: Bill Winters: £3.3 million; Andy Halford: £2.1 million. The number of shares awarded in respect of the LTIP took into account the lack of dividend equivalents (calculated by reference to market consensus dividend yield) such that the overall value of the award was maintained. Performance measures apply to 2019-21 LTIP awards. The share price at grant was the closing price on the day before the grant date (further details are included in Note 31, Share-based payments, on pages 345 to 349).

2 Dividend equivalent shares may be awarded on vesting for awards granted prior to 1 January 2018

3 On 1 March 2019, Andy Halford exercised a Sharesave option under the 2013 Sharesave Plan at an exercise price of £5.5776 per share. The closing share price on the day before exercise was £6.016. No shares were sold following this exercise and therefore no gain was realised. On 7 May 2019, Bill Winters exercised the 2016-18 LTIP award over a total of 138,735 shares and Andy Halford exercised the 2016-18 LTIP award over a total of 82,844 shares. The closing share price on the day before exercise was £7.104. On 23 September 2019, restricted share awards vested to Bill over a total of 332,142 shares. The closing share price on the day before exercise was £6.882

4 The unvested share awards held by Bill Winters are conditional rights under the 2011 Plan. Bill does not have to pay towards these awards

5 The unvested share awards held by Andy Halford are conditional rights under the 2011 Plan. Andy does not have to pay towards these awards

6 There were no changes to any executive director's scheme interests in ordinary shares between 31 December 2019 and 27 February 2020.

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' current service contracts are shown below. Their contracts were updated effective 1 January 2020 to amend their pension allowance. 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 | Details of any non-executive directorship | Fees retained for any non-executive directorship (local currency) |
|--|---|---|
| Bill Winters 1 January 2020 | Novartis International AG | CHF353,333 |
| Andy Halford 1 January 2020 | Marks and Spencer Group plc | £101,250 |

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 independent trustees and which hold ordinary shares to meet various obligations under the Group's share plans. As each executive director is within the class of beneficiary of these trusts, they are deemed, for the purposes of the Companies Act 2006, to have an interest in the trusts' shares.

 Details of the trusts' shareholdings are set out in Note 28 to the financial statements on page 337

Single figure of remuneration for the Chairman and INEDs (audited)

The Chairman and INEDs were paid in monthly instalments during the year. The INEDs are required to hold shares with a nominal value of \$1,000.

The table below shows the fees and benefits received by the Chairman and INEDs in 2019 and 2018.

| | Fees £000 | | Benefits £000 ⁸ | | Total £000 | | Shares beneficially held as at 31 December 2019 ⁹ |
|------------------------------------|-------------------|-------|----------------------------|------|------------|-------|--|
| | 2019 ⁷ | 2018 | 2019 | 2018 | 2019 | 2018 | |
| Group Chairman | | | | | | | |
| J Viñals ¹ | 1,250 | 1,250 | 49 | 73 | 1,299 | 1,323 | 18,500 |
| Current INEDs | | | | | | | |
| O P Bhatt ² | 26 | 160 | 21 | 32 | 46 | 192 | — |
| L Cheung | 135 | 130 | 9 | 5 | 144 | 135 | 2,571 |
| D P Conner ³ | 275 | 265 | 2 | 1 | 277 | 266 | 10,000 |
| B E Grote | 170 | 160 | — | — | 170 | 160 | 60,041 |
| C M Hodgson, CBE | 325 | 302 | 2 | 2 | 327 | 304 | 2,571 |
| G Huey Evans, OBE | 200 | 190 | 2 | 2 | 202 | 192 | 2,615 |
| N Kheraj | 360 | 353 | 4 | 4 | 364 | 357 | 40,571 |
| N Okonjo-Iweala | 135 | 130 | 4 | 4 | 139 | 134 | 2,034 |
| Dr Han Seung-soo, KBE ⁴ | 20 | 130 | 69 | 69 | 89 | 199 | — |
| D Tang ⁵ | 75 | — | — | — | 75 | — | 2,000 |
| C Tong ⁶ | 176 | — | 1 | — | 177 | — | 2,000 |
| J M Whitbread | 210 | 205 | 2 | 1 | 212 | 206 | 3,615 |

1 The decrease in José Viñals' benefits from 2018 to 2019 is due to the removal of his tax return costs which the Group agreed to pay for two years (2017 and 2018).

2 Mr Om Bhatt stepped down from the Board on 23 February 2019. His reported fee for 2019 of £26,000 is in respect of the period 1 January 2019 to 23 February 2019. His benefits for 2019 of £21,000 are in respect of the period from 6 April 2018 to 23 February 2019, in line with the approach to disclose INED benefits in respect of the relevant tax year (see note 8).

3 Mr David Conner's fee includes his role on the Combined US Operations Risk Committee.

4 Dr Han Seung-soo retired from the Board on 23 February 2019. His reported fee for 2019 of £20,000 is in respect of the period 1 January 2019 to 23 February 2019. His benefits for 2019 of £69,000 are in respect of the period from 6 April 2018 to 23 February 2019, in line with the approach to disclose INED benefits in respect of the relevant tax year (see note 8).

5 Mr David Tang was appointed to the Board on 12 June 2019.

6 Mr Carlson Tong was appointed to the Board on 21 February 2019.

7 The fees for all INEDs increased from £100,000 to £105,000 per annum effective 1 January 2019.

8 The INEDs' 2019 benefits figures are in respect of the 2018/19 tax year to provide consistency with the reporting of similar benefits in previous years and with those received by executive directors. The costs of benefits (and any associated tax costs) are paid by the Group. The benefits reported for 2019 were delivered under the previous directors' remuneration policy and primarily consisted of travel and subsistence costs in relation to Board and Committee meetings and other Board-related events which are taxable in the UK. Partners were also able to accompany the directors to meetings. Under the new directors' remuneration policy approved on 8 May 2019, this benefit is limited to exceptional circumstances.

9 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 2019 or on the retirement of a director unless otherwise stated.

2020 policy implementation for directors

Remuneration for the executive directors in 2020 will be in line with the directors' remuneration policy as summarised on pages 131 to 132 of this report and set out in full on pages 108 to 115 of the 2018 Annual Report with the exception of the implementation of the pension provision.

 The policy is also set out on the Group's website: sc.com

The key elements of remuneration for 2020 include salary (delivered in cash and shares), pension, benefits, an annual incentive award and an LTIP award.

Following the approval of the directors' remuneration policy at the AGM in May 2019 and the subsequent shareholder engagement carried out in 2019, the Committee has determined to make a change to the implementation of the policy in 2020. This has been done following consideration of the feedback received to address shareholder concerns on the pension element of the policy. Full details of the engagement process and outcome are set out on pages 108 to 109 and our announcement of the changes made can be found on our website.

The contractual terms and conditions for Bill and Andy have changed and their pension allowance reduced from 20 per cent of salary to 10 per cent of salary with effect from 1 January 2020. This aligns the executive directors' pension arrangement with all UK employees of Standard Chartered from the start of 2020 and means that:

→ Bill's pension allowance reduced by 50 per cent from £294,000 to £147,000 on 1 January 2020

→ Andy's pension allowance reduced by 50 per cent from £294,000 to £147,000 on 1 January 2020

Variable pay for Bill and Andy is set as a multiple of fixed pay, defined as salary and pension, therefore this change results in a reduction in variable opportunity of 8 per cent.

Bill's pension continues to be delivered as a contribution to a defined contribution plan and as a cash allowance. Andy's pension continues to be delivered as a cash allowance.

A portion of executive directors' salaries is paid in shares to strengthen shareholder alignment. The pension allowance is set as a percentage of salary (both the cash and shares components).

The Committee reviews the salaries of the executive directors on an annual basis, taking into account changes to the scope or responsibility of the role, the individual's development in the role, and alignment to market-competitive levels. The Committee also takes into account the average salary increases made to the broader employee population.

For 2020, the Committee determined that there should be no change to salary for Bill which would continue to be £2,370,000.

The Committee considered Andy's development in role, benchmarking against other FTSE and banking CFOs and the fact that his last and only increase since his appointment in 2014 was in April 2018. The Committee also considered the increases awarded to all UK employees and awarded a salary increase of 3 per cent from £1,471,000 to £1,515,000 with effect from 1 April 2020.

Details of fixed pay for Bill and Andy with effect from 1 April 2020 are set out below. All figures are in £000s.

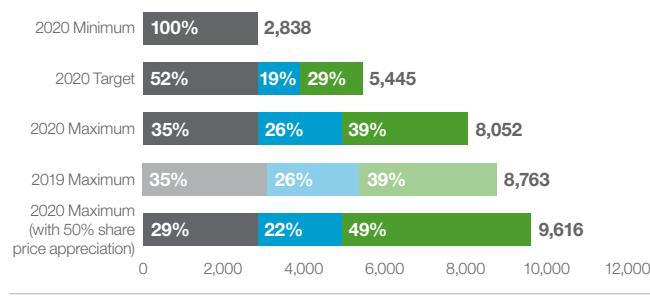
| | Bill Winters | | | Andy Halford | | |
|--|--------------|-------|----------|--------------|-------|----------|
| | 2020 | 2019 | % change | 2020 | 2019 | % change |
| Salary | 2,370 | 2,370 | 0% | 1,515 | 1,471 | 3% |
| of which cash | 1,185 | 1,185 | 0% | 1,015 | 986 | 3% |
| of which shares | 1,185 | 1,185 | 0% | 500 | 485 | 3% |
| Pension | 237 | 474 | -50% | 151 | 294 | -49% |
| Total fixed pay | 2,607 | 2,844 | -8% | 1,666 | 1,765 | -6% |
| Proportion of total fixed pay paid in cash | 55% | 58% | -5% | 70% | 72% | -3% |
| Proportion of total fixed pay paid in shares | 45% | 42% | 7% | 30% | 28% | 7% |

Illustration of application of the remuneration policy in 2020

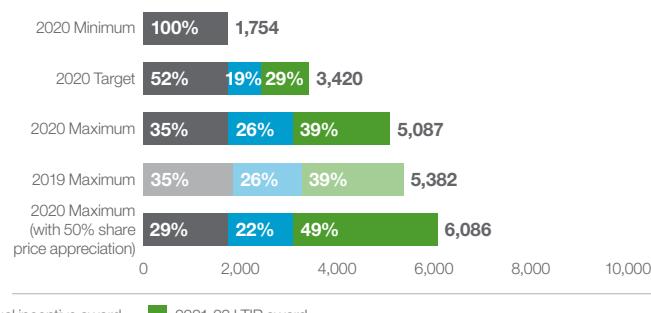
The charts below illustrate the potential outcomes under the directors' remuneration policy approved by shareholders at the AGM in May 2019 based on the implementation of the policy in 2020 (i.e. for awards that would be made in March 2021, based on 2020 fixed pay) and fixed remuneration with effect from 1 April 2020. They also show the maximum opportunity in 2019, illustrating the reduction in variable pay opportunity following the reduction in pension.

The charts show potential remuneration outcomes for each executive director in four performance scenarios: minimum, on-target, maximum performance and maximum performance with 50 per cent share price appreciation in line with reporting requirements. The percentages shown in each bar represent the amount of total remuneration provided by each element of pay.

Bill Winters 2020 remuneration (£'000)



Andy Halford 2020 remuneration (£'000)



1 Fixed remuneration includes salary as at 1 April 2020, benefits (based on 2019 single figure, actual fixed remuneration in 2020 will be dependent on the cost of benefits) and pension

2 Minimum performance assumes no annual incentive is awarded and no LTIP award vests

3 Target performance assumes an annual incentive of 50 per cent of the maximum opportunity and LTIP vesting at 50 per cent of the total award, i.e. an annual incentive award of 40 per cent of fixed pay and the vesting of the LTIP at 60 per cent of fixed pay

4 Maximum performance assumes the maximum annual incentive opportunity and LTIP vesting in full, i.e. an annual incentive of 80 per cent of fixed pay and an LTIP award of 120 per cent of fixed pay

5 Maximum performance with 50 per cent share price appreciation is as footnote 4, plus a 50 per cent share price appreciation in the value of the vested LTIP award since the time of grant

2020 annual incentive scorecard

The measures in the scorecard reflect the refreshed strategic priorities set out in 2019. The targets are set annually by the Committee and take into account the Group's annual financial plan, the Group strategy 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 2020 Annual Report alongside the level of performance achieved.

Financial measures make up 50 per cent of the annual incentive scorecard. Strategic measures are assessed 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 valued behaviours and conduct exhibited during the course of the year

STEP 2: Measurement of performance against financial and other strategic measures

| Financial measures | Weighting | Target |
|--|-----------|---|
| Income ¹ | 7% | |
| Costs | 7% | |
| Operating profit ¹ | 10% | → Targets to be disclosed to shareholders retrospectively |
| RoTE ² plus CET1 ³ underpin of the higher of 13% or the minimum regulatory requirement | 20% | |
| Growth of high-quality liabilities ⁴ | 6% | |
| Other strategic measures | Weighting | Target |
| Purpose and people | 10% | <ul style="list-style-type: none"> → Develop human capital by improving employee engagement, diversity and inclusion → Successfully embed sustainable and responsible practices in relation to climate, infrastructure, environment and community engagement⁵ |
| Deliver our network and grow our affluent business | 10% | <ul style="list-style-type: none"> → Improve client satisfaction rating → Deliver Network growth in target segments → Deliver Affluent growth in target markets |
| Improve productivity | 5% | <ul style="list-style-type: none"> → Improve efficiency and quality of client transformation experience → Improve Working Profit per FTE |
| Transform and disrupt with digital | 10% | <ul style="list-style-type: none"> → Manage key digital platforms and partnerships to improve client experience → Grow cash transactions initiated by clients through digital channels → Improve data analytics to develop new products and attract new clients |
| Risk and controls | 15% | <ul style="list-style-type: none"> → Manage elevated residual risks with effective controls in place → Successfully deliver milestones within the risk management plan → Maintain effective risk and control governance → Maintain the risk profile within the Group Risk Appetite boundaries → Maintain an effective Conduct Risk Management Framework to ensure there is a continuous process to identify and manage conduct risks |

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 an adjustment to the annual incentive if the executive director's performance is considered improved 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 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 Normalised RoTE represents the ratio of the current year's profit available for distribution to ordinary shareholders, to the weighted average ordinary shareholders' equity less the average goodwill and intangibles for the reporting period. Normalised RoTE normally excludes 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 13 per cent or the minimum regulatory level as at 31 December 2020 (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 For a number of years we have supported the use of ESG metrics by including them in the purpose and people component of the strategic measures. In line with our strategy, this year we are increasing our focus on metrics that embed sustainable and responsible practices into our business operations across the following four areas. Climate: provide significant project financing services, M&A advisory, debt structuring, transaction banking and lending services for renewable energy projects that align to our verified green and sustainable product framework. Infrastructure: provide financing to microfinance institutions extending access to finance for microenterprises throughout Asia and Africa. Environment: reduce our value chain emissions from business flights. Community engagement: increase the proportion of employees who participate in employee volunteering. Targets to be disclosed retrospectively

Independent non-executive directors' letters of appointment

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 69 to 71. INEDs are appointed for a period of one year, unless terminated earlier by either party with three months' notice.

Independent non-executive director fees

The fee levels are based on market data and the duties, time commitment and contribution expected for the PLC Board and, where appropriate, subsidiary boards. The Chairman and the INEDs are eligible for benefits in line with the directors' remuneration policy. Neither the Chairman or the INEDs receive any performance related remuneration.

| | Effective 1 January 2019 £000 |
|--|-------------------------------------|
| Board member | 105 |
| Additional responsibilities | |
| Deputy Chairman | 75 |
| Senior Independent Director | 40 |
| Chair | |
| – Audit Committee | 70 |
| – Board Risk Committee | 70 |
| – Remuneration Committee | 70 |
| – Board Financial Crime Risk Committee | 60 |
| – Brand, Values and Conduct Committee | 60 |
| Membership | |
| – Audit Committee | 35 |
| – Board Risk Committee | 35 |
| – Board Financial Crime Risk Committee | 30 |
| – Brand, Values and Conduct Committee | 30 |
| – Remuneration Committee | 30 |
| – Governance and Nomination Committee | 15 |

Summary of the directors' remuneration policy

The forward-looking remuneration policy for executive directors and INEDs was approved at the AGM held on 8 May 2019 and applies for three years from that date. A summary of the policy, including the key remuneration elements, is set out below and is provided for information only. The full policy, including recruitment and leaver provisions, can be found on pages 108 to 115 of the 2018 Annual Report and on the Group's website.

 The full policy is available on the Group's website at sc.com

Summary of the remuneration policy for executive directors

Fixed remuneration

| Remuneration element | Operation | Opportunity | Performance required | Alignment with UK employees |
|---|---|---|---|---|
| Salary Set to reflect the role, and the skills and experience of the individual, following the Group-wide principles which apply to all employees | Delivered part in cash and part in shares To maintain alignment with shareholders, the share element is subject to a holding period of five years, with 20 per cent being released annually The same approach would be followed on the recruitment of an executive director | Increases may occur where there is a role change, increased responsibility or to ensure market competitiveness | Any increase to salary is set in the context of the annual performance assessment of the individual | The process of setting and annually reviewing salaries against market information is the same for all employees The only difference for executive directors is that part of executive director salaries is delivered in shares For other employees salary is delivered only as cash |
| 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 For the current directors, from 2020, an annual pension allowance or contribution of 10 per cent of salary will be payable | For new executive directors the maximum is an annual pension allowance or contribution of 10 per cent of salary | N/A | The contribution rate of 10 per cent of salary to be applied in 2020 for the current executive directors is aligned with UK employees |

Fixed pay for determining variable remuneration

The combined value of salary and pension form fixed pay on which variable remuneration is calculated

| | | | | |
|---|---|--|-----|--|
| Benefits A competitive benefits package to support executives to carry out their duties effectively | A range of benefits are provided (e.g. standard benefits such as holiday and sick pay, 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) | The 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 | N/A | Core benefits are aligned with all employees Some additional, role specific benefits are received by the current executive directors (see page 120 for details) |
|---|---|--|-----|--|

Variable remuneration

| Remuneration element | Operation | Opportunity | Performance required | Alignment with UK employees |
|--|---|--|--|---|
| Annual incentive Performance dependent remuneration based on measurable performance criteria linked to the Group's strategy and assessed over a period of one year | Annual incentive awards are delivered as a combination of cash and shares subject to holding requirements and deferred shares | The maximum value of an annual incentive award cannot exceed 80 per cent of fixed pay (defined as salary and pension) and can be any amount from zero to the maximum | Awards are determined by the Committee, based on the assessment of the Group scorecard which contains a mix of financial (at least 50 per cent of the scorecard) and strategic measures, as well as the personal performance of the individual | The annual incentive plan is operated for all employees, paid in cash to certain limits with the balance deferred over at least three years in shares and/or cash |
| LTIP Performance dependent remuneration based on measurable, long-term performance criteria | LTIP awards are granted annually, based on the assessment of performance of the Group and the individual in the relevant year to determine the award size LTIP awards are delivered in shares and may be subject to holding requirements Following the grant of awards, Group performance is measured over three years with no award vesting before the third anniversary of the grant | The maximum value of an LTIP award cannot exceed 120 per cent of fixed pay and can be any amount from zero to the maximum | 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 | Members of the Management Team are also eligible for LTIP awards, operated on the same basis but with a lower maximum opportunity |
| Total variable remuneration (annual incentive and LTIP) | The combined maximum variable opportunity of the annual incentive and the LTIP cannot exceed 200 per cent of fixed pay. The LTIP forms at least 60 per cent of the maximum variable remuneration opportunity so that the majority of variable remuneration is based on long-term performance The same approach for variable remuneration would be followed on the recruitment of an executive director | | | |

Other remuneration

| Remuneration element | Operation | Opportunity | Performance required | Alignment with UK employees |
|--|--|--|----------------------|---|
| Sharesave Provides an opportunity for all employees to invest voluntarily in the Group | 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 the invitation to participate | Savings per month of between £5 and the maximum set by the Group which is currently £250 | N/A | All employees are eligible to participate on the same basis |
| Shareholding requirements A requirement for executive directors to hold a specified value of shares for alignment with the interests of shareholders during employment | Executive directors are required to hold a specified level of shares, to be built up over a reasonable time frame from the date of appointment. Under the policy, in 2019 and 2020, the CEO and the CFO are required to hold 250 per cent and 200 per cent of salary in Group shares respectively | N/A | N/A | Formal shareholding requirements are operated for the executive directors only. However, other employees hold Group shares as part of the deferral and retention requirements |
| Post-employment shareholding requirement | Shares to be held of 100 per cent of the shareholding requirement in place for one year and 50 per cent of the requirement in place for the second year following cessation of employment | N/A | N/A | Policy applies to executive directors only |

Additional remuneration disclosures

Approach to risk adjustment

At an individual level and for all employees, variable remuneration is aligned with the long-term interests of the business and the time frame 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 risk adjustments 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 clawback is summarised in the following table:

| | Criteria includes | Application |
|----------------------------------|---|--|
| Individual level | <ul style="list-style-type: none"> → 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 valued 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 | <ul style="list-style-type: none"> → 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 |

The approach used to determine Group-wide total discretionary incentives in 2019 is explained on page 116 of this report. The following tables show the income statement charge for these incentives.

Income statement charge for Group discretionary incentives

| | | 2019 \$million | 2018 \$million |
|--|--|-------------------|------------------------------|
| Total discretionary incentives | | 1,278 | 1,179 |
| Less: deferred discretionary incentives that will be charged in future years | | (155) | (135) |
| Plus: current year charge for deferred discretionary incentives from prior years | | 123 | 114 |
| Total | | 1,246 | 1,158 |
| | | Actual | |
| Year in which income statement is expected to reflect deferred discretionary incentives | | 2018 \$million | 2019 \$million |
| Discretionary incentives deferred from 2017 and earlier | | 106 | 59 |
| Discretionary incentives deferred from 2018 | | 50 | 54 |
| Discretionary incentives deferred from 2019 | | – | 64 |
| Total | | 156 | 177 |
| | | Expected | |
| Year in which income statement is expected to reflect deferred discretionary incentives | | 2020 \$million | 2021 and beyond \$million |
| Discretionary incentives deferred from 2017 and earlier | | 21 | 15 |
| Discretionary incentives deferred from 2018 | | 33 | 31 |
| Discretionary incentives deferred from 2019 | | 68 | 79 |
| Total | | 122 | 125 |

Allocation of the Group's earnings between stakeholders

When considering Group variable remuneration, the Committee takes account of shareholders' concerns about relative expenditure on pay and determines the allocation of earnings to expenditure on remuneration carefully, and has approached this allocation in a disciplined way over the past five years. The table below shows the distribution of earnings between stakeholders over the past five years. 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 | | | | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------|-----------|-----------|-----------|-----------|
| | 2019 \$million | 2018 \$million | 2017 \$million | 2016 \$million | 2015 \$million | 2019 % | 2018 % | 2017 % | 2016 % | 2015 % |
| Staff costs | 7,122 | 7,074 | 6,758 | 6,303 | 7,119 | 74 | 75 | 83 | 87 | 71 |
| Corporate taxation including levy | 1,720 | 1,763 | 1,367 | 983 | 1,113 | 18 | 19 | 17 | 13 | 11 |
| Paid to shareholders in dividends | 720 | 561 | 0 | 0 | 1,778 | 8 | 6 | 0 | 0 | 18 |

Pillar 3 disclosures on material risk takers' remuneration and disclosures on the highest-paid employees

Identification of material risk takers

Individuals have been identified as material risk takers in accordance with the qualitative and quantitative criteria set out in the European Banking Authority's Regulatory Technical Standard (EU 604/2014 adopted by the UK Prudential Regulatory Authority) that came into force in June 2014.

Quantitative criteria

The quantitative criteria identify 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 employees 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 being identified as material risk takers if it can be evidenced that 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:

- Directors (both executive and non-executive) of Standard Chartered PLC
- A member of senior management, which is defined as one or more of the following:
 - A Senior Manager under the Prudential Regulation Authority or Financial Conduct Authority Senior Manager Regime
 - A member of the Group Management Team
- The level beneath the Management Team
- Senior employees within the audit, compliance, legal and risk functions
- Senior employees within material business units
- Employees who are members of specific 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 Pillar 3 tables on pages 135 and 136, unless otherwise stated, senior management is defined as directors of Standard Chartered PLC (both executive and non-executive), senior managers under the PRA or FCA Senior Manager Regime and members of the Group Management Team.

Material risk takers' remuneration delivery

Remuneration for material risk takers was delivered in 2019 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 2019 performance year, the following structure applies 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 2019 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 remuneration adjustment provisions. 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 are subject to the 2:1 maximum ratio of variable to fixed remuneration

Material risk takers' deferred variable remuneration delivery

| | Year 0 (grant) March 2020 | Year 1 March 2021 | Year 2 March 2022 | Year 3 March 2023 | Year 4 March 2024 | Year 5 March 2025 | Year 6 March 2026 | Year 7 March 2027 |
|-----------------------------------|------------------------------|----------------------|----------------------|--|--|--|----------------------|----------------------|
| Senior managers | | | | | | Minimum of 40% of 2019 variable remuneration | | |
| Risk managers | | | | | Minimum of 40% of 2019 variable remuneration | | | |
| Other material risk takers | | | | Minimum of 40% of 2019 variable remuneration | | | | |

Material risk takers' deferred remuneration in 2019

| | Senior management \$000 | | | All other material risk takers \$000 | | |
|---|-------------------------|---------|----------|--------------------------------------|----------|----------|
| | Total | Cash | Shares | Total | Cash | Shares |
| Start of the year (1 January) | 105,205 | 9,246 | 95,959 | 308,764 | 91,995 | 216,769 |
| Impact of changes to material risk taker population including leavers during 2018 and joiners in 2019 | (19,840) | (1,798) | (18,042) | (49,444) | (15,764) | (33,680) |
| Start of the year (1 January) (after adjustments): | | | | | | |
| Unvested | 85,274 | 7,448 | 77,826 | 251,023 | 76,231 | 174,792 |
| Vested and unexercised | 91 | – | 91 | 8,297 | – | 8,297 |
| Awarded during the year | 33,336 | 4,519 | 28,817 | 133,071 | 50,660 | 82,411 |
| Total reduction during the year due to malus or clawback; or performance measures not being met | (8,462) | – | (8,462) | (11,536) | (2,166) | (9,370) |
| Total deferred remuneration paid out in the financial year | (14,292) | (727) | (13,565) | (100,161) | (28,679) | (71,482) |
| Close of the year (31 December): | | | | | | |
| Unvested | 95,828 | 11,240 | 84,588 | 274,009 | 96,046 | 177,963 |
| Vested and unexercised | 119 | – | 119 | 6,685 | – | 6,685 |

Material risk takers' 2019 fixed and variable remuneration

| | Senior management \$000 | All other material risk takers \$000 |
|--|-------------------------|--------------------------------------|
| Fixed remuneration¹ | | |
| Number of employees | 27 | 587 |
| Total fixed remuneration | 35,328 | 304,302 |
| Cash-based | 33,198 | 304,302 |
| Of which deferred | – | – |
| Shares or other share-linked instruments | 2,130 | – |
| Of which deferred | – | – |
| Other forms | – | – |
| Of which deferred | – | – |
| Variable remuneration^{2,3} | | |
| Number of employees | 16 | 553 |
| Total variable remuneration | 47,217 | 254,232 |
| Cash-based | 15,540 | 131,858 |
| Of which deferred | 6,669 | 61,689 |
| Shares or other share-linked instruments | 31,677 | 122,374 |
| Of which deferred | 22,805 | 61,724 |
| Other forms | – | – |
| Of which deferred | – | – |
| Total remuneration | 82,545 | 558,534 |

1 Fixed remuneration includes salary and cash allowances and, in the case of the Chairman and INEDs, any fees

2 For some material risk takers, part of their 2019 variable remuneration may be delivered in share awards, with 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 2019 was 1:0.89

Material risk takers' aggregate 2019 remuneration by business

| | Corporate & Institutional Banking \$000 | Commercial Banking \$000 | Private Banking ¹ \$000 | Retail Banking \$000 | Central management & other ² \$000 |
|------|--|-----------------------------|---------------------------------------|-------------------------|--|
| 2019 | 296,990 | 7,241 | 23,808 | 19,084 | 293,956 |

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 2019

| | 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 \$385,000) | – | – | 2 | 692 |

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 | 119 |
| 1,500,001 – 2,000,000 | 42 |
| 2,000,001 – 2,500,000 | 13 |
| 2,500,001 – 3,000,000 | 6 |
| 3,000,001 – 3,500,000 | 4 |
| 3,500,001 – 4,000,000 | 6 |
| 4,000,001 – 4,500,000 | 2 |
| 4,500,001 – 5,000,000 | 3 |
| 5,000,001 – 6,000,000 | 1 |
| 7,000,001 – 8,000,000 | 1 |
| 9,000,001 – 10,000,000 | 2 |
| Total | 199 |

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 2019.

| Components of remuneration | Five highest paid ¹ \$000 | Senior management ² \$000 |
|--|---|---|
| Salary, cash allowances and benefits in kind | 12,702 | 23,932 |
| Pension contributions | 1,169 | 1,972 |
| Variable remuneration awards paid or receivable | 25,367 | 40,098 |
| Payments made on appointment | 5,769 | – |
| Remuneration for loss of office (contractual or other) | – | – |
| Other | – | – |
| Total | 45,007 | 66,002 |
| Total HK dollar equivalent | 352,799 | 517,370 |

1 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 2019

The table below shows the emoluments of i) the five highest-paid employees; and ii) senior management for the year ended 31 December 2019.

| Remuneration band HKD | Remuneration band USD equivalent | Number of employees | |
|--------------------------|-------------------------------------|----------------------|-----------------------------------|
| | | Five highest paid | Senior management ¹ |
| 22,000,001 – 22,500,000 | 2,806,588 – 2,870,374 | – | 1 |
| 25,500,001 – 26,000,000 | 3,253,090 – 3,316,876 | – | 1 |
| 27,000,001 – 27,500,000 | 3,444,449 – 3,508,235 | – | 1 |
| 29,000,001 – 29,500,000 | 3,699,593 – 3,763,379 | – | 1 |
| 29,500,001 – 30,000,000 | 3,763,379 – 3,827,165 | – | 1 |
| 30,000,001 – 30,500,000 | 3,827,165 – 3,890,951 | – | 1 |
| 33,000,001 – 33,500,000 | 4,209,882 – 4,273,668 | – | 1 |
| 36,000,001 – 36,500,000 | 4,592,598 – 4,656,384 | – | 1 |
| 38,000,001 – 38,500,000 | 4,847,743 – 4,911,529 | – | 2 |
| 47,000,001 – 47,500,000 | 5,995,892 – 6,059,678 | 1 | 1 |
| 66,000,001 – 66,500,000 | 8,419,763 – 8,483,549 | 1 | – |
| 76,500,001 – 77,000,000 | 9,759,271 – 9,823,057 | 1 | 1 |
| 79,500,001 – 80,000,000 | 10,141,988 – 10,205,774 | 1 | – |
| 82,000,001 – 82,500,000 | 10,460,918 – 10,524,704 | 1 | 1 |
| Total | | 5 | 13 |

1 Senior management comprises the executive directors and the members of the Group Management Team at any point during 2019.

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.

| | 2019 | 2018 |
|-----|---------------|--------|
| EUR | 0.8930 | 0.8782 |
| GBP | 0.7858 | 0.7464 |
| HKD | 7.8387 | 7.8400 |


Christine Hodgson
Chair of the Remuneration Committee

27 February 2020

Other disclosures

The Directors' report for the year ended 31 December 2019 comprises pages 66 to 145 of this report (together with the sections of the Annual Report 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, information required by Listing Rule 9.8.4 to be included in the Annual Report where applicable, is set out in the table below and cross-referenced.

Information to be included in the Annual Report (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) | 125 |

Principal activities

Standard Chartered is a leading international banking group, with over 160-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 operates in the UK and overseas through a number of subsidiaries, branches and offices.

➤ Further details on our business, including key performance indicators, can be found within the Strategic report

Fair, balanced and understandable

On behalf of the Board, the Audit Committee has reviewed the 2019 Annual Report and the process by which the Group believes that the Annual Report, 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.

Events after the balance sheet date

For details on post balance sheet events, see Note 37 to the financial statements.

Code for Financial Reporting Disclosure

The Group's 2019 financial statements have been prepared in accordance with the principles of the UK Finance Disclosure 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. For more information, refer to the viability statement in the Strategic report.

Viability

The directors' viability statement in respect to the Group can be found in the Strategic report.

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 \$1.60 billion (2018: \$1.56 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 2019.

Directors and their interests

The membership of the Board, together with their biographical details, are given on pages 69 to 71. 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 108 to 137. 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

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 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 existing conflicts of interest annually to consider if they continue to be conflicts of interest, and also to revisit the terms upon which they were determined to be. 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 2018, all directors will stand for annual (re)election at the 2020 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 2019 and remain in force at the date of this report.

Qualifying pension scheme indemnities

Qualifying pension scheme indemnity provisions (as defined by section 235 of the Companies Act 2006) were in force during the course of the financial year ended 31 December 2019 for the benefit of the UK's pension fund corporate trustee (Standard Chartered Trustees (UK) Limited), 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.

Results and dividends

2019: paid interim dividend of 7 cents per ordinary share (2018: paid interim dividend of 6 cents per ordinary share)

2019: proposed final dividend of 20 cents per ordinary share (2018: paid final dividend of 15 cents per ordinary share)

2019: total dividend of 27 cents per ordinary share (2018: total dividend, 21 cents per ordinary share)

Share capital

The issued ordinary share capital of the Company was reduced by a total of 112,734,907 over the course of 2019. This number is the net position following the issuance of 3,368,576 ordinary shares under the Company's employee share plans at a price between nil and 620 pence, and the cancellation of 116,103,483 ordinary shares as part of the Company's share buy-back programme. 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 85 per cent of the total issued nominal value of all share capital. The remaining 15 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

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. Adoption of new Articles of Association are being proposed at the 2020 AGM, details of which can be found in the Notice of Meeting.

Authority to purchase own shares

At the AGM held on 8 May 2019, our shareholders renewed the Company's authority to make market purchases of up to 330,996,724 ordinary shares, equivalent to approximately 10 per cent of issued ordinary shares as at 14 March 2019, and up to all of the issued preference share capital. The authority to make market purchases up to 10 per cent of issued ordinary share capital was used during the year following the announcement in April 2019 that the Company would commence a \$1 billion share buyback programme. The resolution of legacy conduct and control issues means that the Company can manage its capital position more dynamically, maintaining the strategic investment programme while returning capital and creating long-term shareholder value. The share buyback programme was launched on 2 May 2019 and completed on 25 September 2019. A total of 116,103,483 ordinary shares with a nominal value of \$0.50 were re-purchased for an approximate aggregate consideration paid of \$1 billion.

A monthly breakdown of the shares purchased during the period including the lowest and highest price paid per share is set out in Note 28 to the financial statements.

All ordinary shares which were bought back were cancelled.

In accordance with the terms of a waiver granted by The Stock Exchange of Hong Kong Limited (HKSE) as subsequently modified, 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

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 also 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 2019, 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.

| Notifiable interests | Percentage of Ordinary shares capital disclosed | Nature of holding as per disclosure |
|------------------------------------|---|---|
| Temasek Holdings (Private) Limited | 517,051,383 | Indirect |
| BlackRock Inc. | 183,640,172 | Indirect (5.015%) Securities Lending (0.392%) Contracts for Difference (0.146%) |
| Norges Bank | 100,926,382 | Direct |

Related-party transactions

Details of transactions with directors and officers and other related parties are set out in Note 36 to the financial statements.

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 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 27 December 2018, 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 2021 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 2021 to ensure that the 5 per cent threshold for the revenue ratio will not be exceeded

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website.

As at 20 February 2020, the Company has been notified of the following information, in accordance with DTR 5, from holders of

notifiable interests in the Company's issued share capital. The information provided below was correct at the date of notification; however, the date received may not have been within 2019. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

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 2019, the Group provided Temasek with 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 2019 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 2021 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 18 to the financial statements.

Loan capital

Details of the loan capital of the Company and its subsidiaries are set out in Note 27 to the financial statements.

Debt issues and equity-linked agreements

During the financial year ended 31 December 2019, the Company made no issuance of debentures or equity linked agreements.

Risk management

The Board is responsible for maintaining and reviewing the effectiveness of the risk management system. 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, emerging risks and material cross-cutting risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

➤ The Risk review and Capital review on pages 148 to 241 sets out the principal risks, emerging risks and material cross-cutting risks, our approach to risk management, including our risk management principles, an overview of our Enterprise Risk Management Framework and the risk management and governance practices for each principal risk type. The Board-approved Risk Appetite Statement can be found on page 208

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 Board is responsible for maintaining and reviewing the effectiveness of the internal control system. Its effectiveness is reviewed regularly by the Board, its committees, the Management Team and Group Internal Audit.

For the year ended 31st December 2019, the Board Risk Committee has reviewed the effectiveness of the Group's system of internal control. As part of this review, confirmation was received that the Group Chief Risk Officer is satisfied that the Group's risk management and internal control framework is materially effective and adequately highlights risks and improvement areas for management attention. 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 206 describes the Group's risk management oversight committee structure

Our business is conducted within a developed control framework, underpinned by policy statements and written procedures. There are written policies and procedures designed to ensure the identification and management of risk, including credit risk, country risk, traded risk, capital and liquidity risk, operational risk, reputational risk, compliance risk, conduct risk, information and cyber security risk, financial crime risk and model 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 work hard to ensure that our employees are kept informed about matters affecting or of interest to them, but more importantly to provide opportunities for feedback and dialogue. Through our annual MyVoice survey, our employees told us in 2018 that the Group can feel too complicated. During 2019, all 17 Group Human Resources' policies were reviewed, their language simplified, and all content aligned to the Group's valued behaviours. The review also challenged the number of policies and we have explored other methods of communicating the key information employees need to do their jobs effectively (e.g. people leader briefing calls).

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 employees continues to be the Bridge – our business collaboration platform. The Bridge provides global, local, business and function communications and allows our people to exchange ideas, feedback, comment and communicate all through one space, wherever they are located.

The Bridge is supported by Group, local and business newsletters, targeted audio calls, videos, success story bulletins, town halls and engagement events. Business or time-critical information is sent directly to our people's inboxes through a measurable email platform.

Our senior leaders and people leaders continue to 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. In 2019 we included questions about our strategy into the annual MyVoice survey; pleasingly over 80 per cent responded to say their people leader and team had discussed the strategic priorities and how their team will bring them to life. More information on the engagement survey and its results can be found within the employees' section of the Strategic report.

Across the organisation, team meetings with People Leaders, one-to-one discussions, and management meetings enable our people to discuss and clarify matters of concern to them as employees. There are global communications from our Group Chief Executive, supported by local meetings with regional and country CEOs to discuss the annual financial results and overall performance. Performance conversations provide the opportunity to discuss how individuals, the team and the business area have contributed to our overall performance and, in full year conversations, how any compensation awards relate to this.

During 2019 we improved the mechanisms for Board engagement with employees. In addition to management reporting on employee matters and townhalls when the Board travels overseas, we now have interactive calls and online discussions where the Board can hear from employees. Initial sessions demonstrate employee interest in engaging with the Board and output will be used to inform future engagements with employees.

Employees, past, present and future can follow our progress through social networks including the Group's LinkedIn network and Facebook page.

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 want to be able to support our employees so they can thrive at work and in their personal lives. We have a flexible working practices policy allowing employees a range of flexible working options. We also provide a minimum of 20 calendar weeks fully paid maternity leave, a minimum of two calendar weeks of leave for spouses or partners, and two calendar weeks for adoption leave. Combined, this is above the International Labour Organisation minimum standards.

We seek to build productive and enduring partnerships with various employee representative bodies (including unions and work councils). In our recognition and interactions, we are heavily influenced by 1948 United Nations Universal Declaration of Human Rights (UDHR), and several International Labour Organisation (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). Additionally, we abide by all local country labour laws and acts that protect employees' rights to organise.

The Group Grievance Standard provides a formal framework to deal with concerns that employees have in relation to their employment or another colleague, which affects them directly, and cannot be resolved through informal mechanisms, e.g. counselling, coaching or mediation. This can include bullying, harassment or discrimination situations, and concerns around conditions of employment (e.g. health and safety, work relations, new working practices or working environment). There is a distinct Speaking Up policy which covers instances where an employee suspects actual, planned or potential wrongdoing on the part of another employee, or the Company.

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 due to misconduct issues and/or performance (where required by law to follow a disciplinary process) are governed by the Group Disciplinary Standard. 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.

Our Group Diversity and Inclusion Standard (the Standard) has been developed to ensure a respectful workplace, with fair and equal treatment, diversity and inclusion, and the provision of opportunities for employees to participate fully and reach their full potential in an appropriate working environment.

All individuals are entitled to be treated with dignity and respect, and to be free from harassment, bullying, and discrimination. This helps support effective and productive working conditions, decreased staff attrition, high morale and engagement, maintains employee wellbeing, and reduced risk.

The Group is committed to diversity and inclusion and policies, standards and practices that provide equality of opportunity for all, protect the dignity of employees and promote respect at work. All employees and contractors are required to take personal and individual responsibility to comply with the Standard, behave in a non-discriminatory way and not to participate in acts of inappropriate behaviour or conduct, harassment or bullying.

The Group is committed to provide equal opportunities and fair treatment in employment. We do not accept unlawful discrimination in our recruitment or employment practices on any grounds including but not limited to; sex, gender, nationality, ethnicity, race, colour, native or indigenous origin, disability, age, marital or civil partner status, pregnancy and maternity, sexual orientation, gender identity, expression

or reassignment, HIV or AIDS status, parental status, employment status, military and veterans status, flexibility of working arrangements, religion or belief.

We strive for recruitment, employment, redundancy and redeployment, training, development, succession planning and promotion practices that are free of barriers, both systemic and deliberate; and that do not directly or indirectly discriminate.

Recruitment, employment, training, development and promotion decisions are based on the existing skills, knowledge and behaviour required to perform the role to the Group's standards. Implied in all employment terms is the commitment to equal pay for equal work. We will also make reasonable workplace adjustments (including during hiring), including for disabilities and religious practices. If employees become disabled, efforts are made to ensure their employment continues, with appropriate training and workplace adjustments where necessary.

As part of our engagement with the 'Valuable 500' we are committed to have each country in our network complete an internal disability assessment and incorporate areas of improvement into their local diversity and inclusion plans. This disability benchmark will help every market measure and demonstrate progress towards becoming disability confident by reviewing inclusive processes and practices, infrastructure accessibility, client accessibility and impact in communities.

Health and safety

Our Health and Safety (H&S) programme covers both mental and physical wellbeing. The Group complies with both external regulatory requirements and internal policy and standards for 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 the regulatory minimum. Compliance rates are reported quarterly to each country's management team. H&S performance and risks are reported annually to the Group Risk Committee and the Board Risk Committee. 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 2.0 per cent (2018: 1.8 per cent) of our total operating income in the year ended 31 December 2019.

Major suppliers

Our five-largest suppliers together accounted for less than 15 per cent of purchases in the year ended 31 December 2019.

Supply chain management

For information about how the Group engages with suppliers on environmental and social matters, please see our Supplier Charter. As set out under the UK Modern Slavery Act 2015, the Group is required to publish a Modern Slavery Statement annually. The Group's 2019 Modern Slavery Statement will be issued at the same time as the Annual Report. This document will give further detail on how the Group has managed social risks in its supply chain during 2019.

 Our Supplier Charter can be viewed at sc.com/suppliercharter

 Details of how we create value for our stakeholder groups can be found on page 43 to 56

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, protect client privacy and manage potential conflicts of interest. 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 Group Code of Conduct (the Code) relating to the lawful and ethical conduct of business and this is supported by the Group's valued behaviours. 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 2019.

Environmental impact of our operations

We aim to minimise the environmental impact of our operations as part of our commitment to be 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. In 2019, we updated our Scope 3 methodology to reflect the impact of radiative forcing. As a result, we have restated Scope 3 emissions for 2018 and 2017.

Total scope 1, 2 and 3 Greenhouse Gas emissions for 2018 and 2019

| Indicator | 2019 | 2018 | Units |
|---|-----------|-----------|--|
| Headcount (30 September 2019) | 84,398 | 85,402 | Headcount |
| Net internal area of occupied property covered by reporting | 1,154,999 | 1,185,929 | m ² |
| Annual operating income (1 October to 30 September) | 15,200 | 14,958 | \$million |
| Greenhouse Gas emissions | | | |
| Scope 1 emissions (combustion of fuels) | 4,542 | 8,584 | tonnes CO ₂ eq/year |
| Scope 2 emissions (purchased electricity) | 141,771 | 139,366 | tonnes CO ₂ eq/year |
| Total Scope 1 & 2 emissions | 146,313 | 147,950 | tonnes CO ₂ eq/year |
| Scope 3 emissions with distance uplift (air travel) | 96,196 | 124,966 | tonnes CO ₂ eq/year |
| Scope 3 emissions (outsourced data centre) | 46,362 | 21,523 | tonnes CO ₂ eq/year |
| Total Scope 1, 2 & 3 emissions | 242,509 | 272,917 | tonnes CO ₂ eq/year |
| Total Scope 1, 2 & 3 emissions/Headcount | 2.87 | 3.20 | tonnes CO ₂ eq/Headcount/year |
| Total Scope 1, 2 & 3 emissions/m ² | 210 | 230 | kg CO ₂ eq/m ² /year |
| Total Scope 1, 2 & 3 emissions/operating income | 15.95 | 18.25 | tonnes CO ₂ eq/\$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

> Disclosures related to the Group's environmental policies and performance are included in the Sustainable and responsible business section of the Strategic report on page 55

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 International Energy Agency 2019 Emissions Factors and the UK Government's 2019 GHG Conversion Factors for Company Reporting, emissions are reported in metric tonnes of carbon dioxide equivalent (CO₂e), 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.

Considering the amendment issued to the GHG Protocol in 2015, we report Scope 2 emissions under location-based and market-based methods. We continue to monitor the development of Scope 2 Quality Criteria, as well as the development of residual mixes by national agencies. We have recently added market-based reporting as we have found data has become more available on emissions.

The Group does not currently 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 currently reports on Scope 3 emissions arising from air travel and our outsourced data centres globally.

Reporting period

The reporting period of our environmental data is from 1 October 2018 to 30 September 2019. 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, Global Documentation, 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, including climate change, and local communities.

The Board recognises its responsibility to manage these risks and that failure to manage them adequately could have adverse impact on stakeholders as well as the Group. The Board, via the Brand, Values and Conduct Committee, reviews sustainability priorities, and oversees the development of, and delivery 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 CEO, Corporate & Institutional Banking is responsible for sustainable finance, which incorporates E&S risk management. In 2019, this included the development of the Group's Green and Sustainable Bond Framework, and Green and Sustainable Product Framework. The Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime and Compliance leads a cross-business Sustainability Forum to develop and deliver the Group's broader sustainability strategy. In addition, climate change is being integrated into the Group-wide approach to risk management as a material cross-cutting risk type to be considered alongside designated risk types.

The Board welcomed the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). In 2019, the Group set out how climate change considerations are being incorporated into its governance, strategy, risk management and target-setting activities in its stand-alone Climate Change Disclosure, aligned to the TCFD recommendations. This was approved by the Board before publication.

Community engagement

We collaborate with local partners to support social and economic development in communities across our markets. For more on how we engage with communities go to page 56 of the Sustainable and Responsible Business section.

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 A1.6 on production and handling of 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 408.

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 2020 AGM will be held at 11:00am (UK time) (6:00pm Hong Kong time) on 6 May 2020 at etc.venues, 200 Aldersgate, St Paul's, London EC1A 4HD. Detail of the business to be conducted at the meeting is contained in the 2020 Notice of AGM. Our 2019 AGM was held on 8 May 2019 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, the details of which can be viewed on our website.

Non-audit services

The Group's non-audit services policy (the policy) was reviewed and approved by the Audit Committee on 28 November 2018.

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, excluding audit related non-audit services and services carried out pursuant to legislation. For 2019 the ratio was 1 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.

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 an annual performance and effectiveness review of KPMG, it was felt that KPMG is considered to be effective, objective and independent in its role as Group statutory auditor.

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 the Group statutory auditor is made aware of any pertinent information.

KPMG will be available at the 2020 AGM to answer any questions about their audit of the financial statements.

In view of the external Audit tender conducted in 2017, where it was agreed that EY be appointed as the Group's statutory auditor for the financial year ending 31 December 2020, KPMG will resign as the Group's statutory auditor from the conclusion of the 2019 audit; and, the Board will resolve to appoint EY to fill the casual vacancy. A resolution to appoint EY as auditor will be proposed at the Group's 2020 AGM.

By order of the Board

Amanda Mellor
Group Company Secretary

27 February 2020

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 that the Annual Report, 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 2020



RESPONSIBLE COMPANY

Tackling the illegal wildlife trade as a financial crime



Read more about our approach to sustainable and responsible business on pages 51 to 56

The illicit poaching of wildlife is driving many species to the edge of extinction. The World Wildlife Fund estimates that on average more than 20,000 African elephants and more than 1,000 rhinos are killed each year. The illegal wildlife trade (IWT) is not just a conservation issue. A report by the United Nations Environmental Programme estimates its worth between \$7 billion and \$23 billion a year, making it the fourth most significant trafficking crime behind arms, human and narcotics trafficking.

Many countries within our unique footprint are vulnerable to IWT either as source, transit or destination markets. This puts us on the frontline of the challenge to do our part to disrupt and prevent this illicit activity. We have included IWT-specific content in the anti-money laundering training completed by all employees and delivered targeted awareness sessions in key markets. We have also made IWT a focus for our financial crime investigators, enabling those efforts through new artificial intelligence and machine-learning tools.

We believe that partnering to lead in the fight against financial crime is the best way to protect our business, clients and communities. That's because we recognise that no single company, law enforcement agency or sovereign acting alone can

eradicate financial crime. We will only succeed if we collaborate with each other.

As a member of The Royal Foundation's United for Wildlife (UfW) IWT Financial Taskforce, we are working with other financial institutions around the world, as well as government bodies and NGOs, to raise awareness of the importance of tackling IWT as a financial crime and to build IWT into members' business-as-usual financial crime compliance operations.

We are sharing what we have learned with our clients by integrating IWT into our correspondent banking academies in countries such as Brazil, Cambodia, South Africa and Vietnam in 2019. We also contributed to the delivery of UfW training workshops on IWT during 2019 including workshops in Beijing, Hong Kong and Nairobi.



The illegal wildlife trade is the world's fourth-most profitable criminal trafficking enterprise, estimated to be worth between \$7 billion and \$23 billion a year.

RISK REVIEW AND CAPITAL REVIEW

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Risk review and Capital review

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

→ From the start of the 'Credit risk review' section (page 153) to the end of 'Other principal risks' in the same section (page 205), excluding:

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→ From the start of 'CRD IV capital base' (page 237) to the end of 'Movement in total capital' excluding capital ratios and risk-weighted assets (RWA) (page 238)

Risk update

All risk types, both financial and non-financial, are managed and reported in accordance with the Group's Enterprise Risk Management Framework. 2019 saw sustained progress towards improving the resilience of the Group's portfolios as shown here by the key highlights from the past year.

Key highlights 2019

- Asset quality broadly stable despite challenging macroeconomic environment
- Credit impairment up year-on-year, but remains below elevated levels seen in previous years
- Our capital and liquidity positions continue to be above current requirements

Our portfolio quality

Despite a challenging macroeconomic environment, the Group has been able to maintain strong performance and solid risk fundamentals, a reflection of the work done over the previous few years to secure the foundations of our risk management approach. Several of our key markets have seen significant volatility, in particular due to the US-China trade tensions, social unrest in Hong Kong, and the evolving novel coronavirus (Covid-19) outbreak. The necessary steps have been taken to maintain stable operations. We are supporting impacted corporate clients and individual customers where appropriate. We continue to assess these situations on an ongoing basis, utilising our stress testing framework and portfolio reviews to analyse the potential

impact and appropriate risk management actions. As a result, we performed a review of the economic situation in Hong Kong which, when added to the impact of revisions to other model inputs, contributed to the total increase in Hong Kong expected credit loss (ECL) of \$46 million in the second half of the year. After the close of the 2019 accounts, the novel coronavirus outbreak in January 2020 has increased risk aversion and uncertainty. The outbreak will likely lead to a weaker outlook for at least the Group's Asian markets in 2020, which may impact the Group's ECL as well as other financial measures in the coming year.

The Group's proportions of stage 1 and stage 2 loans and advances to customers were broadly consistent with the prior period at 90 per cent and 8 per cent respectively. Credit quality remained broadly stable in 2019 with gross stage 3 loans reducing by a further 12 per cent to \$7.4 billion (2018: \$8.5 billion) carrying over positive momentum from 2018. Credit grade 12 balances have increased by \$0.1 billion compared with the previous year, mainly due to sovereign rating downgrades in Zimbabwe, Zambia and Lebanon in the last quarter of 2019, which impacted the ratings of certain obligors in these countries. This does not represent any specific credit concerns related to these obligors,

particularly as the balances consist primarily of short-dated financial institutions and sovereign-related exposures used for local balance sheet management. There was an increase in early alert exposure to \$5.3 billion (2018: \$4.8 billion) driven by a number of unrelated clients that were transferred in the last quarter of 2019. Net of risk mitigants early alert balances are flat year-on-year. The proportion of investment grade corporate exposures has remained broadly consistent year-on-year at 61 per cent, although this is an increase relative to June 2019, which had seen a drop due to a reduction in repurchase agreements. While collateralisation of sub-investment grade net exposures maturing in more than one year has reduced to 45 per cent (2018: 51 per cent), this is mainly due to a handful of downgrades during the year on account of the deteriorating macroeconomic situation. We continue to focus on the quality of origination and underwriting, within our Risk Appetite.

There was an increase in exposure to our top 20 corporate clients as a percentage of Tier 1 capital, up to 56 per cent from 55 per cent in 2018. This was primarily driven by an increase in exposure to investment grade clients. Overall the Group's portfolios remain predominantly short-tenor and continue to be diversified across industry sectors, products

Key indicators

| | 2019 | 2018 | 01.01.18 | 2017 (IAS 39) |
|--|--------------|-------|----------|------------------|
| Group total business¹ | | | | |
| Stage 1 loans (\$ billion) | 246.1 | 237.1 | 228.5 | |
| Stage 2 loans (\$ billion) | 20.8 | 17.4 | 20.6 | |
| Stage 3 loans, credit-impaired (\$ billion) ² | 7.4 | 8.5 | 10.7 | 10.6 |
| Stage 3 cover ratio ³ | 68% | 66% | 67% | 67% ³ |
| Stage 3 cover ratio (including collateral) ² | 85% | 85% | 84% | 84% |
| Corporate & Institutional Banking and Commercial Banking⁵ | | | | |
| Investment grade corporate net exposures as a percentage of total corporate net exposures | 61% | 62% | | 57% |
| Loans and advances maturing in one year or less as a percentage of total loans and advances to customers | 62% | 61% | | 70% ⁴ |
| Early alert portfolio net exposures (\$ billion) | 5.3 | 4.8 | | 8.7 |
| Credit grade 12 net exposures (\$ billion) | 1.6 | 1.5 | | 1.5 |
| Aggregate top 20 corporate net exposures as a percentage of Tier 1 capital | 56% | 55% | | 50% |
| Collateralisation of sub-investment grade net exposures maturing in more than one year | 45% | 51% | | 55% |
| Retail Banking⁵ | | | | |
| Loan-to-value ratio of retail mortgages | 45% | 45% | | 47% |

1 These numbers represent total loans and advances to customers

2 Balances for 2019 and 2018 reflect interest due but unpaid together with equivalent credit impairment charges. 2018 and 2017 stage 3 balances, provision and cover ratios have been restated

3 2017 total business cover ratios rebased to exclude portfolio impairment provisions to align to IFRS 9 (IAS 39: 65 per cent on 31 December 2017)

4 Includes fair value through profit or loss

5 These metrics are not impacted by the adoption of IFRS 9, hence data as at 1 January 2018 is not needed for comparative purposes

and geographies. We actively review our desired risk profile, and as an example, in 2019 have made the decision to only support clients who actively transition their business to generate less than 10 per cent of earnings from thermal coal by 2030, in line with our sustainability agenda.

Our Retail Banking and Private Banking portfolio represents 45 per cent of total customer loans and advances, a similar proportion to the end of 2018, with the Retail Banking segment continuing to have little exposure outside its core markets of Greater China & North Asia and ASEAN & South Asia. The overall loan-to-value of the Mortgage portfolio remains low at 45 per cent. The proportion of unsecured loans has remained broadly stable at 14 per cent of the Retail Banking and Private Banking portfolio.

The Group maintains a strong liquidity position with healthy buffers above its Risk Appetite and minimum regulatory requirements. The Group's liquidity coverage ratio decreased to 144 per cent from 154 per cent in 2018, as we looked to optimise our liquidity position. Both the liquidity buffer and cash outflows grew during the year in line with the overall balance sheet growth. The Group's advances-to-deposits ratio remained broadly unchanged from last year at 64.2 per cent (2018: 63.1 per cent). We remain a net provider of liquidity to the interbank markets and our customer deposit base is diversified by type and maturity. We have a substantial portfolio of marketable securities which can be realised in the event of a liquidity stress.

The Common Equity Tier 1 ratio decreased from 14.2 per cent to 13.8 per cent predominantly because of the impact of the share buy-back, other distributions to shareholders, including preference dividend and higher risk-weighted assets (RWA) partly offset by profit for the period.

Average Group value at risk in 2019 was \$30.2 million, 47 per cent higher than in 2018, driven by the non-trading book, which has seen an increase in the bond inventory of high-quality assets in the Treasury Markets business. The average level of value at risk (VaR) in the trading book was \$11 million, 12 per cent higher than in 2018 (2018: \$9.8 million). Trading activities have remained relatively unchanged and client-driven. We have seen growth in Financial Markets income in 2019, but remain comfortable with the level of risk we are taking. We continue to

actively monitor the portfolio and ensure that any growth is well controlled and in line with our Risk Appetite.

The results of the Bank of England's annual cyclical scenario stress test in 2019 show that the Group is more resilient to stress than a year ago. Despite an increase in the severity of the scenario, the maximum fall in the Group's Common Equity Tier 1 ratio reduced to 520 basis points (2018: 570 basis points), reflecting improved revenue momentum and overall risk profile together with the resolution of legacy conduct and control issues.

Stage 3 loans

Overall gross credit-impaired (stage 3) loans for the Group reduced by 12 per cent in 2019, from \$8.5 billion to \$7.4 billion, driven by continued reductions in Corporate & Institutional Banking and Commercial Banking.

Gross credit-impaired (stage 3) loans in Corporate & Institutional Banking were significantly lower (2019: \$4.2 billion; 2018: \$5.0 billion) mainly due to repayments, write-offs and upgrades. Total stage 3 inflows were 6 per cent lower than 2018, with new inflows mainly in ASEAN & South Asia.

In Commercial Banking, stage 3 inflows were also lower in the year by 24 per cent, but we remain cautious of the challenging macroeconomic environment and geopolitical risks. Stage 3 loans decreased from \$2.3 billion to \$2.0 billion, driven by write-offs and repayments.

Private Banking stage 3 loans increased marginally (2019: \$0.4 billion, 2018: \$0.3 billion) in the ASEAN & South Asia and Europe & Americas regions.

Stage 3 loans in the Retail Banking portfolio remained broadly stable at \$0.8 billion.

The stage 3 cover ratio in the total customer loan book was higher at 68 per cent (2018: 66 per cent) due to new impairment charges, repayments and upgrades in Corporate & Institutional Banking. The cover ratio including collateral was flat at 85 per cent (2018: 85 per cent).

Credit impairment

With effect from 1 January 2019, the liquidation portfolio has been included in the ongoing portfolio as the actions to reduce

exposures in the liquidation portfolio were substantially completed in 2018. 2018 has not been restated.

At Group level, total credit impairment including the restructuring portfolio is \$0.9 billion (2018: \$0.7 billion), representing a loan loss rate of 27 basis points (bps) of average customer loans and advances (2018: 21bps). The overall increase was driven by higher stage 1 and 2 charges in Corporate & Institutional Banking and Retail Banking, of which half of the change was due to worsening macroeconomic variables over the period, which included a downward revision of Hong Kong's GDP. This was partially offset by lower stage 3 impairment charges across most segments.

Credit impairment for Corporate & Institutional Banking is significantly higher, up 96 per cent on the levels seen last year (2019: \$475 million, 2018: \$242 million). This is mainly due to higher stage 1 and 2 impairments in 2019 as 2018 benefitted from upgrades within stage 2 as well as releases from improvements in macroeconomic forecasts. Stage 3 provisions also increased, with a \$141 million charge booked in the fourth quarter relating to a single client exposure in ASEAN & South Asia.

Commercial Banking credit impairment declined by 50 per cent (2019: \$121 million, 2018: \$244 million) compared with 2018, primarily in stage 3 as 2018 included significant provisions across a few clients in Africa & Middle East and Greater China & North Asia that did not repeat.

Retail Banking credit impairment increased by 26 per cent (2019: \$336 million, 2018: \$267 million) mainly due to non-recurring impairment releases in Korea and Indonesia in 2018. Excluding this, impairments were flat year-on-year. The impact of the macroeconomic downgrades for Hong Kong increased stage 1 and 2 provisions. Individual impairment charge has improved year-on-year mainly driven by recoveries in Korea, Singapore and the UAE.

Private Banking impairment reduced by \$31 million due to a net provision release of \$29 million driven primarily by a single stage 3 client.

Credit impairment in the restructuring portfolio was a \$2 million charge (2018: \$87 million release), related to a small number of legacy positions in Principal Finance.

Credit impairment

| | 2019 ¹ \$million (IFRS 9) | 2018 \$million (IFRS 9) | 2017 \$million (IAS 39) |
|---|--|-------------------------------|-------------------------------|
| Corporate & Institutional Banking | 475 | 242 | 657 |
| Retail Banking | 336 | 267 | 374 |
| Commercial Banking | 121 | 244 | 168 |
| Private Banking | (31) | – | 1 |
| Central & other items | 5 | (13) | – |
| Ongoing credit impairment charge | 906 | 740 | 1,200 |
| Restructuring charge/(credit) | 2 | (87) | 162 |

¹ In 2019, the liquidation portfolio has been included in ongoing business. Prior periods have not been restated

Risk profile

Our risk profile in 2019

Our Enterprise Risk Management Framework (ERMF) and well-established risk governance structure enable us to closely manage enterprise-wide risks with the objective of maximising risk-adjusted returns while remaining within our Risk Appetite. We manage emerging risks through a dynamic risk scanning and risk identification process

with inputs on the internal and external risk environment, as well as potential threats and opportunities from a business, function and client lens, enabling us to proactively manage our portfolio.

We continue to take action to reposition our corporate portfolio, exiting weaker credit or lower-returning clients and adding new clients selectively. We continue to remain alert to

macroeconomic challenges that may impact our markets. Our corporate portfolios exhibit a strong and sustainable risk profile that is diversified across industries, geographies and products.

The table below highlights the Group's overall risk profile associated with our business strategy.

Our risk profile in 2019

Strengthened risk management approach from an enhanced ERMF

- We have elevated Model Risk to a Principal Risk Type (PRT), effective in 2020
- We recognised Climate Risk as a material cross-cutting risk that manifests through other relevant PRTs
- Existing PRTs were enhanced – changes include the expansion in Country Risk coverage, reclassification of the Fraud Risk sub-type from Operational Risk to Financial Crime Risk, and embedding of principles relating to environment and social risks, defence and dual use goods in Reputational Risk
- A self-assessment process was formalised for our branches and subsidiaries to assess the adoption and effectiveness of the ERMF locally
- The 2019 ERMF effectiveness review showed that risk management for both financial and non-financial risks improved year-on-year

 Further details on the ERMF can be found in the Risk management approach (page 206)

Strong and sustainable asset growth

- The Group's proportions of stage 1 and stage 2 loans and advances to customers were broadly consistent with the prior period at 90 per cent and 8 per cent respectively
- Asset quality has remained broadly stable, with investment grade corporate net exposures broadly consistent at 61 per cent
- Total gross stage 3 loans are lower at \$7.4 billion as compared with \$8.5 billion in 2018, with the stage 3 cover ratio up 2 per cent at 68 per cent
- Although credit impairment for the overall ongoing business increased by 22 per cent, it remains below the elevated levels seen previously
- Our corporate portfolios remain well diversified across industry sectors, products and geographies, and are predominantly short-dated
- Within the Retail Banking portfolio, 85 per cent of our book continues to be fully secured. The average loan-to-value ratio of retail mortgages continues to be low at 45 per cent

Our capital and liquidity positions continue to be at healthy levels

- Our capital and liquidity positions remain well above current requirements
- Our liquidity buffer and cash outflows both grew in 2019 in line with the overall balance sheet growth
- The advances-to-deposits ratio continues to be strong and stable
- We remain a net provider of liquidity to interbank markets and our customer deposit base is diversified by type and maturity

Credit Risk

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.

Loans and advances to customers and banks held at amortised cost in this Risk profile section include reverse repurchase agreement balances held at amortised cost, per Note 16 Reverse repurchase and repurchase agreements including other similar secured lending and borrowing.

Credit risk overview

Credit Risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group. Credit exposures arise from both the banking and trading books.

Impairment model

IFRS 9 requires an impairment model that requires the recognition of expected credit losses (ECL) on all financial debt instruments held at amortised cost, fair value through other comprehensive income (FVOCI), undrawn loan commitments and financial guarantees.

Staging of financial instruments

Financial instruments that are not already credit-impaired are originated into stage 1 and a 12-month expected credit loss provision is recognised.

Instruments will remain in stage 1 until they are repaid, unless they experience significant credit deterioration (stage 2) or they become credit-impaired (stage 3).

Instruments will transfer to stage 2 and a lifetime expected credit loss provision recognised when there has been a significant change in the Credit risk compared with what was expected at origination.

The framework used to determine a significant increase in credit risk is set out below.

Stage 1

- 12-month ECL
- Performing

Stage 2

- Lifetime expected credit loss
- Performing but has exhibited significant increase in Credit risk (SICR)

Stage 3

- Credit-impaired
- Non-performing

IFRS 9 principles and approaches

The main methodology principles and approach adopted by the Group are set out in the following table.

| Title | Description | Supplementary Information | Page |
|---|--|--|---|
| Approach to determining expected credit losses | For material loan portfolios, the Group has adopted a statistical modelling approach for determining expected credit losses that makes extensive use of credit modelling. While these models leveraged existing advanced Internal Ratings Based (IRB) models, for determining regulatory expected losses where these were available, there are significant differences between the two approaches. | Credit risk methodology Determining lifetime expected credit loss for revolving products | 182 183 |
| Incorporation of forward-looking information | The determination of expected credit loss includes various assumptions and judgements in respect of forward-looking macroeconomic information. Refer to page 183 for incorporation of forward-looking information, forecast of key macroeconomic variables underlying the expected credit loss calculation and the impact on non-linearity and sensitivity of expected credit loss calculation to macroeconomic variables. | Incorporation of forward-looking information and impact of non-linearity Forecast of key macroeconomic variables underlying the expected credit loss calculation | 183 183 |
| Significant increase in credit risk (SICR) | Expected credit loss for financial assets will transfer from a 12-month basis (stage 1) to a lifetime basis (stage 2) when there is a significant increase in Credit risk (SICR) relative to that which was expected at the time of origination, or when the asset becomes credit-impaired. On transfer to a lifetime basis, the expected credit loss for those assets will reflect the impact of a default event expected to occur over the remaining lifetime of the instrument rather than just over the 12 months from the reporting date. SICR is assessed by comparing the risk of default of an exposure at the reporting date with the risk of default at origination (after considering the passage of time). 'Significant' does not mean statistically significant nor is it reflective of the extent of the impact on the Group's financial statements. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria, the weight of which will depend on the type of product and counterparty. | Quantitative criteria Significant increase in Credit risk thresholds Specific qualitative and quantitative criteria per segment: Corporate & Institutional and Commercial Banking clients Retail Banking clients Private Banking clients Debt securities | 187 187 188 188 188 188 188 |

| Title | Description | Supplementary Information | Page |
|---|--|---|-------------------|
| Assessment of credit-impaired financial assets | <p>Credit-impaired (stage 3) financial assets comprise those assets that have experienced an observed credit event and are in default. Default represents those assets that are at least 90 days past due in respect of principal and interest payments and/or where the assets are otherwise considered unlikely to pay. This definition is consistent with internal Credit risk management and the regulatory definition of default.</p> <p>Unlikely to pay factors include objective conditions such as bankruptcy, debt restructuring, fraud or death. It also includes credit-related modifications of contractual cash flows due to significant financial difficulty (forbearance) where the Group has granted concessions that it would not ordinarily consider.</p> <p>Following a clarification issued by IFRIC in March 2019, if there are any recoveries on stage 3 loans, any contractual interest earned while the asset was in stage 3 is recognised in the credit impairment line. Although this differs from the Group's previous approach of recognising a residual amount of this within interest income, there is no material impact on the classification of amounts reported in the income statement in the current or prior period and accordingly no adjustments have been made to comparative information. Further, the gross asset balances for stage 3 financial instruments have been increased to reflect contractual interest due but not paid with a corresponding increase in credit impairment provisions. These changes have been disclosed within the credit risk section. There has been no net impact on the balance sheet or on shareholders' equity.</p> | Retail Banking clients Corporate & Institutional Banking clients Commercial Banking and Private Banking clients | 188 188 188 |
| Transfers between stages | <p>Assets will transfer from stage 3 to stage 2 when they are no longer considered to be credit-impaired. Assets will not be considered credit-impaired only if the customer makes payments such that they are paid to current in line with the original contractual terms.</p> <p>Assets may transfer to stage 1 if they are no longer considered to have experienced a significant increase in Credit risk. This will be immediate when the original PD based transfer criteria are no longer met (and as long as none of the other transfer criteria apply). Where assets were transferred using other measures, the assets will only transfer back to stage 1 when the condition that caused the significant increase in Credit risk no longer applies (and as long as none of the other transfer criteria apply).</p> | Movement in loan exposures and expected credit losses | 163 |
| Modified financial assets | <p>Where the contractual terms of a financial instrument have been modified, and this does not result in the instrument being derecognised, a modification gain or loss is recognised in the income statement representing the difference between the original cashflows and the modified cash flows, discounted at the effective interest rate. The modification gain/loss is directly applied to the gross carrying amount of the instrument.</p> <p>If the modification is credit related, such as forbearance or where the Group has granted concessions that it would not ordinarily consider, then it will be considered credit-impaired. Modifications that are not credit related will be subject to an assessment of whether the asset's Credit risk has increased significantly since origination by comparing the remaining lifetime probability of default (PD) based on the modified terms to the remaining lifetime PD based on the original contractual terms.</p> | Forbearance and other modified loans | 277 |
| Governance and application of expert credit judgement in respect of expected credit losses | <p>The models used in determining ECL are reviewed and approved by the Group Credit Model Assessment Committee and have been validated by Group Model Validation, which is independent of the business.</p> <p>A quarterly model monitoring process is in place that uses recent data to compare the differences between model predictions and actual outcomes against approved thresholds. Where a model's performance breaches the monitoring thresholds then an assessment of whether an ECL adjustment is required to correct for the identified model issue is completed.</p> <p>The determination of expected credit losses requires a significant degree of management judgement which had an impact on governance processes, with the output of the expected credit models assessed by the IFRS 9 Impairment Committee.</p> | Group Credit Model Assessment Committee IFRS 9 Impairment Committee | 189 189 |

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 2019, before and after taking into account any collateral held or other Credit risk mitigation.

The Group's on-balance sheet maximum exposure to Credit risk increased by \$27 billion to \$694 billion (31 December 2018: \$667 billion).

This was largely driven by an \$18 billion increase in investment securities as the Group increased holdings of corporate and government securities and a \$12 billion increase in loans and advances to customers, \$6 billion of which was in Retail products. These were partially offset by a reduction in loans and advances to banks of \$8 billion, and a decrease in cash at central bank of \$5 billion.

Other assets increased by \$3.5 billion mainly driven by unsettled trades due to normal settlement timing differences.

| | 2019 | | | | 2018 | | | |
|---|----------------------------|----------------------|-------------------------------------|------------------------|----------------------------|----------------------|-------------------------------------|------------------------|
| | 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 | 52,728 | | | 52,728 | 57,511 | | | 57,511 |
| Loans and advances to banks ^{1,8} | 53,549 | 1,341 | | 52,208 | 61,414 | 3,815 | | 57,599 |
| of which – reverse repurchase agreements and other similar secured lending ⁷ | 1,341 | 1,341 | | – | 3,815 | 3,815 | | – |
| Loans and advances to customers ^{1,8} | 268,523 | 122,115 | | 146,408 | 256,557 | 109,326 | | 147,231 |
| of which – reverse repurchase agreements and other similar secured lending ⁷ | 1,469 | 1,469 | | – | 3,151 | 3,151 | | – |
| Investment securities – Debt securities, alternative Tier 1 and other eligible bills ² | 143,440 | | | 143,440 | 125,638 | | | 125,638 |
| Fair value through profit or loss ^{3,7} | 90,349 | 57,604 | – | 32,745 | 85,441 | 54,769 | | 30,672 |
| Loans and advances to banks | 3,528 | | | 3,528 | 3,768 | | | 3,768 |
| Loans and advances to customers | 6,896 | | | 6,896 | 4,928 | | | 4,928 |
| Reverse repurchase agreements and other similar lending ⁷ | 57,604 | 57,604 | | – | 54,769 | 54,769 | | – |
| Investment securities – Debt securities, alternative Tier 1 and other eligible bills ² | 22,321 | | | 22,321 | 21,976 | | | 21,976 |
| Derivative financial instruments ^{4,7} | 47,212 | 7,824 | 28,659 | 10,729 | 45,621 | 9,259 | 32,283 | 4,079 |
| Accrued income | 2,358 | | | 2,358 | 2,228 | | | 2,228 |
| Assets held for sale | 90 | | | 90 | 23 | | | 23 |
| Other assets ⁵ | 36,161 | | | 36,161 | 32,678 | | | 32,678 |
| Total balance sheet | 694,410 | 188,884 | 28,659 | 476,867 | 667,111 | 177,169 | 32,283 | 457,659 |
| Off-balance sheet | | | | | | | | |
| Contingent liabilities ⁶ | 42,432 | – | – | 42,432 | 41,952 | – | – | 41,952 |
| Undrawn irrevocable standby facilities, credit lines and other commitments to lend ⁶ | 141,194 | – | – | 141,194 | 147,728 | – | – | 147,728 |
| Documentary credits and short-term trade-related transactions ⁶ | 4,282 | – | – | 4,282 | 3,982 | – | – | 3,982 |
| Total off-balance sheet | 187,908 | – | – | 187,908 | 193,662 | – | – | 193,662 |
| Total | 882,318 | 188,884 | 28,659 | 664,775 | 860,773 | 177,169 | 32,283 | 651,321 |

1 An analysis of credit quality is set out in the credit quality analysis section (page 158). Further details of collateral held by client segment and stage are set out in the collateral analysis section (page 174)

2 Excludes equity and other investments of \$291 million (31 December 2018: \$263 million). Further details are set out in Note 13 Financial Instruments

3 Excludes equity and other investments of \$2,469 million (31 December 2018: \$1,691 million). Further details are set out in Note 13 Financial Instruments

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 ECL allowances which are reported under Provisions for liabilities and charges

7 Collateral capped at maximum exposure (over-collateralised)

8 Adjusted for over-collateralisation, which has been determined with reference to the drawn and undrawn component as this best reflects the effect on the amount arising from expected credit losses

Analysis of financial instrument by stage

This table shows financial instruments and off-balance sheet commitments by stage, along with the total credit impairment loss provision against each class of financial instrument.

The proportion of financial instruments held within stage 1 increased marginally to 94 per cent (31 December 2018: 93 per cent). Stage 2 financial instruments decreased marginally to 5 per cent (31 December 2018: 6 per cent). Within this, the proportion of stage 2 debt securities declined to 3 per cent compared with 5 per cent at 31 December 2018, reflecting changes in the approach for stage allocations with a consequential reduction in the credit impairment provisions held. Stage 2 also includes the impact of downgrading \$550 million of government securities, loans to banks and loans to financial institutions to 'Higher risk' following the sovereign downgrades in Zambia, Zimbabwe and Lebanon. The downgrades are specifically due to the change in sovereign ratings and do not represent any specific concerns related to our obligors.

Stage 3 financial instruments were stable at 1 per cent of the Group total. Stage 3 loans and advances to customers fell \$1,056 million due to a combination of repayments, write-offs and upgrades to stage 2. The stage 3 cover ratio (excluding collateral) was higher at 68 per cent from 66 per cent on 31 December 2018.

| | 2019 | | | | | | | | | | | |
|--|---|--------------------------------------|---------------------------------|---|--------------------------------------|---------------------------------|---|--------------------------------------|---------------------------------|---|--------------------------------------|---------------------------------|
| | Stage 1 | | | Stage 2 | | | Stage 3 | | | Total | | |
| | Gross balance ¹ \$million | Total credit impairment \$million | Net carrying value \$million | Gross balance ¹ \$million | Total credit impairment \$million | Net carrying value \$million | Gross balance ¹ \$million | Total credit impairment \$million | Net carrying value \$million | Gross balance ¹ \$million | Total credit impairment \$million | Net carrying value \$million |
| Cash and balances at central banks | 52,728 | – | 52,728 | – | – | – | – | – | – | 52,728 | – | 52,728 |
| Loans and advances to banks (amortised cost) | 52,634 | (5) | 52,629 | 924 | (4) | 920 | – | – | – | 53,558 | (9) | 53,549 |
| Loans and advances to customers (amortised cost) | 246,149 | (402) | 245,747 | 20,759 | (377) | 20,382 | 7,398 | (5,004) | 2,394 | 274,306 | (5,783) | 268,523 |
| Debt securities, alternative Tier 1 and other eligible bills | 138,782 | (50) | 4,644 | (23) | 75 | (45) | 143,501 | (118) | | | | |
| Amortised cost | 13,678 | (10) | 13,668 | 277 | (6) | 271 | 75 | (45) | 30 | 14,030 | (61) | 13,969 |
| FVOCI ² | 125,104 | (40) | 4,367 | (17) | – | – | 129,471 | (57) | | | | |
| Accrued income (amortised cost) ⁴ | 2,358 | – | 2,358 | – | – | – | – | – | – | 2,358 | – | 2,358 |
| Assets held for sale ⁴ | 90 | – | 90 | – | – | – | – | – | – | 90 | – | 90 |
| Other assets | 36,161 | (3) | 36,158 | – | – | – | 164 | (161) | 3 | 36,325 | (164) | 36,161 |
| Undrawn commitments ³ | 136,179 | (43) | 9,277 | (38) | 20 | – | 145,476 | (81) | | | | |
| Financial guarantees ³ | 38,660 | (14) | 3,183 | (16) | 589 | (206) | 42,432 | (236) | | | | |
| Total | 703,741 | (517) | 38,787 | (458) | 8,246 | (5,416) | 750,774 | (6,391) | | | | |

1 Gross carrying amount for off-balance sheet refers to notional values

2 These instruments are held at fair value on the balance sheet. The ECL provision in respect of debt securities measured at FVOCI is held within the OCI reserve

3 These are off-balance sheet instruments. Only the ECL is recorded on-balance sheet as a financial liability and therefore there is no 'net carrying amount'. 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

4 Stage 1 ECL is not material

| | 2018 | | | | | | | | | | | |
|---|---|--------------------------------------|---------------------------------|---|--------------------------------------|---------------------------------|---|--------------------------------------|---------------------------------|---|--------------------------------------|---------------------------------|
| | Stage 1 | | | Stage 2 | | | Stage 3 | | | Total | | |
| | Gross balance ¹ \$million | Total credit impairment \$million | Net carrying value \$million | Gross balance ¹ \$million | Total credit impairment \$million | Net carrying value \$million | Gross balance ¹ \$million | Total credit impairment \$million | Net carrying value \$million | Gross balance ¹ \$million | Total credit impairment \$million | Net carrying value \$million |
| Cash and balances at central banks | 57,511 | – | 57,511 | – | – | – | – | – | – | 57,511 | – | 57,511 |
| Loans and advances to banks (amortised cost) | 60,350 | (5) | 60,345 | 1,070 | (1) | 1,069 | – | – | – | 61,420 | (6) | 61,414 |
| Loans and advances to customers (amortised cost) ² | 237,103 | (426) | 236,677 | 17,428 | (416) | 17,012 | 8,454 | (5,586) | 2,868 | 262,985 | (6,428) | 256,557 |
| Debt securities, alternative Tier 1 and other eligible bills ² | 118,713 | (27) | 6,909 | (31) | – | 498 | (472) | – | – | 126,120 | (530) | – |
| Amortised cost | 8,225 | (7) | 8,218 | 1,062 | (3) | 1,059 | 498 | (472) | 26 | 9,785 | (482) | 9,303 |
| FVOCI ³ | 110,488 | (20) | 5,847 | (28) | – | – | – | – | – | 116,335 | (48) | – |
| Accrued income (amortised cost) ⁵ | 2,228 | – | 2,228 | – | – | – | – | – | – | 2,228 | – | 2,228 |
| Assets held for sale ⁵ | 23 | – | 23 | – | – | – | – | – | – | 23 | – | 23 |
| Other assets ⁵ | 32,678 | – | 32,678 | – | – | – | 155 | (155) | – | 32,833 | (155) | 32,678 |
| Undrawn commitments ⁴ | 137,783 | (69) | 13,864 | (39) | – | 63 | – | – | – | 151,710 | (108) | – |
| Financial guarantees ⁴ | 38,532 | (4) | 3,053 | (13) | – | 367 | (156) | – | – | 41,952 | (173) | – |
| Total | 684,921 | (531) | 42,324 | (500) | – | 9,537 | (6,369) | – | – | 736,782 | (7,400) | – |

1 Gross carrying amount for off-balance sheet refers to notional values

2 Stage 3 balances have been restated to reflect interest due but unpaid together with equivalent credit impairment charges

3 These instruments are held at fair value on the balance sheet. The ECL provision in respect of debt securities measured at FVOCI is held within the OCI reserve

4 These are off-balance sheet instruments. Only the ECL is recorded on-balance sheet as a financial liability and therefore there is no 'net carrying amount'. 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

5 Stage 1 ECL is not material

Credit quality analysis

Credit quality by client segment

For the Corporate & Institutional Banking and Commercial Banking portfolios, exposures are analysed by credit grade (CG), which plays a central role in the quality assessment and monitoring of risk. All loans are assigned a CG, which is reviewed periodically and amended in light of changes in the borrower's circumstances or behaviour. CGs 1 to 12 are assigned to stage 1 and stage 2 (performing) clients or accounts, while CGs 13 and 14 are assigned to stage 3 (defaulted) clients. The mapping of credit quality is as follows.

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 ¹ | Retail Banking |
|--|------------------------|---------------------------------|-------------------------|------------------------------|--|
| Credit quality description | Internal grade mapping | S&P external ratings equivalent | Regulatory PD range (%) | Internal ratings | Number of days past due |
| Strong | 1A to 5B | AAA to BB+ | 0 to 0.425 | Class I and Class IV | Current loans (no past dues nor impaired) |
| Satisfactory | 6A to 11C | BB to B-/CCC | 0.426 to 15.75 | Class II and Class III | Loans past due till 29 days |
| Higher risk | Grade 12 | CCC/C | 15.751 to 99.999 | GSAM managed | Past due loans 30 days and over till 90 days |

¹ For Private Banking, classes of risk represent the type of collateral held. Class I represents facilities with liquid collateral, such as cash and marketable securities. Class II represents unsecured/partially secured facilities and those with illiquid collateral, such as equity in private enterprises. Class III represents facilities with residential or commercial real estate collateral. Class IV covers margin trading facilities

The table overleaf sets out the gross loans and advances held at amortised cost, expected credit loss provisions and expected credit loss coverage by business segment and stage. Expected credit loss coverage represents the expected credit loss reported for each segment and stage as a proportion of the gross loan balance for each segment and stage.

Stage 1

Stage 1 gross loans and advances to customers increased by \$9.0 billion, or 4 per cent compared with 31 December 2018 and continued to represent 90 per cent of loans and advances to customers (31 December 2018: 90 per cent). Most of the growth was concentrated in the Greater China & North Asia region. The stage 1 coverage ratio remained at 0.2 per cent compared with 31 December 2018.

83 per cent (31 December 2018: 85 per cent) of loans in Corporate & Institutional Banking and Commercial Banking are held in stage 1, with those rated as strong increased marginally to 56 per cent (31 December 2018: 55 per cent) as the Group continues to focus on the origination of investment grade lending. Within Corporate & Institutional Banking and Commercial Banking, overall stage 1 loans grew by \$2.7 billion, primarily in the transport and mining and quarrying sectors, reflecting the overall increase in the portfolio since 31 December 2018.

Retail Banking stage 1 loans remained stable at 96 per cent with the proportion rated as strong at 97 per cent. Stage 1 Secured wealth products increased by \$2.8 billion, of which Private Banking deposits increased by \$1.5 billion in Hong Kong and Singapore. Stage 1 Mortgages also increased by \$2.4bn, mainly in Greater China & North Asia.

Stage 2

Stage 2 loans and advances to customers gross balances increased by \$3.3 billion, compared with 31 December 2018, with the proportion of stage 2 loans increasing from 7 per cent to 8 per cent. This was largely due to a \$4 billion increase in Corporate & Institutional Banking reflecting an increase in Trading companies and distributors sector and in non purely precautionary early alert accounts within the Manufacturing sector.

Commercial Banking stage 2 balances fell by \$0.6 billion in line with the overall improvement in credit quality of the portfolio.

Retail Banking stage 2 loans saw an increase in coverage due to a higher level of coverage on more than 30 day past due exposures relating to credit cards and personal lending, which attracts higher levels of credit impairment provisions. This increase reflects in part the deteriorating macroeconomic environment and an increase in past dues in some payroll linked exposures in Africa & Middle East.

Stage 2 loans to banks classified as 'Higher risk' increased by \$0.2 billion following the sovereign downgrades in Zambia, Zimbabwe and Lebanon.

Stage 3

Stage 3 loans and advances to customers fell by \$1.1 billion, or 12 per cent, to \$7.4 billion compared with 31 December 2018, with overall stage 3 provisions declining by \$0.6 billion to \$5.0 billion. The stage 3 cover ratio (excluding collateral) increased 2 per cent to 68 per cent, largely in Corporate & Institutional Banking from new impairment charges, repayments and transfers to stage 2.

In Corporate & Institutional Banking and Commercial Banking, gross stage 3 loans fell by \$1.1 billion compared with 31 December 2018. Provisions also fell by \$0.5 billion from \$5.0 billion to \$4.5 billion.

Inflows into stage 3 for Corporate & Institutional Banking and Commercial Banking in 2019 were 13 per cent lower compared with 2018, reflecting continued improvement in the portfolio with only the ASEAN & South Asia region showing an increase.

Retail stage 3 loans were broadly stable at \$0.8 billion and Private Banking stage 3 loans increased slightly by \$0.1 billion, although there was a net release in provisions relating to a single client.

Loans and advances by client segment

| | 2019 | | | | | | | | |
|---|-----------------|---------------------------------|--------------------------|------------------------------|---------------------------|---------------------------------|--------------------------|-------------------------------|--------------------------------|
| | Customers | | | | | | | | |
| Amortised cost | Banks \$million | Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million | Customer Total \$million | Undrawn commitments \$million | Financial Guarantees \$million |
| Stage 1 | 52,634 | 96,638 | 103,362 | 21,808 | 14,249 | 10,092 | 246,149 | 136,179 | 38,660 |
| – Strong | 41,053 | 59,920 | 100,709 | 6,181 | 10,145 | 9,961 | 186,916 | 114,976 | 25,631 |
| – Satisfactory | 11,581 | 36,718 | 2,653 | 15,627 | 4,104 | 131 | 59,233 | 21,203 | 13,029 |
| Stage 2 | 924 | 13,600 | 2,996 | 3,872 | 284 | 7 | 20,759 | 9,277 | 3,183 |
| – Strong | 225 | 2,714 | 2,198 | 238 | 280 | – | 5,430 | 4,005 | 1,025 |
| – Satisfactory | 476 | 9,793 | 462 | 3,352 | 4 | – | 13,611 | 4,902 | 1,951 |
| – Higher risk | 223 | 1,093 | 336 | 282 | – | 7 | 1,718 | 370 | 207 |
| Of which (stage 2): | | | | | | | | | |
| – Less than 30 days past due | 2 | 179 | 462 | 24 | – | – | 665 | | |
| – More than 30 days past due | 23 | 176 | 336 | 85 | 4 | – | 601 | | |
| Stage 3, credit-impaired financial assets | – | 4,173 | 846 | 2,013 | 366 | – | 7,398 | 20 | 589 |
| Gross balance¹ | 53,558 | 114,411 | 107,204 | 27,693 | 14,899 | 10,099 | 274,306 | 145,476 | 42,432 |
| Stage 1 | (5) | (80) | (289) | (22) | (10) | (1) | (402) | (43) | (14) |
| – Strong | – | (29) | (182) | (1) | (8) | – | (220) | (22) | (8) |
| – Satisfactory | (5) | (51) | (107) | (21) | (2) | (1) | (182) | (21) | (6) |
| Stage 2 | (4) | (152) | (173) | (51) | (1) | – | (377) | (38) | (16) |
| – Strong | (2) | (33) | (88) | (5) | (1) | – | (127) | (7) | (3) |
| – Satisfactory | (2) | (60) | (45) | (31) | – | – | (136) | (14) | (8) |
| – Higher risk | – | (59) | (40) | (15) | – | – | (114) | (17) | (5) |
| Of which (stage 2): | | | | | | | | | |
| – Less than 30 days past due | – | (3) | (45) | (2) | – | – | (50) | | |
| – More than 30 days past due | – | (4) | (40) | (5) | – | – | (49) | | |
| Stage 3, credit-impaired financial assets | – | (2,980) | (374) | (1,503) | (147) | – | (5,004) | – | (206) |
| Total credit impairment | (9) | (3,212) | (836) | (1,576) | (158) | (1) | (5,783) | (81) | (236) |
| Net carrying value | 53,549 | 111,199 | 106,368 | 26,117 | 14,741 | 10,098 | 268,523 | | |
| Stage 1 | 0.0% | 0.1% | 0.3% | 0.1% | 0.1% | 0.0% | 0.2% | 0.0% | 0.0% |
| – Strong | 0.0% | 0.0% | 0.2% | 0.0% | 0.1% | 0.0% | 0.1% | 0.0% | 0.0% |
| – Satisfactory | 0.0% | 0.1% | 4.0% | 0.1% | 0.0% | 0.8% | 0.3% | 0.1% | 0.0% |
| Stage 2 | 0.4% | 1.1% | 5.8% | 1.3% | 0.4% | 0.0% | 1.8% | 0.4% | 0.5% |
| – Strong | 0.9% | 1.2% | 4.0% | 2.1% | 0.4% | 0.0% | 2.3% | 0.2% | 0.3% |
| – Satisfactory | 0.4% | 0.6% | 9.7% | 0.9% | 0.0% | 0.0% | 1.0% | 0.3% | 0.4% |
| – Higher risk | 0.0% | 5.4% | 11.9% | 5.3% | 0.0% | 0.0% | 6.6% | 4.7% | 2.4% |
| Of which (stage 2): | | | | | | | | | |
| – Less than 30 days past due | 0.0% | 1.7% | 9.7% | 8.3% | 0.0% | 0.0% | 7.5% | | |
| – More than 30 days past due | 0.0% | 2.3% | 11.9% | 5.9% | 0.0% | 0.0% | 8.2% | | |
| Stage 3, credit-impaired financial assets | 0.0% | 71.4% | 44.2% | 74.7% | 40.2% | 0.0% | 67.6% | 0.0% | 35.0% |
| Cover ratio | 0.0% | 2.8% | 0.8% | 5.7% | 1.1% | 0.0% | 2.1% | 0.1% | 0.6% |
| Fair value through profit or loss | | | | | | | | | |
| Performing | 21,797 | 45,261 | 238 | 688 | – | 2 | 46,189 | – | – |
| – Strong | 19,217 | 26,641 | 236 | 123 | – | 1 | 27,001 | – | – |
| – Satisfactory | 2,580 | 18,611 | 1 | 565 | – | 1 | 19,178 | – | – |
| – Higher risk | – | 9 | 1 | – | – | – | 10 | – | – |
| Defaulted (CG13-14) | – | 34 | – | 8 | – | – | 42 | – | – |
| Gross balance (FVTPL)² | 21,797 | 45,295 | 238 | 696 | – | 2 | 46,231 | – | – |
| Net carrying value (incl FVTPL) | 75,346 | 156,494 | 106,606 | 26,813 | 14,741 | 10,100 | 314,754 | | |

1 Loans and advances includes reverse repurchase agreements and other similar secured lending of \$1,469 million under Customers and of \$1,341 million under Banks, held at amortised cost

2 Loans and advances includes reverse repurchase agreements and other similar secured lending of \$39,335 million under Customers and of \$18,269 million under Banks, held at fair value through profit or loss

| Amortised cost | 2018 | | | | | | | | |
|--|--------------------|--|--------------------------------|------------------------------------|---------------------------------|---------------------------------------|--------------------------------|-------------------------------------|--------------------------------------|
| | Customers | | | | | | | | |
| | Banks \$million | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million | Customer Total \$million | Undrawn commitments \$million | Financial Guarantees \$million |
| Stage 1 | 60,350 | 93,848 | 98,393 | 21,913 | 12,705 | 10,244 | 237,103 | 137,783 | 38,532 |
| – Strong | 47,860 | 58,167 | 96,506 | 5,527 | 9,447 | 10,193 | 179,840 | 114,402 | 30,211 |
| – Satisfactory | 12,490 | 35,681 | 1,887 | 16,386 | 3,258 | 51 | 57,263 | 23,381 | 8,321 |
| Stage 2 | 1,070 | 9,357 | 2,837 | 4,423 | 785 | 26 | 17,428 | 13,864 | 3,053 |
| – Strong | 403 | 1,430 | 1,956 | 270 | 713 | – | 4,369 | 6,996 | 682 |
| – Satisfactory | 665 | 6,827 | 500 | 3,732 | – | 26 | 11,085 | 5,485 | 1,948 |
| – Higher risk | 2 | 1,100 | 381 | 421 | 72 | – | 1,974 | 1,383 | 423 |
| Of which (stage 2): | | | | | | | | | |
| – Less than 30 days past due | 27 | 232 | 500 | 198 | – | – | 930 | | |
| – More than 30 days past due | – | 190 | 381 | 99 | 3 | – | 673 | | |
| Stage 3, credit-impaired financial assets ³ | – | 4,996 | 832 | 2,328 | 298 | – | 8,454 | 63 | 367 |
| Gross balance¹ | 61,420 | 108,201 | 102,062 | 28,664 | 13,788 | 10,270 | 262,985 | 151,710 | 41,952 |
| Stage 1 | (5) | (94) | (299) | (24) | (9) | – | (426) | (69) | (4) |
| – Strong | (2) | (32) | (149) | (1) | (9) | – | (191) | (35) | (2) |
| – Satisfactory | (3) | (62) | (150) | (23) | – | – | (235) | (34) | (2) |
| Stage 2 | (1) | (192) | (132) | (92) | – | – | (416) | (39) | (13) |
| – Strong | – | (11) | (42) | (5) | – | – | (58) | 3 | – |
| – Satisfactory | (1) | (66) | (50) | (45) | – | – | (161) | (19) | (3) |
| – Higher risk | – | (115) | (40) | (42) | – | – | (197) | (23) | (10) |
| Of which (stage 2): | | | | | | | | | |
| – Less than 30 days past due | – | (34) | (50) | (9) | – | – | (93) | | |
| – More than 30 days past due | – | (2) | (40) | (4) | – | – | (46) | | |
| Stage 3, credit-impaired financial assets ³ | – | (3,238) | (396) | (1,789) | (163) | – | (5,586) | – | (156) |
| Total credit impairment | (6) | (3,524) | (827) | (1,905) | (172) | – | (6,428) | (108) | (173) |
| Net carrying value | 61,414 | 104,677 | 101,235 | 26,759 | 13,616 | 10,270 | 256,557 | | |
| Stage 1 | 0.0% | 0.1% | 0.3% | 0.1% | 0.1% | 0.0% | 0.2% | 0.1% | 0.0% |
| – Strong | 0.0% | 0.1% | 0.2% | 0.0% | 0.1% | 0.0% | 0.1% | 0.0% | 0.0% |
| – Satisfactory | 0.0% | 0.2% | 7.9% | 0.1% | 0.0% | 0.0% | 0.4% | 0.1% | 0.0% |
| Stage 2 | 0.1% | 2.1% | 4.7% | 2.1% | 0.0% | 0.0% | 2.4% | 0.3% | 0.4% |
| – Strong | 0.0% | 0.8% | 2.1% | 1.9% | 0.0% | – | 1.3% | 0.0% | 0.0% |
| – Satisfactory | 0.2% | 1.0% | 10.0% | 1.2% | – | 0.0% | 1.5% | 0.3% | 0.2% |
| – Higher risk | 0.0% | 10.5% | 10.5% | 10.0% | 0.0% | – | 10.0% | 1.7% | 2.4% |
| Of which (stage 2): | | | | | | | | | |
| – Less than 30 days past due | 0.0% | 14.7% | 10.0% | 4.5% | – | – | 10.0% | | |
| – More than 30 days past due | – | 1.1% | 10.5% | 4.0% | 0.0% | – | 6.8% | | |
| Stage 3, credit-impaired financial assets ³ | – | 64.8% | 47.6% | 76.8% | 54.7% | 0.0% | 66.1% | – | 42.5% |
| Cover ratio | 0.0% | 3.3% | 0.8% | 6.6% | 1.2% | 0.0% | 2.4% | 0.1% | 0.4% |
| Fair value through profit or loss | | | | | | | | | |
| Performing | 20,651 | 41,886 | 400 | 479 | – | 4 | 42,769 | – | – |
| – Strong | 19,515 | 33,178 | 395 | 247 | – | 3 | 33,823 | – | – |
| – Satisfactory | 1,136 | 8,700 | 4 | 232 | – | 1 | 8,937 | – | – |
| – Higher risk | – | 8 | 1 | – | – | – | 9 | – | – |
| Defaulted (CG13-14) | – | 12 | – | 33 | – | – | 45 | – | – |
| Gross balance² | 20,651 | 41,898 | 400 | 512 | – | 4 | 42,814 | – | – |
| Net carrying value (incl FVTPL) | 82,065 | 146,575 | 101,635 | 27,271 | 13,616 | 10,274 | 299,371 | | |

1 Loans and advances includes reverse repurchase agreements and other similar secured lending of \$3,151 million under Customers and of \$3,815 million under Banks, held at amortised cost

2 Loans and advances includes reverse repurchase agreements and other similar secured lending of \$37,886 million under Customers and of \$16,883 million under Banks, held at fair value through profit and loss

3 Stage 3 balances have been restated to reflect interest due but unpaid together with equivalent credit impairment charges. The cover ratios have been restated as a result

Loans and advances by client segment credit quality analysis (unaudited)

| Credit grade | Regulatory 1 year PD range (%) | S&P external ratings equivalent | 2019 | | | | | | | |
|---------------------|-----------------------------------|------------------------------------|-----------------------------------|---------------|--------------|----------------|-------------------|--------------|----------------|----------------|
| | | | Corporate & Institutional Banking | | | | | | | |
| | | | Gross | | | | Credit impairment | | | |
| | | | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Strong | | | 59,920 | 2,714 | — | 62,634 | (29) | (33) | — | (62) |
| 1A-2B | 0 – 0.045 | AA– and above | 6,887 | 80 | — | 6,967 | (2) | — | — | (2) |
| 3A-4A | 0.046 – 0.110 | A+ to A- | 19,411 | 913 | — | 20,324 | (4) | (7) | — | (11) |
| 4B-5B | 0.111 – 0.425 | BBB+ to BBB-/BB+ | 33,622 | 1,721 | — | 35,343 | (23) | (26) | — | (49) |
| Satisfactory | | | 36,718 | 9,793 | — | 46,511 | (51) | (60) | — | (111) |
| 6A-7B | 0.426 – 1.350 | BB+/BB to BB- | 24,259 | 5,883 | — | 30,142 | (26) | (18) | — | (44) |
| 8A-9B | 1.351 – 4.000 | BB-/B+ to B+/B | 8,658 | 2,753 | — | 11,411 | (16) | (23) | — | (39) |
| 10A-11C | 4.001 – 15.75 | B to B-/CCC | 3,801 | 1,157 | — | 4,958 | (9) | (19) | — | (28) |
| Higher risk | | | — | 1,093 | — | 1,093 | — | (59) | — | (59) |
| 12 | 15.751 – 99.999 | CCC/C | — | 1,093 | — | 1,093 | — | (59) | — | (59) |
| Defaulted | | | — | — | 4,173 | 4,173 | — | — | (2,980) | (2,980) |
| 13-14 | 100 | Defaulted | — | — | 4,173 | 4,173 | — | — | (2,980) | (2,980) |
| Total | | | 96,638 | 13,600 | 4,173 | 114,411 | (80) | (152) | (2,980) | (3,212) |
| Commercial Banking | | | | | | | | | | |
| Credit grade | Regulatory 1 year PD range (%) | S&P external ratings equivalent | Gross | | | | Credit impairment | | | |
| | | | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| | | | 6,181 | 238 | — | 6,419 | (1) | (5) | — | (6) |
| Strong | | | 35 | — | — | 35 | — | — | — | — |
| 1A-2B | 0 – 0.045 | AA– and above | 1,749 | 10 | — | 1,759 | — | — | — | — |
| 3A-4A | 0.046 – 0.110 | A+ to A- | 4,397 | 228 | — | 4,625 | (1) | (5) | — | (6) |
| Satisfactory | | | 15,627 | 3,352 | — | 18,979 | (21) | (31) | — | (52) |
| 6A-7B | 0.426 – 1.350 | BB+/BB to BB- | 6,771 | 912 | — | 7,683 | (5) | (1) | — | (6) |
| 8A-9B | 1.351 – 4.000 | BB-/B+ to B+/B | 6,374 | 1,235 | — | 7,609 | (10) | (10) | — | (20) |
| 10A-11C | 4.001 – 15.75 | B to B-/CCC | 2,482 | 1,205 | — | 3,687 | (6) | (20) | — | (26) |
| Higher risk | | | — | 282 | — | 282 | — | (15) | — | (15) |
| 12 | 15.751 – 99.999 | CCC/C | — | 282 | — | 282 | — | (15) | — | (15) |
| Defaulted | | | — | — | 2,013 | 2,013 | — | — | (1,503) | (1,503) |
| 13-14 | 100 | Defaulted | — | — | 2,013 | 2,013 | — | — | (1,503) | (1,503) |
| Total | | | 21,808 | 3,872 | 2,013 | 27,693 | (22) | (51) | (1,503) | (1,576) |

Credit quality by geographic region (unaudited)

The following table sets out the credit quality for gross loans and advances to customers and banks, held at amortised cost, by geographic region and stage.

Loans and advances to customers

| | 2019 | | | | |
|--|--------------------------------------|------------------------------|--------------------------------|-----------------------------|-----------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Amortised cost | | | | | |
| Stage 1 | 126,438 | 71,045 | 23,906 | 24,760 | 246,149 |
| Stage 2 | 7,547 | 6,461 | 5,541 | 1,210 | 20,759 |
| Gross stage 1 & stage 2 balance | 133,985 | 77,506 | 29,447 | 25,970 | 266,908 |
| Stage 3, credit-impaired financial assets ² | 716 | 3,084 | 2,585 | 1,013 | 7,398 |
| Gross loans¹ | 134,701 | 80,590 | 32,032 | 26,983 | 274,306 |

| | 2018 | | | | |
|--|--------------------------------------|------------------------------|--------------------------------|-----------------------------|-----------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Amortised cost | | | | | |
| Stage 1 | 118,422 | 71,169 | 23,598 | 23,914 | 237,103 |
| Stage 2 | 4,139 | 7,628 | 5,112 | 549 | 17,428 |
| Gross stage 1 & stage 2 balance | 122,561 | 78,797 | 28,710 | 24,463 | 254,531 |
| Stage 3, credit-impaired financial assets ^{2,3} | 838 | 3,624 | 3,061 | 931 | 8,454 |
| Gross loans¹ | 123,399 | 82,421 | 31,771 | 25,394 | 262,985 |

1 Amounts gross of expected credit losses. Includes reverse repurchase agreements and other similar secured lending

2 Amounts do not include those purchased or originated credit-impaired financial assets

3 Balances have been restated to reflect interest due but unpaid together with equivalent credit impairment charges

Loans and advances to banks

| | 2019 | | | | |
|--|--------------------------------------|------------------------------|--------------------------------|-----------------------------|-----------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Amortised cost | | | | | |
| Stage 1 | 19,181 | 15,458 | 5,039 | 12,956 | 52,634 |
| Stage 2 | 136 | 300 | 312 | 176 | 924 |
| Gross stage 1 & stage 2 balance | 19,317 | 15,758 | 5,351 | 13,132 | 53,558 |
| Stage 3, credit-impaired financial assets ² | — | — | — | — | — |
| Gross loans¹ | 19,317 | 15,758 | 5,351 | 13,132 | 53,558 |

| | 2018 | | | | |
|--|--------------------------------------|------------------------------|--------------------------------|-----------------------------|-----------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Amortised cost | | | | | |
| Stage 1 | 27,801 | 11,095 | 5,374 | 16,080 | 60,350 |
| Stage 2 | 59 | 582 | 199 | 230 | 1,070 |
| Gross stage 1 & stage 2 balance | 27,860 | 11,677 | 5,573 | 16,310 | 61,420 |
| Stage 3, credit-impaired financial assets ² | — | — | — | — | — |
| Gross loans¹ | 27,860 | 11,677 | 5,573 | 16,310 | 61,420 |

1 Amounts gross of expected credit losses. Includes reverse repurchase agreements and other similar secured lending

2 Amounts do not include those purchased or originated credit-impaired financial assets

Movement in gross exposures and credit impairment for loans and advances, debt securities, undrawn commitments and financial guarantees

The tables overleaf set out the movement in gross exposures and credit impairment by stage in respect of amortised cost loans to banks and customers, undrawn committed facilities, undrawn cancellable facilities, debt securities classified at amortised cost and FVOCI and financial guarantees. The tables are presented for the Group, and the Corporate & Institutional Banking, Commercial Banking and Retail Banking segments.

Methodology

The movement lines within the tables are an aggregation of monthly movements over the year and will therefore reflect the accumulation of multiple trades during the year. The credit impairment charge in the income statement comprises the amounts within the boxes in the table below less recoveries of amounts previously written off. Discount unwind is reported in net interest income and related to stage 3 financial instruments only.

The approach for determining the key line items in the tables is set out below.

→ **Transfers** – transfers between stages are deemed to occur at the beginning of a month based on prior month closing balances

→ **Net remeasurement from stage changes** – the remeasurement of credit impairment provisions arising from a change in stage is reported within the stage that the assets are transferred to. For example, assets transferred into stage 2 are remeasured from a 12 month to a lifetime expected credit loss, with the effect of remeasurement reported in stage 2. For stage 3, this represents the initial remeasurement from specific provisions recognised on individual assets transferred into stage 3 in the year

→ **Net changes in exposures** – new business written less repayments in the year. Within stage 1, new business written will attract up to 12 months of expected credit loss charges. Repayments of non-amortising loans (primarily within Corporate & Institutional Banking and Commercial Banking) will have low amounts of expected credit loss provisions attributed to them, due to the release of provisions over the term to maturity. In stages 2 and 3, the amounts principally reflect repayments although stage 2 may include new business written where clients are on non-purely precautionary early alert, are a credit grade 12, or when non-investment grade debt securities are acquired.

→ **Changes in risk parameters** – for stages 1 and 2, this reflects changes in the probability of default (PD), loss given default (LGD) and exposure at default (EAD) of assets during the year, which includes the impact of releasing provisions over the term to maturity. It also includes the effect of changes in forecasts of macroeconomic variables during the year. In stage 3, this line represents additional specific provisions recognised on exposures held within stage 3

→ **Interest due but not paid** – change in contractual amount of interest due in stage 3 financial instruments but not paid, being the net of accruals, repayments and write-offs, together with the corresponding change in credit impairment

Changes to ECL models, which incorporates changes to model approaches and methodologies, is not reported as a separate line item as it has an impact over a number of lines and stages.

Movements during the year

Stage 1 gross exposures increased by \$19.9 billion, or 3 per cent, from 1 January 2019. This was largely due to higher holdings of debt securities (up \$20.2 billion) as we increased holdings of corporate and government securities, which was partly offset by a reduction in Corporate & Institutional Banking, down \$9.6 billion due to a net outflow to stage 2. 2018 benefitted from a number of upgrades out of stage 2 as non-purely precautionary early alert balances decreased whereas these balances were more stable in 2019. Retail Banking stage 1 gross exposures increased by \$5.8 billion due to portfolio growth, with stage 1 transfers to stage 2 and transfers to stage 3 reduced compared with 2018 following the rundown of higher risk unsecured lending portfolios. Despite the increase in exposures, total stage 1 provisions fell \$17 million, largely due to improvements in portfolio quality in Corporate & Institutional Banking.

Stage 2 gross exposures fell by \$3.5 billion, or 8 per cent, primarily driven by debt securities which fell \$2.3 billion, as securities transferred back to stage 1 (primarily due to the change in approach for stage allocations) or were repaid. In Corporate & Institutional Banking, stage 2 exposures increased by \$3.5 billion, in part due to an increase in non-purely precautionary early alerts. This was largely offset by a \$3.6 billion fall in Retail Banking exposures primarily due to repayments.

Consequently, stage 2 provisions were down \$42 million compared with 2018, \$8 million of which was due to the reduction in debt securities. Corporate & Institutional Banking provisions fell by \$40 million as the impact of deteriorating macroeconomic forecasts was offset by transfers to stage 3. Changes in risk parameters within Corporate & Institutional Banking moved to a net charge in 2019 compared with a net release in 2018, as 2018 benefitted from a number of upgrades out of 'Higher risk', reductions in early alerts and improved macroeconomic forecasts. Retail Banking provisions increased by \$47 million, primarily due to the impact of deteriorating macroeconomic forecasts which affected Hong Kong in particular. This was offset by lower Commercial Banking provisions, down \$42 million as portfolio quality improved, with a 33 per cent reduction in 'Higher risk' balances.

Across both stage 1 and 2 for all segments, changes to macroeconomic forecasts increased provisions by \$96 million. Macroeconomic forecasts in Hong Kong were downgraded in the second half of 2019 as the economy moved into recession, and this contributed to an increase in provisions in Hong Kong of approximately \$46 million during the second half of the year.

Corporate & Institutional Banking was also impacted by lower forecasted growth in the Metals Composite Index.

Model changes in 2019 resulted in a reduction to the income statement charge of \$13 million, primarily from changes relating to Hong Kong credit cards which was partly offset by enhancements to the Monte Carlo model.

Stage 3 exposures fell by \$1.3 billion from \$9.4 billion at 1 January 2019 to \$8.1 billion at 31 December 2019, primarily due to a write-off in debt securities, repayments, write-offs and transfers to stage 2 within Corporate & Institutional Banking and Commercial Banking. This was also reflected in lower stage 3 provisions, which fell from \$6.2 billion at 1 January 2019 to \$5.3 billion at 31 December 2019.

All segments

| Amortised cost and FVOCI | Stage 1 | | | Stage 2 | | | Stage 3 | | | Total | | |
|---|-------------------------|-----------------------------------|----------------|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|----------------|
| | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million |
| As at 1 January 2018³ | 565,815 | (576) | 565,239 | 52,387 | (742) | 51,645 | 11,332 | (7,710) | 3,622 | 629,534 | (9,028) | 620,506 |
| Transfers to stage 1 | 59,776 | (627) | 59,149 | (59,776) | 627 | (59,149) | – | – | – | – | – | – |
| Transfers to stage 2 | (73,589) | 136 | (73,453) | 73,809 | (136) | 73,673 | (220) | – | (220) | – | – | – |
| Transfers to stage 3 | (293) | 7 | (286) | (2,338) | 264 | (2,074) | 2,631 | (271) | 2,360 | – | – | – |
| Net change in exposures | 50,249 | (282) | 49,967 | (20,341) | 94 | (20,247) | (1,836) | 527 | (1,309) | 28,072 | 339 | 28,411 |
| Net remeasurement from stage changes | – | 139 | 139 | – | (136) | (136) | – | (529) | (529) | – | (526) | (526) |
| Changes in risk parameters | – | 468 | 468 | – | (275) | (275) | – | (971) | (971) | – | (778) | (778) |
| Write-offs | – | – | – | – | – | – | (2,075) | 2,075 | – | (2,075) | 2,075 | – |
| Interest due but unpaid ⁴ | – | – | – | – | – | – | (338) | 338 | – | (338) | 338 | – |
| Discount unwind | – | – | – | – | – | – | – | 80 | 80 | – | 80 | 80 |
| Exchange translation differences and other movements ¹ | (9,477) | 204 | (9,273) | (1,417) | (196) | (1,613) | (112) | 247 | 135 | (11,006) | 255 | (10,751) |
| As at 31 December 2018² | 592,481 | (531) | 591,950 | 42,324 | (500) | 41,824 | 9,382 | (6,214) | 3,168 | 644,187 | (7,245) | 636,942 |
| Income statement ECL (charge)/release | | 325 | | | (317) | | | (973) | | | (965) | |
| Recoveries of amounts previously written off | | | | | | | | 312 | | | 312 | |
| Total credit impairment (charge)/release | | 325 | | | (317) | | | (661) | | | (653) | |
| As at 1 January 2019 | 592,481 | (531) | 591,950 | 42,324 | (500) | 41,824 | 9,382 | (6,214) | 3,168 | 644,187 | (7,245) | 636,942 |
| Transfers to stage 1 | 28,552 | (582) | 27,970 | (28,552) | 582 | (27,970) | – | – | – | – | – | – |
| Transfers to stage 2 | (67,790) | 157 | (67,633) | 67,983 | (171) | 67,812 | (193) | 14 | (179) | – | – | – |
| Transfers to stage 3 | (121) | – | (121) | (2,179) | 314 | (1,865) | 2,300 | (314) | 1,986 | – | – | – |
| Net change in exposures | 60,374 | (256) | 60,118 | (40,499) | 24 | (40,475) | (1,434) | 307 | (1,127) | 18,441 | 75 | 18,516 |
| Net remeasurement from stage changes | – | 196 | 196 | – | (171) | (171) | – | (406) | (406) | – | (381) | (381) |
| Changes in risk parameters | – | 434 | 434 | – | (489) | (489) | – | (787) | (787) | – | (842) | (842) |
| Write-offs | – | – | – | – | – | – | (1,795) | 1,795 | – | (1,795) | 1,795 | – |
| Interest due but unpaid | – | – | – | – | – | – | (365) | 365 | – | (365) | 365 | – |
| Discount unwind | – | – | – | – | – | – | – | 82 | 82 | – | 82 | 82 |
| Exchange translation differences and other movements ¹ | (1,092) | 68 | (1,024) | (290) | (47) | (337) | 187 | (97) | 90 | (1,195) | (76) | (1,271) |
| As at 31 December 2019² | 612,404 | (514) | 611,890 | 38,787 | (458) | 38,329 | 8,082 | (5,255) | 2,827 | 659,273 | (6,227) | 653,046 |
| Income statement ECL (charge)/release ⁵ | | 374 | | | (636) | | | (886) | | | (1,148) | |
| Recoveries of amounts previously written off | | | | | | | | 248 | | | 248 | |
| Total credit impairment (charge)/release | | 374 | | | (636) | | | (638) | | | (900) | |

1 Includes fair value adjustments and amortisation on debt securities

2 Excludes Cash and balances at central banks, Accrued income, Assets held for sale and Other assets

3 Stage 3 balances at 1 January 2018 have been restated to contractual interest due but unpaid together with equivalent credit impairment charges

4 Interest due but unpaid included in gross assets and credit impairment

5 Does not include \$8 million provision relating to Other assets

Of which – movement of debt securities, alternative tier one and other eligible bills

| Amortised cost and FVOCI | Stage 1 | | | Stage 2 | | | Stage 3 | | | Total | | |
|---|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|
| | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million |
| As at 1 January 2018² | 107,308 | (25) | 107,283 | 8,305 | (57) | 8,248 | 455 | (447) | 8 | 116,068 | (529) | 115,539 |
| Transfers to stage 1 | 561 | (18) | 543 | (561) | 18 | (543) | – | – | – | – | – | – |
| Transfers to stage 2 | (10,626) | 1 | (10,625) | 10,626 | (1) | 10,625 | – | – | – | – | – | – |
| Transfers to stage 3 | – | – | – | (36) | – | (36) | 36 | – | 36 | – | – | – |
| Net change in exposures | 23,232 | (19) | 23,213 | (10,827) | (7) | (10,834) | (7) | 7 | – | 12,398 | (19) | 12,379 |
| Net remeasurement from stage changes | – | 5 | 5 | – | – | – | – | (20) | (20) | – | (15) | (15) |
| Changes in risk parameters | – | 24 | 24 | – | 4 | 4 | – | – | – | – | 28 | 28 |
| Write-offs | – | – | – | – | – | – | – | – | – | – | – | – |
| Interest due but unpaid ³ | – | – | – | – | – | – | 32 | (32) | – | 32 | (32) | – |
| Exchange translation differences and other movements ¹ | (1,762) | 5 | (1,757) | (598) | 12 | (586) | (18) | 20 | 2 | (2,378) | 37 | (2,341) |
| As at 31 December 2018 | 118,713 | (27) | 118,686 | 6,909 | (31) | 6,878 | 498 | (472) | 26 | 126,120 | (530) | 125,590 |
| Income statement ECL (charge)/release | – | 10 | – | – | (3) | – | – | (13) | – | – | (6) | – |
| Recoveries of amounts previously written off | – | – | – | – | – | – | – | – | – | – | – | – |
| Total credit impairment (charge)/release | – | 10 | – | – | (3) | – | – | (13) | – | – | (6) | – |
| As at 1 January 2019 | 118,713 | (27) | 118,686 | 6,909 | (31) | 6,878 | 498 | (472) | 26 | 126,120 | (530) | 125,590 |
| Transfers to stage 1 | 2,747 | (38) | 2,709 | (2,747) | 38 | (2,709) | – | – | – | – | – | – |
| Transfers to stage 2 | (2,359) | 16 | (2,343) | 2,359 | (16) | 2,343 | – | – | – | – | – | – |
| Transfers to stage 3 | – | – | – | (1) | – | (1) | 1 | – | 1 | – | – | – |
| Net change in exposures | 19,314 | (52) | 19,262 | (1,237) | (9) | (1,246) | – | – | – | 18,077 | (61) | 18,016 |
| Net remeasurement from stage changes | – | 27 | 27 | – | (4) | (4) | – | – | – | – | 23 | 23 |
| Changes in risk parameters | – | 27 | 27 | – | (5) | (5) | – | 7 | 7 | – | 29 | 29 |
| Write-offs | – | – | – | – | – | – | (170) | 170 | – | (170) | 170 | – |
| Interest due but unpaid | – | – | – | – | – | – | (247) | 247 | – | (247) | 247 | – |
| Exchange translation differences and other movements ¹ | 367 | (3) | 364 | (639) | 4 | (635) | (7) | 3 | (4) | (279) | 4 | (275) |
| As at 31 December 2019 | 138,782 | (50) | 138,732 | 4,644 | (23) | 4,621 | 75 | (45) | 30 | 143,501 | (118) | 143,383 |
| Income statement ECL (charge)/release | – | 2 | – | – | (18) | – | – | 7 | – | – | (9) | – |
| Recoveries of amounts previously written off | – | – | – | – | – | – | – | – | – | – | – | – |
| Total credit impairment (charge)/release | – | 2 | – | – | (18) | – | – | 7 | – | – | (9) | – |

1 Includes fair value adjustments and amortisation on debt securities

2 Stage 3 balances at 1 January 2018 have been restated to reflect contractual interest due but unpaid together with equivalent credit impairment charges

3 Interest due but unpaid included in gross assets and credit impairment

Corporate & Institutional Banking

| Amortised cost and FVOCI | Stage 1 | | | Stage 2 | | | Stage 3 | | | Total | | |
|--|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|
| | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million |
| As at 1 January 2018¹ | 263,079 | (114) | 262,965 | 29,576 | (409) | 29,167 | 7,038 | (4,591) | 2,447 | 299,693 | (5,114) | 294,579 |
| Transfers to stage 1 | 40,196 | (156) | 40,040 | (40,196) | 156 | (40,040) | — | — | — | — | — | — |
| Transfers to stage 2 | (39,490) | 30 | (39,460) | 39,692 | (30) | 39,662 | (202) | — | (202) | — | — | — |
| Transfers to stage 3 | — | — | — | (1,129) | 85 | (1,044) | 1,129 | (85) | 1,044 | — | — | — |
| Net change in exposures | 12,869 | (183) | 12,686 | (8,639) | 10 | (8,629) | (1,064) | 377 | (687) | 3,166 | 204 | 3,370 |
| Net remeasurement from stage changes | — | 46 | 46 | — | (30) | (30) | — | (277) | (277) | — | (261) | (261) |
| Changes in risk parameters | — | 101 | 101 | — | 140 | 140 | — | (394) | (394) | — | (153) | (153) |
| Write-offs | — | — | — | — | — | — | (1,208) | 1,208 | — | (1,208) | 1,208 | — |
| Interest due but unpaid ² | — | — | — | — | — | — | (175) | 175 | — | (175) | 175 | — |
| Discount unwind | — | — | — | — | — | — | — | 39 | 39 | — | 39 | 39 |
| Exchange translation differences and other movements | (3,418) | 131 | (3,287) | (252) | (157) | (409) | (133) | 170 | 37 | (3,803) | 144 | (3,659) |
| As at 31 December 2018 | 273,236 | (145) | 273,091 | 19,052 | (235) | 18,817 | 5,385 | (3,378) | 2,007 | 297,673 | (3,758) | 293,915 |
| Income statement ECL (charge)/release | | (36) | | | 120 | | | (294) | | | (210) | |
| Recoveries of amounts previously written off | | | | | | | | 77 | | | 77 | |
| Total credit impairment (charge)/release | | (36) | | | 120 | | | (217) | | | (133) | |
| As at 1 January 2019 | 273,236 | (145) | 273,091 | 19,052 | (235) | 18,817 | 5,385 | (3,378) | 2,007 | 297,673 | (3,758) | 293,915 |
| Transfers to stage 1 | 16,555 | (145) | 16,410 | (16,555) | 145 | (16,410) | — | — | — | — | — | — |
| Transfers to stage 2 | (43,141) | 39 | (43,102) | 43,326 | (51) | 43,275 | (185) | 12 | (173) | — | — | — |
| Transfers to stage 3 | — | — | — | (1,095) | 122 | (973) | 1,095 | (122) | 973 | — | — | — |
| Net change in exposures | 18,368 | (124) | 18,244 | (22,387) | 25 | (22,362) | (840) | 205 | (635) | (4,859) | 106 | (4,753) |
| Net remeasurement from stage changes | — | 41 | 41 | — | (70) | (70) | — | (219) | (219) | — | (248) | (248) |
| Changes in risk parameters | — | 187 | 187 | — | (145) | (145) | — | (368) | (368) | — | (326) | (326) |
| Write-offs | — | — | — | — | — | — | (658) | 658 | — | (658) | 658 | — |
| Interest due but unpaid | — | — | — | — | — | — | (48) | 48 | — | (48) | 48 | — |
| Discount unwind | — | — | — | — | — | — | — | 38 | 38 | — | 38 | 38 |
| Exchange translation differences and other movements | (1,369) | 24 | (1,345) | 179 | 14 | 193 | (16) | (45) | (61) | (1,206) | (7) | (1,213) |
| As at 31 December 2019 | 263,649 | (123) | 263,526 | 22,520 | (195) | 22,325 | 4,733 | (3,171) | 1,562 | 290,902 | (3,489) | 287,413 |
| Income statement ECL (charge)/release ³ | | 104 | | | (190) | | | (382) | | | (468) | |
| Recoveries of amounts previously written off | | | | | | | | | | | | |
| Total credit impairment (charge)/release | | 104 | | | (190) | | | (382) | | | (468) | |

1 Stage 3 balances at 1 January 2018 have been restated to reflect contractual interest due but unpaid together with equivalent credit impairment charges

2 Interest due but unpaid included in gross assets and credit impairment

3 Does not include \$6 million provision relating to Other assets

Retail Banking

| Amortised cost and FVOCI | Stage 1 | | | Stage 2 | | | Stage 3 | | | Total | | |
|--|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|
| | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million |
| As at 1 January 2018 | 131,280 | (381) | 130,899 | 7,964 | (178) | 7,786 | 818 | (389) | 429 | 140,062 | (948) | 139,114 |
| Transfers to stage 1 | 5,570 | (388) | 5,182 | (5,570) | 388 | (5,182) | – | – | – | – | – | – |
| Transfers to stage 2 | (9,954) | 74 | (9,880) | 9,954 | (74) | 9,880 | – | – | – | – | – | – |
| Transfers to stage 3 | (281) | 8 | (273) | (511) | 164 | (347) | 792 | (172) | 620 | – | – | – |
| Net change in exposures | 9,858 | (17) | 9,841 | (2,628) | 78 | (2,550) | (398) | – | (398) | 6,832 | 61 | 6,893 |
| Net remeasurement from stage changes | – | 72 | 72 | – | (90) | (90) | – | (12) | (12) | – | (30) | (30) |
| Changes in risk parameters | – | 264 | 264 | – | (373) | (373) | – | (402) | (402) | – | (511) | (511) |
| Write-offs | – | – | – | – | – | – | (575) | 575 | – | (575) | 575 | – |
| Interest due but unpaid | – | – | – | – | – | – | – | – | – | – | – | – |
| Discount unwind | – | – | – | – | – | – | – | 20 | 20 | – | 20 | – |
| Exchange translation differences and other movements | (2,989) | 55 | (2,934) | (322) | (47) | (369) | 195 | (14) | 181 | (3,116) | (6) | (3,102) |
| As at 31 December 2018 | 133,484 | (313) | 133,171 | 8,887 | (132) | 8,755 | 832 | (394) | 438 | 143,203 | (839) | 142,364 |
| Income statement ECL (charge)/release | 319 | | | (385) | | | (414) | | | (480) | | |
| Recoveries of amounts previously written off | | | | | | | 214 | | | 214 | | |
| Total credit impairment (charge)/release | 319 | | | (385) | | | (200) | | | (266) | | |
| As at 1 January 2019 | 133,484 | (313) | 133,171 | 8,887 | (132) | 8,755 | 832 | (394) | 438 | 143,203 | (839) | 142,364 |
| Transfers to stage 1 | 5,301 | (355) | 4,946 | (5,301) | 355 | (4,946) | – | – | – | – | – | – |
| Transfers to stage 2 | (8,279) | 82 | (8,197) | 8,279 | (82) | 8,197 | – | – | – | – | – | – |
| Transfers to stage 3 | (117) | 1 | (116) | (517) | 165 | (352) | 634 | (166) | 468 | – | – | – |
| Net change in exposures | 9,303 | (15) | 9,288 | (6,020) | 49 | (5,971) | (290) | – | (290) | 2,993 | 34 | 3,027 |
| Net remeasurement from stage changes | – | 122 | 122 | – | (86) | (86) | – | (81) | (81) | – | (45) | (45) |
| Changes in risk parameters | – | 153 | 153 | – | (398) | (398) | – | (327) | (327) | – | (572) | (572) |
| Write-offs | – | – | – | – | – | – | (586) | 586 | – | (586) | 586 | – |
| Interest due but unpaid | – | – | – | – | – | – | – | – | – | – | – | – |
| Discount unwind | – | – | – | – | – | – | – | 28 | 28 | – | 28 | 28 |
| Exchange translation differences and other movements | (433) | 26 | (407) | (37) | (50) | (87) | 256 | (20) | 236 | (214) | (44) | (258) |
| As at 31 December 2019 | 139,259 | (299) | 138,960 | 5,291 | (179) | 5,112 | 846 | (374) | 472 | 145,396 | (852) | 144,544 |
| Income statement ECL (charge)/release | 260 | | | (435) | | | (408) | | | (583) | | |
| Recoveries of amounts previously written off | | | | | | | 247 | | | 247 | | |
| Total credit impairment (charge)/release | 260 | | | (435) | | | (161) | | | (336) | | |

Commercial Banking

| | Stage 1 | | | Stage 2 | | | Stage 3 | | | Total | | |
|--|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|-------------------------|-----------------------------------|---------------|
| | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million | Gross balance \$million | Total credit impairment \$million | Net \$million |
| Amortised cost and FVOCI | | | | | | | | | | | | |
| As at 1 January 2018¹ | 28,792 | (40) | 28,752 | 5,382 | (95) | 5,287 | 2,749 | (2,128) | 621 | 36,923 | (2,263) | 34,660 |
| Transfers to stage 1 | 12,675 | (64) | 12,611 | (12,675) | 64 | (12,611) | — | — | — | — | — | — |
| Transfers to stage 2 | (11,152) | 26 | (11,126) | 11,171 | (26) | 11,145 | (19) | — | (19) | — | — | — |
| Transfers to stage 3 | (11) | — | (11) | (606) | 14 | (592) | 617 | (14) | 603 | — | — | — |
| Net change in exposures | 2,163 | (65) | 2,098 | 3,660 | 9 | 3,669 | (337) | 138 | (199) | 5,486 | 82 | 5,568 |
| Net remeasurement from stage changes | — | 12 | 12 | — | (13) | (13) | — | (217) | (217) | — | (218) | (218) |
| Changes in risk parameters | — | 67 | 67 | — | (33) | (33) | — | (162) | (162) | — | (128) | (128) |
| Write-offs | — | — | — | — | — | — | (293) | 293 | — | (293) | 293 | — |
| Interest due but unpaid ² | — | — | — | — | — | — | (194) | 194 | — | (194) | 194 | — |
| Discount unwind | — | — | — | — | — | — | — | 16 | 16 | — | 16 | 16 |
| Exchange translation differences and other movements | (1,047) | 29 | (1,018) | (223) | (20) | (243) | (155) | 77 | (78) | (1,425) | 86 | (1,339) |
| As at 31 December 2018 | 31,420 | (35) | 31,385 | 6,709 | (100) | 6,609 | 2,368 | (1,803) | 565 | 40,497 | (1,938) | 38,559 |
| Income statement ECL (charge)/release | | 14 | | | (37) | | | (241) | | | (264) | |
| Recoveries of amounts previously written off | | | | | | | | 21 | | | 21 | |
| Total credit impairment (charge)/release | | 14 | | | (37) | | | (220) | | | (243) | |
| As at 1 January 2019 | 31,420 | (35) | 31,385 | 6,709 | (100) | 6,609 | 2,368 | (1,803) | 565 | 40,497 | (1,938) | 38,559 |
| Transfers to stage 1 | 3,082 | (42) | 3,040 | (3,082) | 42 | (3,040) | — | — | — | — | — | — |
| Transfers to stage 2 | (11,878) | 20 | (11,858) | 11,886 | (22) | 11,864 | (8) | 2 | (6) | — | — | — |
| Transfers to stage 3 | (4) | — | (4) | (465) | 26 | (439) | 469 | (26) | 443 | — | — | — |
| Net change in exposures | 9,186 | (70) | 9,116 | (8,864) | (38) | (8,902) | (263) | 96 | (167) | 59 | (12) | 47 |
| Net remeasurement from stage changes | — | 5 | 5 | — | (11) | (11) | — | (107) | (107) | — | (113) | (113) |
| Changes in risk parameters | — | 69 | 69 | — | 58 | 58 | — | (124) | (124) | — | 3 | 3 |
| Write-offs | — | — | — | — | — | — | (380) | 380 | — | (380) | 380 | — |
| Interest due but unpaid | — | — | — | — | — | — | (87) | 87 | — | (87) | 87 | — |
| Discount unwind | — | — | — | — | — | — | — | 13 | 13 | — | 13 | 13 |
| Exchange translation differences and other movements | 465 | 18 | 483 | (146) | (13) | (159) | (37) | (35) | (72) | 282 | (30) | 252 |
| As at 31 December 2019 | 32,271 | (35) | 32,236 | 6,038 | (58) | 5,980 | 2,062 | (1,517) | 545 | 40,371 | (1,610) | 38,761 |
| Income statement ECL (charge)/release | | 4 | | | 9 | | | (135) | | | (122) | |
| Recoveries of amounts previously written off | | | | | | | | 1 | | | 1 | |
| Total credit impairment (charge)/release | | 4 | | | 9 | | | (134) | | | (121) | |

1 Stage 3 balances at 1 January have been restated to reflect contractual interest due but unpaid together with equivalent credit impairment charges

2 Interest due but unpaid included in gross assets and credit impairment

Analysis of stage 2 balances (unaudited)

The table below analyses stage 2 gross exposures and associated expected credit provisions by the key driver that caused the exposures to be classified as stage 2 as at 31 December 2019. This may not be the same driver that caused the initial transfer into stage 2. Where multiple drivers apply, the exposure is allocated based on the table order. For example, a loan may have breached the PD thresholds and could also be on non-purely precautionary early alert; in this instance, the exposure is reported under 'increase in PD'.

| | 31.12.2019 | | | | | | | | | | | |
|--------------------------------------|-----------------------------------|-------|----------------|-------|--------------------|-------|-----------------|-------|-----------------|-------|---------|-------|
| | Corporate & Institutional Banking | | Retail Banking | | Commercial Banking | | Private Banking | | Central & Other | | Total | |
| | Gross % | ECL % | Gross % | ECL % | Gross % | ECL % | Gross % | ECL % | Gross % | ECL % | Gross % | ECL % |
| Increase in PD | 49% | 52% | 94% | 76% | 67% | 57% | — | — | 43% | 31% | 60% | 62% |
| Non-purely precautionary early alert | 22% | 12% | — | — | 9% | 8% | — | — | — | — | 14% | 6% |
| Higher risk (CG12) | 6% | 28% | — | — | 5% | 26% | — | — | — | — | 3% | 15% |
| Sub-investment grade | 1% | 3% | — | — | 4% | 2% | — | — | 53% | 63% | 5% | 4% |
| 30 days past due | — | — | 4% | 22% | — | — | — | — | — | — | 1% | 9% |
| Others | 22% | 5% | 2% | 2% | 15% | 7% | 100% | 100% | 4% | 6% | 17% | 4% |
| Total stage 2 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

The majority of exposures and the associated expected credit loss provisions are in stage 2 due to increases in the probability of default. 22 per cent of the provisions held against stage 2 Retail Banking exposures arise from the application of the 30 days past due backstop, although this represents only 4 per cent of exposures.

For debt securities originated prior to 1 January 2018, those with a sub-investment rating were allocated into stage 2. For debt securities originated after 1 January 2018, significant increase in Credit risk is assessed based on the relative and absolute increases in PD.

'Others' incorporates exposures where origination data is incomplete and the exposures are allocated into stage 2. Significant increase in Credit risk for Private Banking clients is assessed by referencing the nature and level of collateral against which credit is extended.

Credit impairment charge

With effect from 1 January 2019, the liquidation portfolio has been included in the ongoing portfolio as the actions to reduce exposures in the liquidation portfolio were substantially completed in 2018. 2018 has not been restated.

The underlying credit impairment charge is 22 per cent higher at \$906 million (2018: \$740 million) as the benefit of lower stage 3 impairment charges was more than offset by an increase in stage 1 and 2 provisions. Just over half of the increase in stage 1 and 2 provisions was due to a deterioration in macroeconomic forecasts over the year, which includes the downward revision to Hong Kong GDP in the second half of 2019.

Corporate & Institutional Banking was \$233 million higher at \$475 million (2018: \$242 million) due to higher stage 1 and 2 impairments as 2018 benefitted from upgrades within stage 2 as well as releases from improvements in macroeconomic forecasts. While accounts graded as 'Higher risk' stabilised in 2019, Corporate & Institutional Banking was impacted by deteriorating macroeconomic forecasts, particularly in Metals. Stage 3 provisions were slightly higher.

Retail Banking was \$69 million higher at \$336 million (2018: \$267 million) mainly due to non-recurring impairment releases in Korea and Indonesia in 2018. Excluding these one-off releases, credit impairment was flat year-on-year. The impact of the macroeconomic downgrades for Hong Kong increased stage 1 and 2 provisions, while stage 3 provisions improved year on year mainly driven by recoveries from Korea, Singapore and the UAE.

Commercial Banking decreased 50 per cent to \$121 million (2018: \$244 million). This is mainly due to lower stage 3 impairments offset by lower recoveries. 2018 included significant stage 3 provisions on a few clients in Africa & Middle East and Greater China & North Asia which did not repeat.

Private Banking impairment reduced by \$31 million due to net provision release of \$29 million driven primarily by a stage 3 client.

Central & other segment impairments was a charge of \$5 million (2018: release of \$13 million) mainly driven by debt security instruments managed by Treasury.

There was a \$2 million restructuring impairment on a small number of legacy positions in the Principal Finance business.

Ongoing business portfolio

| | 2019 ¹ \$million | 2018 \$million |
|-----------------------------------|--------------------------------|-------------------|
| Corporate & Institutional Banking | 475 | 242 |
| Retail Banking | 336 | 267 |
| Commercial Banking | 121 | 244 |
| Private Banking | (31) | — |
| Central & other items | 5 | (13) |
| Credit impairment charge | 906 | 740 |

Restructuring business portfolio

| | | |
|---------------------------------------|------------|-------------|
| Liquidation portfolio | — | (79) |
| Others | 2 | (8) |
| Credit impairment charge | 2 | (87) |
| Total credit impairment charge | 908 | 653 |

¹ In 2019, the liquidation portfolio has been included in ongoing business. Prior periods have not been restated

Problem credit management and provisioning

Forborne and other modified loans by client segment

A forbearance 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 loans with forbearance measures by segment.

| | 2019 | | | | |
|---|---|--------------------------|------------------------------|---------------------------|----------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | |
| Amortised cost | | | | Total \$million | |
| All loans with forbearance measures | 1,533 | 344 | 767 | — | 2,644 |
| Credit impairment (stage 1 and 2) | (13) | — | (4) | — | (17) |
| Credit impairment (stage 3) | (748) | (169) | (558) | — | (1,475) |
| Net carrying value | 772 | 175 | 205 | — | 1,152 |
| <i>Included within the above table</i> | | | | | |
| Gross performing forbore loans | 421 | 19 | 49 | — | 489 |
| Modification of terms and conditions ¹ | 421 | 19 | 44 | — | 484 |
| Refinancing ² | — | — | 5 | — | 5 |
| Impairment provisions | (13) | — | (4) | — | (17) |
| Modification of terms and conditions ¹ | (13) | — | (4) | — | (17) |
| Refinancing ² | — | — | — | — | — |
| Net performing forbore loans | 408 | 19 | 45 | — | 472 |
| Collateral | 62 | 19 | 22 | — | 103 |
| Gross non-performing forbore loans | 1,112 | 325 | 718 | — | 2,155 |
| Modification of terms and conditions ¹ | 1,071 | 325 | 696 | — | 2,092 |
| Refinancing ² | 41 | — | 22 | — | 63 |
| Impairment provisions | (748) | (169) | (558) | — | (1,475) |
| Modification of terms and conditions ¹ | (717) | (169) | (544) | — | (1,430) |
| Refinancing ² | (31) | — | (14) | — | (45) |
| Net non-performing forbore loans | 364 | 156 | 160 | — | 680 |
| Collateral | 190 | 156 | 99 | — | 445 |
| | | | | | |
| | 2018 | | | | |
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | |
| Amortised cost | | | | Total \$million | |
| All loans with forbearance measures ⁴ | 1,694 | 376 | 929 | — | 2,999 |
| Credit impairment (stage 1 and 2) ³ | (14) | — | (8) | — | (22) |
| Credit impairment (stage 3) ⁴ | (766) | (174) | (647) | — | (1,587) |
| Net carrying value | 914 | 202 | 274 | — | 1,390 |
| <i>Included within the above table</i> | | | | | |
| Gross performing forbore loans | 286 | 23 | 71 | — | 380 |
| Modification of terms and conditions ¹ | 273 | 23 | 64 | — | 360 |
| Refinancing ² | 13 | — | 7 | — | 20 |
| Impairment provisions | (14) | — | (8) | — | (22) |
| Modification of terms and conditions ¹ | (9) | — | (8) | — | (17) |
| Refinancing ² | (5) | — | — | — | (5) |
| Net performing forbore loans | 272 | 23 | 63 | — | 358 |
| Collateral | 16 | 23 | 28 | — | 67 |
| Gross non-performing forbore loans⁴ | 1,408 | 353 | 858 | — | 2,619 |
| Modification of terms and conditions ^{1,4} | 1,319 | 353 | 815 | — | 2,487 |
| Refinancing ^{2,4} | 89 | — | 43 | — | 132 |
| Impairment provisions⁴ | (766) | (174) | (647) | — | (1,587) |
| Modification of terms and conditions ^{1,4} | (716) | (174) | (614) | — | (1,504) |
| Refinancing ^{2,4} | (50) | — | (33) | — | (83) |
| Net non-performing forbore loans | 642 | 179 | 211 | — | 1,032 |
| Collateral | 225 | 163 | 107 | — | 495 |

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

3 Credit impairment (stage 1 and 2) line added for completeness

4 Interest due but unpaid included in gross assets and credit impairment

Forborne and other modified loans by region (unaudited)

| | 2019 | | | | |
|--|---|---------------------------------|-----------------------------------|--------------------------------|--------------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Amortised cost | | | | | |
| Performing forborne loans | 100 | 251 | 110 | 11 | 472 |
| Stage 3 forborne loans | 177 | 173 | 148 | 182 | 680 |
| Net forborne loans | 277 | 424 | 258 | 193 | 1,152 |
| 2018 | | | | | |
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Amortised cost | | | | | |
| Performing forborne loans ¹ | 112 | 94 | 111 | 41 | 358 |
| Stage 3 forborne loans | 233 | 344 | 179 | 276 | 1,032 |
| Net forborne loans | 345 | 438 | 290 | 317 | 1,390 |

1 Credit impairment provision for performing forborne loans included for completeness

Credit-impaired (stage 3) loans and advances by client segment

With effect from 1 January 2019, the liquidation portfolio has been included within the underlying portfolio. Prior periods have not been restated.

Gross stage 3 loans and stage 3 provisions on loans and advances have been restated to include the impact of interest in suspense of \$1.5 billion in 2018.

Gross stage 3 loans for the Group are down 12 per cent in the period to \$7.4 billion (31 December 2018: \$8.5 billion), driven by repayments, write-offs and transfers to stage 2 mainly in the Corporate & Institutional Banking and Commercial Banking segments.

The inflows of stage 3 loans in Corporate & Institutional Banking are 6 per cent lower at \$0.8 billion. The new inflows in 2019 were mainly in ASEAN & South Asia.

Stage 3 inflows in Commercial Banking reduced by 24 per cent to \$0.5 billion from \$0.6 billion in 2018. Inflows increased in ASEAN & South Asia offset by reductions in Africa & Middle East and Greater China & North Asia.

Gross stage 3 loans in Retail Banking were broadly stable at \$0.8 billion.

Gross stage 3 loans in Private Banking marginally increased by \$68 million in ASEAN & South Asia and Europe & Americas to \$0.4 billion at 31 December 2019.

Stage 3 cover ratio

The stage 3 cover ratio measures the proportion of stage 3 impairment provisions to gross stage 3 loans, and is a metric commonly used in considering impairment trends. This metric does not allow for variations in the composition of stage 3 loans and should be used in conjunction with other Credit risk information provided, including the level of collateral cover.

The balance of stage 3 loans not covered by stage 3 impairment provisions represents the adjusted value of collateral held and the net outcome of any workout or recovery strategies.

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.

Corporate & Institutional Banking cover ratio increased to 71 per cent from 65 per cent due to repayments, increased provisions and upgrades to stage 2. Commercial Banking cover ratio reduced to 75 per cent from 77 per cent mainly due to write-offs.

Private Banking cover ratio reduced to 40 per cent from 55 per cent in 2018 due to a small increase in stage 3 loans in ASEAN & South Asia and Europe & Americas and a reduction in provisions due to a net release on a client in ASEAN & South Asia.

Retail cover ratio decreased to 44 per cent from 48 per cent in December 2018 due to increase of Mortgage portfolio.

| | 2019 ¹ | | | | |
|---------------------------------------|--|-----------------------------|---------------------------------|------------------------------|--------------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Total \$million |
| Amortised cost | | | | | |
| Gross credit-impaired | 4,173 | 846 | 2,013 | 366 | 7,398 |
| Credit impairment provisions | (2,980) | (374) | (1,503) | (147) | (5,004) |
| Net carrying value | 1,193 | 472 | 510 | 219 | 2,394 |
| Cover ratio | 71% | 44% | 75% | 40% | 68% |
| Collateral (\$ million) | 497 | 286 | 263 | 211 | 1,257 |
| Cover ratio (after collateral) | 83% | 78% | 88% | 98% | 85% |

1 The remaining portfolio of loans and advances to customers previously separately identified in the liquidation portfolio are now included in the ongoing business

| | 2018 | | | | |
|---|---|--------------------------|------------------------------|---------------------------|-----------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Total \$million |
| Amortised cost | | | | | |
| Gross credit-impaired ¹ | 4,996 | 832 | 2,328 | 298 | 8,454 |
| Credit impairment provisions ¹ | (3,238) | (396) | (1,789) | (163) | (5,586) |
| Net carrying value | 1,758 | 436 | 539 | 135 | 2,868 |
| Cover ratio¹ | 65% | 48% | 77% | 55% | 66% |
| Collateral (\$ million) | 802 | 324 | 302 | 135 | 1,563 |
| Cover ratio (after collateral)¹ | 81% | 87% | 90% | 100% | 85% |
| <i>Of the above, included in the liquidation portfolio:</i> | | | | | |
| Gross credit-impaired ¹ | 1,337 | — | 130 | 216 | 1,683 |
| Credit impairment provisions ¹ | (1,088) | — | (130) | (152) | (1,370) |
| Net carrying value | 249 | — | — | 64 | 313 |
| Cover ratio¹ | 81% | — | 100% | 70% | 81% |
| Collateral (\$million) | 159 | — | — | 64 | 223 |
| Cover ratio (after collateral)¹ | 93% | — | 100% | 100% | 95% |

1 Balances have been restated to reflect interest due but unpaid together with equivalent credit impairment charges. The cover ratios have been restated as a result.

Credit-impaired (stage 3) loans and advances by geographic region (unaudited)

Stage 3 loans decreased by \$1.1 billion or 12 per cent compared with 31 December 2018. The largest decrease was in the ASEAN & South Asia region, primarily due to write-offs, settlements and transfers to stage 2.

| | 2019 | | | | |
|---|--------------------------------------|------------------------------|--------------------------------|-----------------------------|-----------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Amortised cost | | | | | |
| Gross credit-impaired | 716 | 3,084 | 2,585 | 1,013 | 7,398 |
| Credit impairment provisions | (360) | (2,087) | (1,899) | (658) | (5,004) |
| Net carrying value | 356 | 997 | 686 | 355 | 2,394 |
| Cover ratio¹ | 50% | 68% | 73% | 65% | 68% |
| | 2018 | | | | |
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Amortised cost | | | | | |
| Gross credit-impaired ¹ | 838 | 3,624 | 3,061 | 931 | 8,454 |
| Credit impairment provisions ¹ | (343) | (2,599) | (2,214) | (430) | (5,586) |
| Net carrying value | 495 | 1,025 | 847 | 501 | 2,868 |
| Cover ratio¹ | 41% | 72% | 72% | 46% | 66% |

1 Balances have been restated to reflect interest due but unpaid together with equivalent credit impairment charges. The cover ratios have been restated as a result.

Movement of credit-impaired (stage 3) loans and advances provisions by client segment

Credit impairment provisions as at 31 December 2019 were \$5,004 million, compared with \$5,586 million at 31 December 2018. The decrease was largely due to write-offs in Corporate & Institutional Banking and Commercial Banking. Private Banking provisions fell by \$16 million primarily due to a net provision release for a single client.

The following table shows the movement of credit-impaired (stage 3) provisions for each client segment.

| | 2019 | | | | |
|---|--|-----------------------------|---------------------------------|------------------------------|---------------------------------|
| Amortised cost | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Total ² \$million |
| Gross credit-impaired loans at 31 December | 4,173 | 846 | 2,013 | 366 | 7,398 |
| Credit impairment allowances at 1 January | 3,238 | 396 | 1,789 | 163 | 5,586 |
| Net transfers into and out of stage 3 | 111 | 166 | 24 | – | 301 |
| New provisions charge/(release) ¹ | 177 | 81 | 107 | – | 365 |
| Changes due to risk parameters ¹ | 335 | 327 | 122 | (26) | 758 |
| Net change in exposures ¹ | (170) | – | (96) | (6) | (272) |
| Amounts written off | (658) | (585) | (380) | (2) | (1,625) |
| Interest due but unpaid | (48) | – | (87) | 17 | (118) |
| Discount unwind | (38) | (28) | (13) | (4) | (83) |
| Exchange translation difference | 33 | 17 | 37 | 5 | 92 |
| Credit impairment allowances at 31 December | 2,980 | 374 | 1,503 | 147 | 5,004 |
| Net carrying value | 1,193 | 472 | 510 | 219 | 2,394 |
| Income statement charge/(release) ¹ | 342 | 408 | 133 | (32) | 851 |
| Recoveries of amounts previously written off | – | (247) | (1) | – | (248) |
| Total income statement charge | 342 | 161 | 132 | (32) | 603 |
| | 2018 | | | | |
| Amortised cost | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Total ² \$million |
| Gross credit-impaired loans at 31 December³ | 4,996 | 832 | 2,328 | 298 | 8,454 |
| Credit impairment allowances at 1 January³ | 4,524 | 389 | 2,118 | 154 | 7,185 |
| Net transfers into and out of stage 3 | 85 | 172 | 14 | – | 271 |
| New provisions charge/(release) ¹ | 189 | 12 | 218 | 3 | 422 |
| Changes due to risk parameters ¹ | 400 | 402 | 162 | 13 | 977 |
| Net change in exposures ¹ | (379) | – | (136) | (5) | (520) |
| Amounts written off | (1,179) | (575) | (291) | – | (2,045) |
| Interest due but unpaid ³ | (175) | – | (194) | – | (369) |
| Discount unwind | (39) | (20) | (16) | (5) | (80) |
| Exchange translation difference and other movements | (188) | 16 | (86) | 3 | (255) |
| Credit impairment allowances at 31 December | 3,238 | 396 | 1,789 | 163 | 5,586 |
| Net carrying value | 1,758 | 436 | 539 | 135 | 2,868 |
| Income statement charge/(release) ¹ | 210 | 414 | 244 | 11 | 879 |
| Recoveries of amounts previously written off | (77) | (214) | (21) | – | (312) |
| Total income statement charge | 133 | 200 | 223 | 11 | 567 |

1 Components of the income statement charge/(release)

2 Excludes credit impairment relating to loan commitments and financial guarantees

3 Stage 3 balances at 1 January 2018 have been restated to reflect contractual interest due but unpaid together with equivalent credit impairment charges

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.

Collateral

The requirement for collateral is not a substitute for the ability to repay, which is the primary consideration for any lending decisions.

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 \$280 billion in 2019 (2018: \$265 billion).

The collateral values in the table below (which covers loans and advances to banks and customers, excluding those held at fair value through profit or loss) are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation. The extent of over-collateralisation has been determined with reference to both the drawn and undrawn components of exposure as this best reflects the effect of collateral and other credit enhancements on the amounts arising from expected credit losses.

We have remained prudent in the way we assess the value of collateral, which is calibrated for a severe downturn and backtested against our prior experience. On average, across all types of non-cash collateral, the value ascribed is approximately half of its current market value.

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. Total collateral for Retail Banking has increased by \$6.7 billion to \$81.1 billion due to an increase in Mortgages and Secured wealth products in the Greater China & North Asia and ASEAN & South Asia regions.

Private Banking collateral is \$10.3 billion, an increase of 6 per cent as compared with 2018, in line with the overall movement of the secured portfolio.

Collateral held on loans and advances

The table below details collateral held against exposures, separately disclosing stage 2 and stage 3 exposure and corresponding collateral.

| Amortised cost | 2019 | | | | | | | | | |
|--|------------------------|------------------------------------|--|------------------------------|------------------------------------|--|-----------------|------------------------------------|--|--|
| | Net amount outstanding | | | Collateral | | | Net exposure | | | |
| | Total \$million | Stage 2 financial assets \$million | Credit-impaired financial assets (\$3) \$million | Total ² \$million | Stage 2 financial assets \$million | Credit-impaired financial assets (\$3) \$million | Total \$million | Stage 2 financial assets \$million | Credit-impaired financial assets (\$3) \$million | |
| Corporate & Institutional Banking ¹ | 164,748 | 14,368 | 1,193 | 23,502 | 2,731 | 497 | 141,246 | 11,637 | 696 | |
| Retail Banking | 106,368 | 2,823 | 472 | 81,137 | 2,323 | 286 | 25,231 | 500 | 186 | |
| Commercial Banking | 26,117 | 3,821 | 510 | 7,709 | 1,826 | 263 | 18,408 | 1,995 | 247 | |
| Private Banking | 14,741 | 283 | 219 | 10,306 | 188 | 211 | 4,435 | 95 | 8 | |
| Central & other items | 10,098 | 7 | - | 802 | - | - | 9,296 | 7 | - | |
| Total | 322,072 | 21,302 | 2,394 | 123,456 | 7,068 | 1,257 | 198,616 | 14,234 | 1,137 | |

| Amortised cost | 2018 | | | | | | | | | |
|--|------------------------|------------------------------------|--|------------------------------|------------------------------------|--|-----------------|------------------------------------|--|--|
| | Net amount outstanding | | | Collateral | | | Net exposure | | | |
| | Total \$million | Stage 2 financial assets \$million | Credit-impaired financial assets (\$3) \$million | Total ² \$million | Stage 2 financial assets \$million | Credit-impaired financial assets (\$3) \$million | Total \$million | Stage 2 financial assets \$million | Credit-impaired financial assets (\$3) \$million | |
| Corporate & Institutional Banking ¹ | 166,091 | 10,234 | 1,758 | 15,882 | 1,314 | 802 | 150,209 | 8,920 | 956 | |
| Retail Banking | 101,235 | 2,705 | 436 | 74,485 | 2,092 | 324 | 26,750 | 613 | 112 | |
| Commercial Banking | 26,759 | 4,331 | 539 | 6,767 | 3,966 | 302 | 19,992 | 365 | 237 | |
| Private Banking | 13,616 | 785 | 135 | 9,729 | 783 | 135 | 3,887 | 2 | - | |
| Central & other items | 10,270 | 26 | - | 6,278 | - | - | 3,992 | 26 | - | |
| Total | 317,971 | 18,081 | 2,868 | 113,141 | 8,155 | 1,563 | 204,830 | 9,926 | 1,305 | |

1 Includes loans and advances to banks

2 Adjusted for over-collateralisation based on the drawn and undrawn components of exposures

Collateral – Corporate & Institutional Banking and Commercial Banking

Collateral held against Corporate & Institutional Banking and Commercial Banking exposures amounted to \$31 billion.

Collateral taken for longer-term and sub-investment grade corporate loans remains high at 45 per cent. Our underwriting standards encourage taking specific charges on assets and we consistently seek high-quality, investment grade collateral.

76 per cent of tangible collateral held comprises physical assets or is property based, with the remainder largely in cash and investment securities.

Non-tangible collateral such as guarantees and standby letters of credit is also held against corporate exposures, although the financial effect of this type of collateral is less significant in terms of recoveries. However, this 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

| Amortised cost | 2019 \$million | 2018 \$million |
|------------------------------------|-------------------|-------------------|
| Maximum exposure | 164,748 | 166,091 |
| Property | 6,965 | 5,557 |
| Plant, machinery and other stock | 1,134 | 1,067 |
| Cash | 2,755 | 2,019 |
| Reverse repos | 2,000 | 528 |
| A– to AA+ | 756 | 321 |
| BBB– to BBB+ | 439 | 207 |
| Unrated | 805 | – |
| Financial guarantees and insurance | 7,422 | 3,697 |
| Commodities | 136 | 90 |
| Ships and aircraft | 3,090 | 2,924 |
| Total value of collateral | 23,502 | 15,882 |
| Net exposure¹ | 141,246 | 150,209 |

1 Adjusted for over-collateralisation based on the drawn and undrawn components of exposures

Commercial Banking

| Amortised cost | 2019 \$million | 2018 \$million |
|------------------------------------|-------------------|-------------------|
| Maximum exposure | 26,117 | 26,759 |
| Property | 5,029 | 4,557 |
| Plant, machinery and other stock | 1,094 | 992 |
| Cash | 836 | 486 |
| Reverse repos | 8 | 72 |
| A– to AA+ | – | 1 |
| BBB– to BBB+ | 1 | 71 |
| Unrated | 7 | – |
| Financial guarantees and insurance | 531 | 502 |
| Commodities | 26 | 11 |
| Ships and aircraft | 185 | 147 |
| Total value of collateral | 7,709 | 6,767 |
| Net exposure¹ | 18,408 | 19,992 |

1 Adjusted for over-collateralisation based on the drawn and undrawn components of exposures

Collateral – Retail Banking and Private Banking

In Retail Banking and Private Banking, 85 per cent of the portfolio is fully secured. The proportion of unsecured loans remains broadly stable at 14 per cent and the remaining 1 per cent is partially secured.

The following table presents an analysis of loans to individuals by product; split between fully secured, partially secured and unsecured:

| Amortised cost | 2019 | | | | 2018 | | | |
|----------------------------------|-------------------------|-----------------------------|---------------------|-----------------|-------------------------|-----------------------------|---------------------|-----------------|
| | Fully secured \$million | Partially secured \$million | Unsecured \$million | Total \$million | Fully secured \$million | Partially secured \$million | Unsecured \$million | Total \$million |
| Maximum exposure | 102,612 | 1,257 | 17,240 | 121,109 | 96,534 | 1,383 | 16,934 | 114,851 |
| Loans to individuals | | | | | | | | |
| Mortgages | 78,217 | 109 | 5 | 78,331 | 75,386 | 191 | 23 | 75,600 |
| CCPL | 123 | 8 | 17,092 | 17,223 | 168 | 102 | 16,692 | 16,962 |
| Auto | 562 | – | 10 | 572 | 671 | – | 2 | 673 |
| Secured wealth products | 20,275 | 127 | – | 20,402 | 17,721 | 107 | 172 | 18,000 |
| Other | 3,435 | 1,013 | 133 | 4,581 | 2,588 | 983 | 45 | 3,616 |
| Total collateral ¹ | | | | 91,443 | | | | 84,214 |
| Net exposure ² | | | | 29,666 | | | | 30,637 |
| Percentage of total loans | 85% | 1% | 14% | | 84% | 1% | 15% | |

1 Collateral values are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation

2 Amounts net of ECL

Mortgage loan-to-value ratios by geography

Loan-to-value (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 low at 45 per cent. Hong Kong, which represents 38 per cent of the Retail Banking mortgage portfolio has an average LTV of 39.1 per cent. All of our other key markets continue to have low portfolio LTVs, (Korea, Singapore and Taiwan at 43.6 per cent, 53.3 per cent and 51.8 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.

| Amortised cost | 2019 | | | | |
|---|------------------------------------|----------------------------|------------------------------|---------------------------|---------------|
| | Greater China & North Asia % Gross | ASEAN & South Asia % Gross | Africa & Middle East % Gross | Europe & Americas % Gross | Total % Gross |
| Less than 50 per cent | 67.8 | 43.4 | 21.6 | 10.8 | 59.3 |
| 50 per cent to 59 per cent | 14.4 | 19.4 | 14.2 | 26.3 | 15.9 |
| 60 per cent to 69 per cent | 9.2 | 22.5 | 21.0 | 29.4 | 13.2 |
| 70 per cent to 79 per cent | 6.7 | 12.5 | 19.0 | 28.0 | 9.0 |
| 80 per cent to 89 per cent | 1.6 | 1.7 | 11.5 | 4.5 | 2.0 |
| 90 per cent to 99 per cent | 0.2 | 0.3 | 6.5 | 0.4 | 0.4 |
| 100 per cent and greater | 0.1 | 0.2 | 6.2 | 0.6 | 0.3 |
| Average portfolio loan-to-value | 42.1 | 50.7 | 66.6 | 62.2 | 44.9 |
| Loans to individuals – mortgages (\$million) | 55,724 | 18,301 | 2,047 | 2,259 | 78,331 |

| Amortised cost | 2018 | | | | |
|---|------------------------------------|----------------------------|------------------------------|---------------------------|---------------|
| | Greater China & North Asia % Gross | ASEAN & South Asia % Gross | Africa & Middle East % Gross | Europe & Americas % Gross | Total % Gross |
| Less than 50 per cent | 67.7 | 41.5 | 20.9 | 19.6 | 58.5 |
| 50 per cent to 59 per cent | 14.9 | 18.8 | 15.3 | 21.0 | 16.0 |
| 60 per cent to 69 per cent | 10.7 | 22.0 | 21.8 | 30.2 | 14.4 |
| 70 per cent to 79 per cent | 5.0 | 16.0 | 21.6 | 26.8 | 8.8 |
| 80 per cent to 89 per cent | 1.3 | 1.5 | 12.0 | 2.4 | 1.7 |
| 90 per cent to 99 per cent | 0.3 | 0.1 | 4.7 | – | 0.3 |
| 100 per cent and greater | 0.1 | 0.1 | 3.8 | – | 0.2 |
| Average portfolio loan-to-value | 42.0 | 51.5 | 65.2 | 54.2 | 44.8 |
| Loans to individuals – mortgages (\$million) | 52,434 | 19,156 | 2,126 | 1,884 | 75,600 |

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 fair value through other comprehensive income, and the related loan written off.

The increase in collateral value is largely due to property and plant taken possession of in Malaysia.

| | |
|-------------------------------|--|
| Property, plant and equipment | |
| Guarantees | |
| Cash | |
| Other | |
| Total | |

| | 2019 \$million | 2018 \$million |
|-------------|-------------------|-------------------|
| 29.0 | 8.7 | |
| 5.2 | 8.6 | |
| 2.7 | 0.6 | |
| 0.1 | 0.3 | |
| 37.0 | 18.2 | |

Other credit risk mitigation

Other forms of Credit risk mitigation are set out below.

Credit default swaps

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of \$14.5 billion (2018: \$21 billion). These credit default swaps are accounted for as financial guarantees as per IFRS 9 as they will only reimburse the holder for an incurred loss on an underlying debt instrument. 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.

Derivative 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. These are set out in more detail under Derivative financial instruments Credit risk mitigation (page 195).

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, credit quality by industry and industry and retail products analysis by region.

Maturity analysis of loans and advances by client segment

The loans and advances to the Corporate & Institutional Banking and Commercial Banking segments remain predominantly short-term, with 62 per cent of loans and advances to customers in the segments maturing in less than one year, an increase compared with 61 per cent in December 2018. 97 per cent of loans to banks are maturing in less than one year, an increase compared with 96 per cent in 2018. 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 69 per cent (2018: 70 per cent) of the loans maturing over five years, as mortgages constitute the majority of this portfolio.

| | 2019 | | | |
|--|-------------------------------|--------------------------------|------------------------------|--------------------|
| | One year or less \$million | One to five years \$million | Over five years \$million | Total \$million |
| Amortised cost | | | | |
| Corporate & Institutional Banking | 66,275 | 36,864 | 11,272 | 114,411 |
| Retail Banking | 17,763 | 15,282 | 74,159 | 107,204 |
| Commercial Banking | 21,443 | 5,111 | 1,139 | 27,693 |
| Private Banking | 13,893 | 507 | 499 | 14,899 |
| Central & other items | 10,098 | — | 1 | 10,099 |
| Gross loans and advances to customers | 129,472 | 57,764 | 87,070 | 274,306 |
| Impairment provisions | (4,887) | (439) | (457) | (5,783) |
| Net loans and advances to customers | 124,585 | 57,325 | 86,613 | 268,523 |
| Net loans and advances to banks | 51,871 | 1,678 | — | 53,549 |
| | 2018 | | | |
| | One year or less \$million | One to five years \$million | Over five years \$million | Total \$million |
| Amortised cost | | | | |
| Corporate & Institutional Banking ¹ | 61,705 | 36,164 | 10,330 | 108,199 |
| Retail Banking ¹ | 16,372 | 14,091 | 71,600 | 102,063 |
| Commercial Banking ¹ | 21,640 | 5,660 | 1,364 | 28,664 |
| Private Banking ¹ | 12,773 | 396 | 618 | 13,787 |
| Central & other items | 10,265 | 7 | — | 10,272 |
| Gross loans and advances to customers | 122,755 | 56,318 | 83,912 | 262,985 |
| Impairment provisions ¹ | (5,858) | (294) | (276) | (6,428) |
| Net loans and advances to customers | 116,897 | 56,024 | 83,636 | 256,557 |
| Net loans and advances to banks | 58,784 | 2,597 | 33 | 61,414 |

1 Stage 3 balances have been restated to reflect interest due but unpaid together with equivalent credit impairment charges

Credit quality by industry (unaudited)

Loans and advances

This section provides an analysis of the Group's amortised cost portfolio by industry on a gross, total credit impairment and net basis.

From an industry perspective, loans and advances increased by \$5.1 billion, largely driven by five sectors namely Mining and quarrying, Commercial real estate, Transport, telecom and utilities, Government and Financing insurance and non-banking, with each sector contributing an increase of \$1 billion or more. Retail Products increased by \$6.3 billion primarily within secured wealth products in ASEAN & South Asia and Mortgages in Greater China & North Asia. Stage 1 loans increased by \$9.0 billion compared with 2018, representing 80 per cent of the increase in total loans and advances.

| Amortised cost | 2019 | | | | | | | | | | | |
|--|-------------------------|-----------------------------------|-------------------------------|-------------------------|-----------------------------------|-------------------------------|-------------------------|-----------------------------------|-------------------------------|-------------------------|-----------------------------------|-------------------------------|
| | Stage 1 | | | Stage 2 | | | Stage 3 | | | Total | | |
| | Gross balance \$million | Total credit impairment \$million | Net carrying amount \$million | Gross balance \$million | Total credit impairment \$million | Net carrying amount \$million | Gross balance \$million | Total credit impairment \$million | Net carrying amount \$million | Gross balance \$million | Total credit impairment \$million | Net carrying amount \$million |
| Industry: | | | | | | | | | | | | |
| Energy | 13,227 | (17) | 13,210 | 1,562 | (22) | 1,540 | 894 | (758) | 136 | 15,683 | (797) | 14,886 |
| Manufacturing | 20,099 | (15) | 20,084 | 3,499 | (29) | 3,470 | 970 | (695) | 275 | 24,568 | (739) | 23,829 |
| Financing, insurance and non-banking | 20,971 | (8) | 20,963 | 1,196 | (17) | 1,179 | 292 | (183) | 109 | 22,459 | (208) | 22,251 |
| Transport, telecom and utilities | 14,884 | (10) | 14,874 | 1,874 | (35) | 1,839 | 841 | (599) | 242 | 17,599 | (644) | 16,955 |
| Food and household products | 8,327 | (8) | 8,319 | 1,552 | (18) | 1,534 | 585 | (429) | 156 | 10,464 | (455) | 10,009 |
| Commercial real estate | 14,669 | (18) | 14,651 | 2,110 | (33) | 2,077 | 293 | (102) | 191 | 17,072 | (153) | 16,919 |
| Mining and quarrying | 6,143 | (8) | 6,135 | 1,067 | (12) | 1,055 | 320 | (232) | 88 | 7,530 | (252) | 7,278 |
| Consumer durables | 6,384 | (5) | 6,379 | 1,095 | (15) | 1,080 | 651 | (443) | 208 | 8,130 | (463) | 7,667 |
| Construction | 3,087 | (5) | 3,082 | 333 | (8) | 325 | 774 | (607) | 167 | 4,194 | (620) | 3,574 |
| Trading companies & distributors | 1,202 | (1) | 1,201 | 1,928 | (1) | 1,927 | 307 | (218) | 89 | 3,437 | (220) | 3,217 |
| Government | 14,698 | (1) | 14,697 | 702 | (3) | 699 | — | — | — | 15,400 | (4) | 15,396 |
| Other | 4,847 | (8) | 4,839 | 561 | (10) | 551 | 261 | (218) | 43 | 5,669 | (236) | 5,433 |
| Retail Products: | | | | | | | | | | | | |
| Mortgage | 75,792 | (10) | 75,782 | 2,278 | (12) | 2,266 | 406 | (123) | 283 | 78,476 | (145) | 78,331 |
| CCPL and other unsecured lending | 16,834 | (268) | 16,566 | 620 | (158) | 462 | 404 | (209) | 195 | 17,858 | (635) | 17,223 |
| Auto | 570 | (1) | 569 | 2 | — | 2 | 1 | — | 1 | 573 | (1) | 572 |
| Secured wealth products | 19,895 | (19) | 19,876 | 336 | (3) | 333 | 354 | (161) | 193 | 20,585 | (183) | 20,402 |
| Other | 4,520 | — | 4,520 | 44 | (1) | 43 | 45 | (27) | 18 | 4,609 | (28) | 4,581 |
| Total value (customers)¹ | 246,149 | (402) | 245,747 | 20,759 | (377) | 20,382 | 7,398 | (5,004) | 2,394 | 274,306 | (5,783) | 268,523 |

¹ Includes reverse repurchase agreements and other similar secured lending held at amortised cost of \$1,469 million

| Amortised cost | 2018 | | | | | | | | | | | |
|--|-------------------------|-----------------------------------|-------------------------------|-------------------------|-----------------------------------|-------------------------------|-------------------------|-----------------------------------|-------------------------------|-------------------------|-----------------------------------|-------------------------------|
| | Stage 1 | | | Stage 2 | | | Stage 3 ² | | | Total | | |
| | Gross balance \$million | Total credit impairment \$million | Net carrying amount \$million | Gross balance \$million | Total credit impairment \$million | Net carrying amount \$million | Gross balance \$million | Total credit impairment \$million | Net carrying amount \$million | Gross balance \$million | Total credit impairment \$million | Net carrying amount \$million |
| Industry: | | | | | | | | | | | | |
| Energy | 14,530 | (18) | 14,512 | 2,198 | (46) | 2,152 | 1,052 | (716) | 336 | 17,780 | (780) | 17,000 |
| Manufacturing | 21,627 | (23) | 21,604 | 1,932 | (86) | 1,846 | 891 | (702) | 189 | 24,450 | (811) | 23,639 |
| Financing, insurance and non-banking | 20,419 | (7) | 20,412 | 379 | (10) | 369 | 288 | (182) | 106 | 21,086 | (199) | 20,887 |
| Transport, telecom and utilities | 12,977 | (21) | 12,956 | 2,495 | (25) | 2,470 | 978 | (634) | 344 | 16,450 | (680) | 15,770 |
| Food and household products | 7,558 | (7) | 7,551 | 1,851 | (15) | 1,836 | 865 | (523) | 342 | 10,274 | (545) | 9,729 |
| Commercial real estate | 13,516 | (16) | 13,500 | 1,299 | (27) | 1,272 | 363 | (100) | 263 | 15,178 | (143) | 15,035 |
| Mining and quarrying | 4,845 | (7) | 4,838 | 1,047 | (29) | 1,018 | 616 | (486) | 130 | 6,508 | (522) | 5,986 |
| Consumer durables | 7,328 | (5) | 7,323 | 906 | (13) | 893 | 656 | (470) | 186 | 8,890 | (488) | 8,402 |
| Construction | 2,565 | (4) | 2,561 | 512 | (22) | 490 | 884 | (633) | 251 | 3,961 | (659) | 3,302 |
| Trading companies & distributors | 2,512 | (2) | 2,510 | 385 | (2) | 383 | 444 | (330) | 114 | 3,341 | (334) | 3,007 |
| Government | 13,488 | (1) | 13,487 | 250 | — | 250 | — | — | — | 13,738 | (1) | 13,737 |
| Other | 4,639 | (7) | 4,632 | 552 | (8) | 544 | 287 | (251) | 36 | 5,478 | (266) | 5,212 |
| Retail Products: | | | | | | | | | | | | |
| Mortgage | 73,437 | (9) | 73,428 | 1,936 | (9) | 1,927 | 343 | (98) | 245 | 75,716 | (116) | 75,600 |
| CCPL and other unsecured lending | 16,622 | (277) | 16,345 | 560 | (117) | 443 | 437 | (263) | 174 | 17,619 | (657) | 16,962 |
| Auto | 670 | (2) | 668 | 4 | — | 4 | 1 | — | 1 | 675 | (2) | 673 |
| Secured wealth products | 17,074 | (18) | 17,056 | 825 | (5) | 820 | 299 | (175) | 124 | 18,198 | (198) | 18,000 |
| Other | 3,296 | (2) | 3,294 | 297 | (2) | 295 | 50 | (23) | 27 | 3,643 | (27) | 3,616 |
| Total value (customers)¹ | 237,103 | (426) | 236,677 | 17,428 | (416) | 17,012 | 8,454 | (5,586) | 2,868 | 262,985 | (6,428) | 256,557 |

1 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of \$3,151 million

2 Stage 3 balances have been restated to reflect interest due but unpaid together with equivalent credit impairment charges

Industry and Retail Products analysis of loans and advances by geographic region (unaudited)

This section provides an analysis of the Group's amortised cost loan portfolio, net of provisions, by industry and region.

In the Corporate & Institutional Banking and Commercial Banking segments our largest industry exposure remains manufacturing, which constitutes 16 per cent of Corporate & Institutional Banking and Commercial Banking loans and advances to customers (31 December 2018: 17 per cent). The manufacturing sector 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 4,561 clients.

The financing, insurance and non-banking industry group constitutes 15 per cent of Corporate & Institutional Banking and Commercial Banking loans and advances to customers. Clients are mostly investment grade institutions and this lending forms part of the liquidity management of the Group.

Loans and advances to the energy sector reduced to 10 per cent of total loans and advances to Corporate & Institutional Banking and Commercial Banking from 12 per cent in 2018. The energy sector lending is spread across five sub-sectors and over 364 clients.

The Group provides loans to commercial real estate counterparties of \$16.9 billion, which represents 6 per cent of total customer loans and advances. In total, \$8.5 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

commercial real estate 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 portfolio has increased to 46 per cent, compared with 43 per cent in 2018. The proportion of loans with LTV greater than 80 per cent has remained at less than 1 per cent during the same period.

The Mortgage portfolio continues to be the largest portion of the Retail Products portfolio, at 65 per cent. Credit cards and personal loans (CCPL) and other unsecured lending is broadly stable at 14 per cent of total Retail Products loans and advances.

| | 2019 | | | | |
|--|---|---------------------------------|-----------------------------------|--------------------------------|--------------------|
| Amortised cost | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Industry: | | | | | |
| Energy | 2,582 | 3,769 | 2,946 | 5,589 | 14,886 |
| Manufacturing | 11,350 | 6,127 | 3,211 | 3,141 | 23,829 |
| Financing, insurance and non-banking | 9,367 | 4,314 | 988 | 7,582 | 22,251 |
| Transport, telecom and utilities | 6,279 | 4,014 | 5,349 | 1,313 | 16,955 |
| Food and household products | 2,784 | 3,651 | 2,478 | 1,096 | 10,009 |
| Commercial real estate | 9,820 | 4,954 | 1,783 | 362 | 16,919 |
| Mining and quarrying | 2,151 | 2,469 | 965 | 1,693 | 7,278 |
| Consumer durables | 4,516 | 2,019 | 699 | 433 | 7,667 |
| Construction | 1,094 | 1,220 | 1,126 | 134 | 3,574 |
| Trading companies and distributors | 2,602 | 296 | 198 | 121 | 3,217 |
| Government | 1,490 | 9,907 | 3,926 | 73 | 15,396 |
| Other | 1,761 | 1,870 | 836 | 966 | 5,433 |
| Retail Products: | | | | | |
| Mortgages | 55,724 | 18,301 | 2,047 | 2,259 | 78,331 |
| CCPL and other unsecured lending | 10,633 | 4,239 | 2,258 | 93 | 17,223 |
| Auto | – | 485 | 87 | – | 572 |
| Secured wealth products | 8,159 | 10,473 | 338 | 1,432 | 20,402 |
| Other | 3,754 | 121 | 705 | 1 | 4,581 |
| Net loans and advances to customers | 134,066 | 78,229 | 29,940 | 26,288 | 268,523 |
| Net loans and advances to banks | 19,313 | 15,756 | 5,350 | 13,130 | 53,549 |

| | 2018 | | | | |
|--|---|---------------------------------|-----------------------------------|--------------------------------|--------------------|
| Amortised cost | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Industry: | | | | | |
| Energy | 2,778 | 5,279 | 2,793 | 6,150 | 17,000 |
| Manufacturing | 10,531 | 6,298 | 3,209 | 3,601 | 23,639 |
| Financing, insurance and non-banking | 8,657 | 4,653 | 915 | 6,662 | 20,887 |
| Transport, telecom and utilities | 5,712 | 4,177 | 4,703 | 1,178 | 15,770 |
| Food and household products | 1,945 | 4,011 | 2,798 | 975 | 9,729 |
| Commercial real estate | 8,148 | 4,865 | 1,854 | 168 | 15,035 |
| Mining and quarrying | 1,683 | 2,283 | 1,088 | 932 | 5,986 |
| Consumer durables | 4,892 | 2,255 | 731 | 524 | 8,402 |
| Construction | 831 | 1,094 | 1,225 | 152 | 3,302 |
| Trading companies and distributors | 1,976 | 624 | 391 | 16 | 3,007 |
| Government | 1,726 | 8,815 | 3,113 | 83 | 13,737 |
| Other | 1,686 | 1,899 | 803 | 824 | 5,212 |
| Retail Products: | | | | | |
| Mortgages | 52,434 | 19,156 | 2,126 | 1,884 | 75,600 |
| CCPL and other unsecured lending | 10,269 | 4,234 | 2,459 | – | 16,962 |
| Auto | – | 522 | 150 | 1 | 673 |
| Secured wealth products | 6,912 | 9,055 | 310 | 1,723 | 18,000 |
| Other | 2,616 | 320 | 679 | 1 | 3,616 |
| Net loans and advances to customers | 122,796 | 79,540 | 29,347 | 24,874 | 256,557 |
| Net loans and advances to banks | 27,858 | 11,676 | 5,573 | 16,307 | 61,414 |

Debt securities and other eligible bills

This section provides further detail on gross debt securities and treasury bills.

| | 2019 | 2018 |
|--|---|---|
| | Debt securities and other eligible bills \$million | Debt securities and other eligible bills \$million |
| Amortised cost and FVOCI | | |
| 12-month expected credit losses (stage 1) | 138,782 | 118,713 |
| AAA | 63,799 | 55,205 |
| AA- to AA+ | 36,840 | 35,685 |
| A- to A+ | 19,625 | 13,803 |
| BBB- to BBB+ | 9,466 | 9,639 |
| Lower than BBB- | 973 | 30 |
| Unrated | 8,079 | 4,351 |
| Lifetime expected credit losses (stage 2) | 4,644 | 6,909 |
| AAA | 248 | 156 |
| AA- to AA+ | 41 | 115 |
| A- to A+ | — | 54 |
| BBB- to BBB+ | 3,909 | 5,486 |
| Lower than BBB- | 241 | 292 |
| Unrated | 205 | 806 |
| Credit-impaired financial assets (stage 3) | 75 | 498 |
| Lower than BBB- | — | — |
| Unrated ¹ | 75 | 498 |
| Gross balance | 143,501 | 126,120 |

¹ 2018 stage 3 balance has been restated to reflect interest due but unpaid

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 213).

In line with the balance sheet growth, the Group strengthened its liquidity portfolio by deploying excess liquidity into highly rated securities. This is observed in the increased holdings of debt securities in the AAA rating category during the year by \$8.7 billion to \$64.0 billion. Increase in holdings of debt securities rated A- to A+ under stage 1 of \$5.8 billion is mainly due to investing excess liquidity into securities that meet regulatory liquidity requirement and at the same time offering higher yield than Treasury bills. Increase in stage 1 unrated debt securities of \$3.7 billion comprised mainly of corporate and government agency bonds.

IFRS 9 methodology

Approach for determining expected credit losses

Credit loss terminology

| Component | Definition |
|------------------------------------|---|
| Probability of default (PD) | The probability that a counterparty will default, over the next 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2) incorporating the impact of forward-looking economic assumptions that have an effect on Credit risk, such as interest rates, unemployment rates and GDP forecasts. The PD estimates will fluctuate in line with the economic cycle. The lifetime (or term structure) PDs are based on statistical models, calibrated using historical data and adjusted to incorporate forward-looking economic assumptions. |
| Loss given default (LGD) | The loss that is expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the bank expects to receive. The Group estimates LGD based on the history of recovery rates and considers the recovery of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant. |
| Exposure at default (EAD) | The expected balance sheet exposure at the time of default, taking into account expected changes over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments. |

To determine the expected credit loss, these components are multiplied together (PD for the reference period (up to 12 months or lifetime) x LGD x EAD and discounted to the balance sheet date using the effective interest rate as the discount rate.

IFRS 9 expected credit loss models have been developed for the Corporate & Institutional Banking and Commercial Banking businesses on a global basis, in line with their respective portfolios. However, for some of the key countries, country-specific models have also been developed.

The calibration of forward-looking information is assessed at a country or region level to take into account local macroeconomic conditions.

Retail Banking expected credit loss models are country and product specific given the local nature of the Retail Banking business.

For less material Retail Banking portfolios, the Group has adopted less sophisticated approaches based on historical roll rates or loss rates:

- For medium-sized Retail Banking portfolios, a roll rate model is applied, which uses a matrix that gives average loan migration rate between delinquency states from period to period. A matrix multiplication is then performed to generate the final PDs by delinquency bucket over different time horizons
- For smaller Retail Banking portfolios, loss rate models are applied. These use an adjusted gross charge-off rate, developed using monthly write-off and recoveries over the preceding 12 months and total outstanding balances
- While these models do not incorporate forward looking information, to the extent that there are significant changes in the macroeconomic forecasts an assessment will be completed on whether an adjustment to the model output is required

For a limited number of exposures, proxy parameters or approaches are used where the data is not available to calculate the origination PDs for the purpose of applying the SICR criteria; or for some retail portfolios where a full history of LGD data is not available estimates based on the loss experience from similar portfolios are used. The use of proxies is monitored and will reduce over time.

The following processes are in place to assess the ongoing performance of the models:

- Quarterly model monitoring that uses recent data to compare the differences between model predictions and actual outcomes against approved thresholds
- Annual independent validations of the performance of material models by Group Model Validation (GMV); an abridged validation is completed for non-material models

Where a model's performance breaches the monitoring thresholds or validation standards then an assessment of whether an ECL Post Model Adjustment (PMA) is required to correct for the identified model issue is completed. For the year end reporting, PMAs have been applied for seven models out of

the 181 in total. In aggregate the PMAs decrease the Group's impairment provisions by \$13 million (0.2 per cent).

Application of lifetime

Expected credit loss is estimated based on the period over which the Group is exposed to Credit risk. For the majority of exposures this equates to the maximum contractual period. For Retail Banking credit cards and Corporate & Institutional Banking overdraft facilities however, the Group does not typically enforce the contractual period, which can be as short as one day. As a result, the period over which the Group is exposed to Credit risk for these instruments reflects their behavioural life, which incorporates expectations of customer behaviour and the extent to which credit risk management actions curtails the period of that exposure. During the year, the Group revised the approach to determining behavioural life for credit cards, assessing at an individual card rather than customer level. This has resulted in an average life of between 2 and 6 years across our footprint markets (2018: 3 to 10 years). The change in approach did not have a material impact on the 2019 income statement. Corporate overdraft facilities have a 32 month lifetime (2018: 32 months).

Key assumptions and judgements in determining expected credit loss

Incorporation of forward-looking information

The evolving economic environment is a key determinant of the ability of a bank's clients to meet their obligations as they fall due. It is a fundamental principle of IFRS 9 that the provisions banks hold against potential future Credit risk losses should depend not just on the health of the economy today, but should also take into account potential changes to the economic environment. For example, if a bank was to anticipate a sharp slowdown in the world economy over the coming year, it should hold more provisions today to absorb the credit losses likely to occur in the near future.

To capture the effect of changes to the economic environment, the PDs and LGDs used to calculate expected credit loss, incorporate forward-looking information in the form of forecasts of the values of economic variables and asset prices that are likely to have an effect on the repayment ability of the Group's clients.

The 'Base Forecast' of the economic variables and asset prices is based on management's view on the five-year outlook, supported by projections from the Group's in-house research team and outputs from a third-party model that project specific economic variables and asset prices. The research team takes consensus views into consideration and senior management review projections for some core country variables against consensus when forming their view of the outlook. For the period beyond five years, management utilises the inhouse research view and outputs and third party

model outputs which allow for a reversion to long-term growth rates or norms. All projections are updated on a quarterly basis.

Forecast of key macroeconomic variables underlying the expected credit loss calculation and the impact on non-linearity

The Base Forecast – management's view of the most likely outcome – is that the expansion of the global economy will continue, characterised by soft but stabilising growth in the near term. There are some major challenges to the outlook for some of the Bank's key markets such as Hong Kong and China. The recent interest rate cuts by a number of prominent central banks, US-China trade deal and fiscal stimulus measures in key markets, such as China and India, will counter some of the headwinds to global growth including from structural drags such as debt overhang, ageing populations and anti-globalisation sentiment.

Economies are expected to reach their long-term – or potential – growth levels within the next three to five years, as the effect of current economic shocks dissipate. Countries which are going through a phase of structural transition are likely to experience a fall in their actual and potential growth at the same time. For example, China's rebalancing towards consumption and more sustainable growth is expected to slow its trend growth to around 5 per cent by the end of the decade. It will therefore take China longer to settle to a stabilised growth rate.

While the quarterly base forecasts informs the Group's strategic plan, one of the key requirements of IFRS 9 is that the assessment of provisions should consider multiple future economic environments. For example, the global economy may grow more quickly or more slowly than the Base Forecast, and these variations would have different implications for the provisions that the Group should hold today. As the negative impact of an economic downturn on credit losses tends to be greater than the positive impact of an economic upturn, if the Group sets provisions only on the expected credit loss under the Base Forecast it might maintain a level of provisions that does not appropriately capture the range of potential outcomes. To address this skewness (or non-linearity) in expected credit losses, IFRS 9 requires the ECL to be the probability-weighted ECL outcome calculated for a range of possible outcomes.

To assess the range of possible outcomes, the Group simulates a set of 50 scenarios around the Base Forecast and calculates the expected credit loss under each of them and assigns an equal weight of 2 per cent to each of the scenario outcomes. These scenarios are generated by a Monte Carlo simulation, which considers the degree of uncertainty (or volatility) around economic outcomes and how these outcomes have tended to move in relation to one another (or correlation). The use of Monte Carlo simulation is motivated by the number and spread of countries in which the Group operates.

This implies that the number of countries' macroeconomic variables to forecast is large, but more importantly the observation that a downturn in one part of the world is never perfectly synchronised with downturns everywhere else means that the Group may be challenged to capture a full range of scenarios with a handful of manually tuned scenarios.

While the 50 scenarios do not each have a specific narrative, they reflect a range of plausible hypothetical alternative outcomes for the global economy. Some imply an unwinding of the current shocks and uncertainty leading to higher global economic activity and higher asset prices, while others represent an intensification of current shocks or introduction of new shocks that raise uncertainty, leading to lower global economic activity and lower asset prices.

The table on the next page provides a summary of the Group's Base Forecast for key footprint markets, alongside the corresponding range seen across the multiple scenarios. To inform on the range within the Base Forecasts, the peak/trough amounts in the table show the highest and lowest points within the Base Forecast and the GDP graphs illustrate the shape of Base Forecast in relation to prior periods actuals and the long-term growth rates.

Since the start of the year global trade tensions between the US and China have affected investment sentiment and export performance across Asia. Growth in China and trade dependent countries such as Singapore and Korea have softened. While a US-China trade deal is expected to reduce the drag from the trade dispute the recent softening is reflected in the five-year average GDP growth for all three falling marginally compared to last year. Hong Kong has fallen into a recession and there has been a material downgrade in the near-term outlook. Beyond the impact of trade tensions and China slowdown, the social unrest and subsequent disruption have triggered the largest economic contraction since 2009. The current pressures on the Hong Kong economy are not expected to dissipate soon and average five year GDP growth has been reduced to 1.6 per cent from 3 per cent last year. India's economic growth has also been surprisingly weak: GDP growth fell to the slowest pace in more than six years in Q1-FY20 (April to June 2019). Weaker trade, weaker credit demand by non-bank finance companies, and significant weakness in household consumption have weighed on economic activity. However, stimulus measures by India's central bank and the government is expected to help growth pick up to close to its long-term level during 2021.

Slowing growth, lower-than-expected inflation and rising downside risks have caused central banks around the world to adopt an increasingly accommodative monetary policy stance. This is reflected by lower average interest rates across the five countries compared with a year ago.

There were material revisions to the base forecast for oil prices since last year. At the end of last year oil prices were expected to average around US\$85/barrel over the medium term, but by the end of 2019 that projection had been revised down to around US\$71. Oil prices have been weaker than expected during the year and this is reflected in the revised projections. Trade tensions between the US and China and weakness in oil demand concentrated in the OECD have weighed on prices in 2019.

After the close of the 2019 accounts, the novel coronavirus (Covid-19) outbreak in January 2020 has increased risk aversion and uncertainty. The outbreak will likely lead to a weaker outlook for at least the Group's Asian markets in 2020.

China GDP YoY%



Hong Kong GDP YoY%



Korea GDP YoY%



Singapore GDP YoY%



India GDP YoY%



2019

| | China | | | | Hong Kong | | | | Korea | | | | Singapore | | | | India | | | |
|----------------------------|----------------------------|---------------------------|------------------|-------------------|----------------------------|---------------------------|--------------------|-------------------|----------------------------|---------------------------|------------------|-------------------|----------------------------|---------------------------|------------------|-------------------|----------------------------|---------------------------|------------------|-------------------|
| | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ |
| GDP growth (YoY%) | 5.8 | 6.3/5.5 | 4.4 | 7.4 | 1.6 | 2.5/(4.8) | (2.7) ⁴ | 4.4 | 2.6 | 2.9/2.1 | 0.6 | 4.8 | 2.1 | 2.5/0.9 | (1.4) | 5.9 | 6.9 | 7.2/6.1 | 5.0 | 9.0 |
| Unemployment (%) | 3.6 | 3.6/3.6 | 3.6 | 3.7 | 3.5 | 3.6/3.1 | 2.7 | 4.3 | 3.6 | 4.0/3.2 | 3.0 | 4.2 | 3.0 | 3.2/3.0 | 2.3 | 3.8 | N/A | N/A | N/A | N/A |
| 3 month interest rates (%) | 2.6 | 2.8/2.3 | 1.8 | 3.6 | 2.4 | 3.5/1.2 | 0.9 | 4.3 | 1.7 | 2.5/1.2 | 0.8 | 2.9 | 2.0 | 2.9/1.3 | 1.1 | 3.1 | 5.2 | 5.6/4.8 | 4.3 | 6.1 |
| House prices (YoY%) | 6.3 | 7.6/4.2 | 4.2 | 8.3 | 3.6 | 5.7/(5.1) | (6.5) | 14.6 | 2.6 | 2.8/0.7 | 0.5 | 4.8 | 3.4 | 4.4/0.4 | (2.7) | 9.7 | 7.8 | 8.1/6.9 | 2.4 | 13.2 |

2018

| | China | | | | Hong Kong | | | | Korea | | | | Singapore | | | | India | | | |
|----------------------------|----------------------------|---------------------------|------------------|-------------------|----------------------------|---------------------------|------------------|-------------------|----------------------------|---------------------------|------------------|-------------------|----------------------------|---------------------------|------------------|-------------------|----------------------------|---------------------------|------------------|-------------------|
| | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ |
| GDP growth (YoY%) | 6.0 | 6.6/5.7 | 4.3 | 7.7 | 3.0 | 3.0/3.0 | 0.6 | 5.6 | 2.9 | 3.0/2.4 | 0.4 | 5.3 | 2.4 | 2.7/2.2 | (1.7) | 6.4 | 7.7 | 8.0/6.7 | 5.6 | 10.1 |
| Unemployment (%) | 4.0 | 4.0/3.9 | 3.8 | 4.2 | 3.4 | 3.6/2.9 | 2.4 | 4.6 | 3.2 | 3.5/3.0 | 2.4 | 4.0 | 3.0 | 3.0/2.9 | 2.3 | 3.7 | N/A | N/A | N/A | N/A |
| 3 month interest rates (%) | 3.1 | 3.2/2.9 | 2.0 | 4.3 | 3.0 | 3.4/2.8 | 1.8 | 4.2 | 2.6 | 3.0/1.9 | 1.4 | 4.0 | 2.4 | 2.4/2.0 | 1.3 | 3.8 | 6.9 | 7.3/6.4 | 5.1 | 8.9 |
| House prices (YoY%) | 5.8 | 7.2/3.8 | 3.4 | 8.5 | 2.3 | 9.8/(2.7) | (8.1) | 12.1 | 3.5 | 4.0/1.8 | 1.3 | 6.1 | 4.4 | 6.4/3.8 | (1.5) | 10.6 | 8.4 | 8.8/7.9 | 1.4 | 15.1 |

| | 2019 | | | | | | | | 2018 | | | | | | | |
|--------------------------|----------------------------|---------------------------|------------------|-------------------|----------------------------|---------------------------|------------------|-------------------|----------------------------|---------------------------|------------------|-------------------|----------------------------|---------------------------|------------------|-------------------|
| | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ | 5 yr average base forecast | Base forecast peak/trough | Low ² | High ³ |
| Crude price Brent, \$ pb | 71 | 76/66 | 42 | 102 | 85 | 91/76 | 40 | 118 | | | | | | | | |

1 N/A - not available

2 Represents the 10th percentile in the range used to determine non-linearity

3 Represents the 90th percentile in the range used to determine non-linearity

4 This value is higher than the trough in the base forecast because it is measured over the five-year range.

The final probability weighted expected credit loss reported by the Group is a simple average of the expected credit loss for each of the 50 scenarios together with the expected credit loss from the base forecast. The impact of non-linearity on expected credit loss is set out in the table below:

| | Including non-linearity \$million | Base forecast \$million | Difference % | Total expected credit loss ¹ | |
|--|-----------------------------------|-------------------------|--------------|---|---------------------------|
| | | | | 5 yr average base forecast | Base forecast peak/trough |
| | 1,108 ¹ | 1,079 | 2.7 | | |

1 Total modelled expected credit loss comprises stage 1 and stage 2 balances of \$975 million and \$133 million of modelled expected credit loss on stage 3 loans

The average expected credit loss under multiple scenarios is 2.7 per cent higher than the expected credit loss calculated using only the most likely scenario (the Base Forecast). Portfolios that are more sensitive to non-linearity include those with greater leverage and/or a longer tenor, such as Project and Shipping Finance and credit card portfolios. Other portfolios display minimal non-linearity owing to limited responsiveness to macroeconomic impacts for structural reasons such as significant collateralisation as with the Retail Banking mortgage portfolios.

Hong Kong

A combination of the social unrest, escalating US-China trade tensions and China's slowing economy has led to an economic recession in Hong Kong. Macroeconomic forecasts in Hong Kong were downgraded in the second half of 2019, which contributed to a \$46 million increase in ECL provisions in Hong Kong over the same period.

As one of the key drivers for the Hong Kong recession is the social unrest, there is more uncertainty in the economic forecasts as it is challenging to forecast the economic impact of possible resolutions to the social unrest. Therefore the downside risk of an economically damaging resolution may not have been fully captured in the non-linearity calculated for our Hong Kong exposures. While the Monte Carlo approach equally weights all scenarios, given the increased uncertainties in Hong Kong, we have increased the weighting placed on a Hong Kong specific downside scenario.

Stage 3

Credit-impaired assets managed by GSAM incorporate forward-looking economic assumptions in respect of the recovery outcomes identified and are assigned individual probability weightings. These assumptions are not based on a Monte Carlo simulation but are informed by the Base Forecast.

Sensitivity of expected credit loss calculation to macroeconomic variables

The expected credit loss calculation relies on multiple variables and is inherently non-linear and portfolio-dependent, which implies that no single analysis can fully demonstrate the sensitivity of the expected credit loss to changes in the macroeconomic variables. The Group has conducted a series of analyses with the aim of identifying the macroeconomic variables which might have the greatest impact on overall expected credit loss. These encompassed single variable and multi-variable exercises, using simple up/down variation and extracts from actual calculation data, as well as bespoke scenario design and assessments.

The primary conclusion of these exercises is that no individual macroeconomic variable is materially influential – that is, likely to result in an impact of at least 1 per cent of the Group's expected credit loss. The Group believes this is plausible as the number of variables used in the expected credit loss calculation is large. This does not mean that macroeconomic variables are uninfluential; rather, that the Group believes that consideration of macroeconomics should involve whole scenarios, as this aligns with the multi-variable nature of the calculation.

As the Group has Emerging Risks related to the macroeconomic outlook, a sensitivity analysis of ECL was undertaken to explore the effect of these: an extended trade war that leads to a China slowdown with spillovers to emerging markets. Two variants of the scenario were run – one with moderate escalation of trade disputes and the other more extreme. Both scenarios are characterised by current trade policy tensions between the US and China increasing dramatically. The US targets trading partners with which it has a material trade deficit and pushes through highly protectionist measures, initiating trade tensions with Asia focused on China. Indirectly, economies reliant on global trade flows are vulnerable to the trade shock. The escalating trade war creates uncertainty which reduces risk appetite, leading to a sharp decline in asset prices and lower consumption and investment across developed and emerging markets. This leads to a global downturn and a sharp fall in commodity prices. As an indication, in the more extreme version of the scenario the average growth for China annual real GDP growth over the next five years fall to 3 per cent, which is almost half the growth in the equivalent for the base projection of around 5.8 per cent. US GDP falls from just below 2 per cent down five-year average to 0.8 per cent, crude oil prices fall, and residential property indices in China and Hong Kong dip negative.

| | Moderate downside | | Extreme downside | |
|---------------------------|-------------------|----------------|-------------------|-----------------|
| | Five year average | Peak/Trough | Five year average | Peak/Trough |
| China GDP | 4.9% | 5.6% / 3.4% | 3.0% | 5.3% / (2.0)% |
| China unemployment | 4.4% | 4.5% / 3.9% | 5.9% | 6.2% / 4.6% |
| China property prices | 0.0% | 7.1% / (7.0)% | (12.5)% | 6.2% / (29.4)% |
| Hong Kong GDP | 0.7% | 2.3% / (5.5)% | (1.4)% | 1.9% / (10.3)% |
| Hong Kong unemployment | 4.3% | 4.8% / 3.4% | 5.9% | 7.7 / 3.9% |
| Hong Kong property prices | 0.1% | 7.0% / (13.2)% | (8.1)% | 18.4% / (34.8)% |
| US GDP | 1.4% | 1.8% / 0.2% | 0.8% | 1.9% / (2.6)% |
| Crude oil | \$59 | \$71 / \$51 | \$35 | \$60 / \$22 |

Modelled expected credit loss provisions would be approximately \$401 million (2018: \$362 million) higher than the reported base case expected credit loss provision (excluding the impact of non-linearity) under the moderate scenario and \$2.9 billion higher under the extreme scenario. The proportion of stage 2 assets would increase from 6 per cent to 8 per cent and 14 per cent under the two scenarios. This includes the impact of exposures transferring to stage 2 from stage 1 but does not consider an increase in stage 3 defaults. There was no material change in modelled stage 3 provisions as these primarily relate to unsecured Retail Banking exposures for which the LGD is not sensitive to changes in the macroeconomic forecasts. Under moderate and extreme scenarios the majority of the increase was in Corporate & Institutional Banking and Commercial Banking with the main corporate portfolios in China, Hong Kong and Singapore impacted.

Around 20 per cent of the increase was in Retail Banking, with the main portfolios impacted being the Group's credit card portfolios in Hong Kong and Singapore. Note that the actual outcome of any scenario may be materially different due to, amongst other factors, the effect of management actions to mitigate potential increases in risk and changes in the underlying portfolio.

Modelled provisions

| | Moderate downside increase \$m | Extreme downside increase \$m |
|-----------------------------------|-----------------------------------|----------------------------------|
| Corporate & Institutional Banking | 252 | 1,786 |
| Retail Banking | 84 | 503 |
| Commercial Banking | 53 | 348 |
| Private Banking | 8 | 255 |
| Central & other items | 4 | 16 |
| Total | 401 | 2,908 |

Proportion of assets in stage 2¹

| | Base Forecast % | Moderate downside scenario % | Extreme downside scenario % |
|-----------------------------------|--------------------|---------------------------------|--------------------------------|
| Corporate & Institutional Banking | 7.7% | 12.0% | 20.6% |
| Retail Banking | 3.6% | 3.8% | 12.5% |
| Commercial Banking | 15.0% | 25.1% | 41.8% |
| Private Banking | 0.1% | 0.1% | 0.1% |
| Central & other items | 3.2% | 3.2% | 3.2% |
| Total | 5.9% | 8.0% | 13.9% |

¹ Excludes cash and balances at central banks, accrued income, assets held for sale and other assets

Significant increase in credit risk (SICR) Quantitative criteria

SICR is assessed by comparing the risk of default at the reporting date with the risk of default at origination. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria. These quantitative significant deterioration thresholds have been separately defined for each business and where meaningful are consistently applied across business lines.

Assets are considered to have experienced SICR if they have breached both relative and absolute thresholds for the change in the average annualised lifetime probability of default over the residual term of the exposure.

The absolute measure of increase in Credit risk is used to capture instances where the PDs on exposures are relatively low at initial recognition as these may increase by several multiples without representing a significant increase in Credit risk. Where PDs are relatively high at initial recognition, a relative measure is more appropriate in assessing whether there is a significant increase in Credit risk, as the PDs increase more quickly.

The SICR thresholds have been calibrated based on the following principles:

- Stability – The thresholds are set to achieve a stable stage 2 population at a portfolio level, trying to minimise the number of accounts moving back and forth between stage 1 and stage 2 in a short period of time
- Accuracy – The thresholds are set such that there is a materially higher propensity for stage 2 exposures to eventually default than is the case for stage 1 exposures
- Dependency from backstops – The thresholds are stringent enough such that a high proportion of accounts transfer to stage 2 due to movements in forward-looking PD rather than relying on backward-looking backstops such as arrears
- Relationship with business and product risk profiles – The thresholds reflect the relative risk differences between different products, and are aligned to business processes

For Corporate & Institutional Banking and Commercial Banking clients, the relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 50 and 100 bps.

For Retail Banking clients, the relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 100 and 350 bps depending on the product. Certain counties have a higher absolute threshold reflecting the lower default rate within their personal loan portfolios compared with the Group's other personal loan portfolios.

Private Banking clients are assessed qualitatively, based on a delinquency measure relating to collateral top-ups or sell-downs.

Debt securities originated before 1 January 2018 with an internal credit rating mapped to an investment grade equivalent are allocated to stage 1 and all other debt securities to stage 2. Debt securities originated after 1 January 2018 apply the same approach and thresholds as for Corporate & Institutional Banking and Commercial Banking clients.

Qualitative criteria

Qualitative factors that indicate that there has been a significant increase in Credit risk include processes linked to current risk management, such as placing loans on non-purely precautionary Early Alert.

Backstop

Across all portfolios, accounts that are 30 or more days past due (DPD) on contractual payments of principal and/or interest that have not been captured by the criteria above are considered to have experienced a significant increase in Credit risk.

Expert credit judgement may be applied in assessing significant increase in Credit risk to the extent that certain risks may not have been captured by the models or through the above criteria. Such instances are expected to be rare, for example due to events and material uncertainties arising close to the reporting date.

Corporate & Institutional Banking and Commercial Banking clients

Quantitative criteria

Exposures are assessed based on both the absolute and the relative movement in the PD from origination to the reporting date as described above.

To account for the fact that the mapping between internal credit grades (used in the origination process) and PDs is non-linear (e.g. a one-notch downgrade in the investment grade universe results in a much smaller PD increase than in the sub-investment grade universe), the absolute thresholds have been differentiated by credit quality at origination, as measured by internal credit grades being investment grade or sub-investment grade.

Qualitative criteria

All assets of clients that have been placed on Early Alert (for non-purely precautionary reasons) are deemed to have experienced a significant increase in Credit risk.

An account is placed on non-purely precautionary Early Alert if it exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

All client assets that have been assigned a CG12 rating, equivalent to 'Higher risk', are deemed to have experienced a significant increase in Credit risk. Accounts rated CG12 are managed by the GSAM unit. All Corporate & Institutional Banking and Commercial Banking clients are placed on CG12 when they are 30 DPD unless they are granted a waiver through a strict governance process.

Retail Banking clients

Quantitative criteria

Material portfolios (defined as a combination of country and product, for example Hong Kong mortgages, Taiwan credit cards) for which a statistical model has been built, are assessed based on both the absolute and relative movement in the PD from origination to the reporting date as described previously (page 187). For these portfolios, the original lifetime PD term structure is determined based on the original Application Score or Risk Segment of the client.

Qualitative criteria

Accounts that are 30 DPD that have not been captured by the quantitative criteria are considered to have experienced a significant increase in Credit risk. For less material portfolios, which are modelled based on a roll-rate or loss-rate approach, significant increase in credit risk is primarily assessed through the 30 DPD trigger.

Private Banking clients

For Private Banking clients, significant increase in Credit risk is assessed by referencing the nature and the level of collateral against which credit is extended (known as 'Classes of Risk').

Qualitative criteria

For all Private Banking Classes, in line with risk management practice, an increase in Credit risk is deemed to have occurred where margining or loan-to-value covenants have been breached.

For Class I assets (lending against diversified liquid collateral), if these margining requirements have not been met within 30 days of a trigger, a significant increase in Credit risk is assumed to have occurred.

For Class I and Class III assets (real-estate lending), a significant increase in credit risk is assumed to have occurred where the bank is unable to 'sell down' the applicable assets to meet revised collateral requirements within five days of a trigger.

Class II assets are typically unsecured or partially secured, or secured against illiquid collateral such as shares in private companies. Significant credit deterioration of these assets is deemed to have occurred when any Early Alert trigger has been breached.

Debt Securities

Quantitative criteria

For debt securities originated before 1 January 2018, the bank is utilising the low Credit risk simplified approach, where debt securities with an internal credit rating mapped to an investment grade equivalent are allocated to stage 1 and all other debt securities are allocated to stage 2. Debt securities originated after 1 January 2018 are assessed based on the absolute and relative movements in PD from origination to the reporting date.

Qualitative criteria

Debt securities utilise the same qualitative criteria as the Corporate & Institutional Banking and Commercial Banking client segments, including being placed on Early Alert or being classified as CG12.

Assessment of credit-impaired financial assets

Retail Banking clients

The core components in determining credit-impaired expected credit loss provisions are the value of gross charge off and recoveries. Gross charge off and/or loss provisions are recognised when it is established that the account is unlikely to pay through the normal process. Recovery of unsecured debt post credit impairment is recognised based on actual cash collected, either directly from clients or through the sale of defaulted loans to third-party institutions. Release of credit impairment provisions for secured loans 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).

Corporate & Institutional Banking, Commercial Banking and Private Banking clients

Credit-impaired accounts are managed by the Group's specialist recovery unit, GSAM, which is independent from its main businesses. Where any amount is considered irrecoverable, a stage 3 credit impairment provision is raised. This stage 3 provision is the difference between the loan-carrying amount and the probability-weighted present value of estimated future cash flows, reflecting a range of scenarios (typically the best, worst and most likely recovery outcomes). Where the cash flows include realisable collateral, the values used will incorporate the impact of forward-looking economic information.

The individual circumstances of each client are considered when GSAM estimates future cash flows and timing of future recoveries which involve significant judgement. 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.

Write-offs

Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an impairment provision has been raised, that amount will be written off.

Governance and application of expert credit judgement in respect of expected credit losses

The Group's Credit Policy and Standards framework details the requirements for continuous monitoring to identify any changes in credit quality and resultant ratings, as well as ensuring a consistent approach to monitoring, managing and mitigating credit risks. The framework aligns with the governance of ECL estimation through the early recognition of significant deteriorations in ratings which drive stage 2 and 3 ECL.

The models used in determining expected credit losses are reviewed and approved by the Group Credit Model Assessment Committee (CMAC) which is appointed by the Model Risk Committee. CMAC has the responsibility to assess and approve the use of models and to review all IFRS 9 interpretations related to models. CMAC also provides oversight on operational matters related to model development, performance monitoring and model validation activities including standards, regulatory and Group Internal Audit matters.

Prior to submission to CMAC for approval, the models have been validated by Group Model Validation (GMV), a function which is independent of the business and the model developers. GMV's analysis comprises review of model documentation, model design and methodology; data validation; review of model development and calibration process; out-of-sample performance testing; and assessment of compliance review against IFRS 9 rules and internal standards.

A quarterly model monitoring process is in place that uses recent data to compare the differences between model predictions and actual outcomes against approved thresholds. Where a model's performance breaches the monitoring thresholds then an assessment is completed of whether a Post Model Adjustment (PMA) is required to correct for the identified model issues.

Key inputs into the calculation and resulting expected credit loss provisions are subject to review and approval by the IFRS 9 Impairment Committee which is appointed by the Group Risk Committee. The IFRS 9 Impairment Committee consists of senior representatives from Risk, Finance, and Group Economic Research. It meets at least twice every quarter, once before the models are run to approve key inputs into the calculation, and once after the models are run to approve the expected credit loss provisions and any judgemental overrides that may be necessary.

The IFRS 9 Impairment Committee:

- Oversees the appropriateness of all Business Model Assessment and Solely Payments of Principal and Interest tests
- Reviews and approves expected credit loss for financial assets classified as stages 1, 2 and 3 for each financial reporting period
- Reviews and approves stage allocation rules and thresholds
- Approves material adjustments in relation to expected credit loss for fair value through other comprehensive income (FVOCI) and amortised cost financial assets
- Reviews, challenges and approves base macroeconomic forecasts and (the multiple macroeconomic scenarios approach) that are utilised in the forward-looking expected credit loss calculations

The IFRS 9 Impairment Committee is supported by an Expert Panel which reviews and challenges the full extended version of base case projections and multiple macroeconomic scenarios. The Expert Panel consists of members of Enterprise Risk Management (which includes the Scenario Design team), Finance, Group Economic Research and country representatives of major jurisdictions.

PMAs may be applied to account for identified weaknesses in model estimates. The processes for identifying the need for, calculating the level of, and approving PMAs are prescribed in the Credit Risk IFRS 9 ECL Model Family Standards which are approved by CMAC. PMA calculation methodologies are reviewed by GMV and submitted to CMAC as the model approver. As part of the governance framework Model Risk Oversight review that PMAs adhere to the requirements given in the standards. All PMAs have a remediation plan to fix the identified model weakness, and these plans are reported to and tracked at CMAC.

In addition, Risk Event Overlays account for events that are sudden and therefore not captured in the Base Case Forecast or the resulting ECL calculated by the models.

All Risk Event Overlays must be approved by the IFRS 9 Impairment Committee (IIC) having considered the nature of the event, why the risk is not captured in the model, and the basis on which the quantum of the overlay has been calculated. Risk Event Overlays are subject to quarterly review and re-approval by the IIC.

Country Risk (unaudited)

During 2019, the Group has expanded its definition of Country Risk beyond a historical focus on Country Cross-Border Risk. The Group now monitors Gross Country Risk (GCR), which is an aggregate of two distinct risk types:

- Transfer and Convertibility Risk (TCR), which is the potential for losses on cross-border or foreign currency obligations arising from the possibility that a government is unable or unwilling to make foreign currency available for remittance out of the country
- Local Currency Risk (LCR), which is the potential for losses on local currency obligations arising from operating in a volatile domestic economic and political environment

The profile of the Group's largest Gross Country Risk exposures as at 31 December 2019 is consistent with its strategic focus on core franchise countries. Changes in the pace of economic activity and portfolio management activity had an impact on the growth of Country Risk exposure for certain markets.

There has been a significant increase in exposure to the US, driven by increased purchases of medium-term domestic government securities and higher lending, especially to domestic financial institutions.

Exposure to Hong Kong increased during the year due to an increase in retail assets as well as increased cross-border lending to corporates. This was balanced by a reduction in short-term domestic government securities.

The overall exposure to South Korea has increased due to growth in the retail portfolio and higher nostro balances. This was partially offset by a reduction in domestic government securities and trade contingents.

Exposure to China decreased slightly due to lower nostro balances along with a reduction in derivative exposure. This was partially offset by increased lending and trade finance activity.

The slight increase in exposure to Singapore is due to increased purchases of short-term domestic government securities. This was partially offset by reduced corporate cross-border exposure.

Domestic and cross-border exposure to the UK grew due to an increase in lending, particularly to corporates, along with an increase in the Private Banking portfolio.

Exposure to India decreased slightly, due to a reduction in cross-border trade finance volumes as well as lower nostro balances. Domestic exposure to non-financial corporates notably increased during the year.

Exposure to the UAE decreased due to a decline in cross-border lending, particularly to non-financial corporates, along with a reduction in the retail portfolio.

The increase in exposure to Japan has been driven by higher purchases of government securities, particularly in off-shore locations, resulting in significant growth of overall cross-border exposure.

Overall exposure to Taiwan reduced during the year due to lower nostro balances and a reduction in domestic government securities, which exceeded incremental growth in lending and the retail portfolio.

The table below, which is based on the Group's internal Country Risk reporting requirements, shows the 10 largest country/market exposures across the Group.

| | 2019 | | | 2018 ¹ | | |
|----------------------|------------------|------------------|------------------|-------------------|------------------|------------------|
| | TCR \$million | LCR \$million | GCR \$million | TCR \$million | LCR \$million | GCR \$million |
| United States | 25,966 | 58,930 | 84,896 | 23,757 | 46,254 | 70,011 |
| Hong Kong | 21,361 | 63,214 | 84,575 | 20,194 | 61,897 | 82,091 |
| South Korea | 17,809 | 49,351 | 67,160 | 16,663 | 47,430 | 64,093 |
| China | 36,469 | 20,977 | 57,446 | 37,555 | 20,717 | 58,272 |
| Singapore | 18,304 | 34,046 | 52,350 | 18,573 | 32,606 | 51,179 |
| United Kingdom | 27,563 | 16,782 | 44,345 | 25,539 | 14,992 | 40,531 |
| India | 14,008 | 20,305 | 34,313 | 15,392 | 19,347 | 34,739 |
| United Arab Emirates | 16,461 | 6,145 | 22,606 | 17,591 | 6,106 | 23,697 |
| Japan | 9,341 | 10,393 | 19,734 | 4,546 | 12,312 | 16,858 |
| Taiwan | 2,733 | 14,827 | 17,560 | 2,876 | 15,292 | 18,168 |

¹ The 2018 figures have been restated to encompass the change in methodology from reporting Country Cross-Border Risk to Gross Country Risk

Traded Risk

Traded Risk is the potential for loss resulting from activities undertaken by the Group in financial markets. Under the Enterprise Risk Management Framework, the Traded Risk Framework brings together all risk types exhibiting risk features common to Traded Risk.

These risk types include Market Risk, Counterparty Credit Risk, Issuer Risk, XVA, Algorithmic Trading and Pension Risk. Traded Risk Management (TRM) is the core risk management function supporting market-facing businesses, specifically Financial Markets and Treasury Markets.

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, 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 212).

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
- Foreign Exchange Rate Risk: arising from changes in currency exchange rates and implied volatilities on foreign exchange options
- Commodity Risk: arising from changes in commodity prices and implied volatilities on commodity options; covering energy, precious metals, base metals and agriculture as well as commodity baskets
- Equity Risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options

Market Risk changes

The average level of total trading and non-trading VaR in 2019 was \$30.2 million, 47 per cent higher than in 2018 (\$20.6 million). The actual level of total trading and non-trading VaR in 2019 was \$34.4 million, 35 per cent higher than in 2018 (\$25.5 million). The increase in total average VaR was driven by the non-trading book, which has seen an increase in the bond inventory size in high-quality assets from Treasury Markets business.

For the trading book, the average level of VaR in 2019 was \$11 million, 12 per cent higher than in 2018 (\$9.8 million). Trading activities have remained relatively unchanged and client-driven.

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

| Trading and non-trading | 2019 | | | | 2018 | | | |
|---------------------------------|-------------------|-----------------------------|----------------------------|-------------------------------|-------------------|-----------------------------|----------------------------|-------------------------------|
| | 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 | 28.9 | 35.2 | 24.1 | 34.2 | 19.2 | 25.9 | 16.6 | 25.9 |
| Foreign Exchange Risk | 4.3 | 8.5 | 2.3 | 5.1 | 4.4 | 8.6 | 2.5 | 7.7 |
| Commodity Risk | 1.3 | 2.2 | 0.8 | 1.4 | 1.3 | 2.1 | 0.8 | 1.2 |
| Equity Risk | 3.5 | 4.6 | 2.5 | 2.5 | 4.8 | 6.8 | 2.6 | 2.7 |
| Total⁴ | 30.2 | 37.1 | 24.1 | 34.4 | 20.6 | 26.1 | 16.4 | 25.5 |
| Trading ⁵ | 2019 | | | | 2018 | | | |
| | 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 | 8.0 | 11.8 | 6.3 | 7.0 | 8.0 | 11.7 | 6.0 | 7.9 |
| Foreign Exchange Risk | 4.3 | 8.5 | 2.3 | 5.1 | 4.4 | 8.6 | 2.5 | 7.7 |
| Commodity Risk | 1.3 | 2.2 | 0.8 | 1.4 | 1.3 | 2.1 | 0.8 | 1.2 |
| Equity Risk | – | 0.1 | – | – | 0.1 | 0.1 | – | – |
| Total⁴ | 11.0 | 14.0 | 8.8 | 10.0 | 9.8 | 13.8 | 7.5 | 13.6 |
| Non-trading | 2019 | | | | 2018 | | | |
| | 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 | 26.2 | 33.3 | 21.2 | 33.3 | 16.8 | 20.7 | 14.1 | 20.7 |
| Equity Risk ⁶ | 3.5 | 4.6 | 2.5 | 2.5 | 4.7 | 6.8 | 2.6 | 2.7 |
| Total⁴ | 26.7 | 33.4 | 20.6 | 32.0 | 17.2 | 21.3 | 15.3 | 21.3 |

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 accounted for as fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI)

4 The total VaR shown in the tables above is not equal to the 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 (CRD IV/CRR) Part 3 Title I Chapter 3, which restricts the positions permitted in the trading book

6 Non-trading Equity Risk VaR includes only listed equities

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

| | 2019 | | | | 2018 | | | |
|----------------------------------|-------------------|-----------------------------|----------------------------|-------------------------------|-------------------|-----------------------------|----------------------------|-------------------------------|
| | 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 | 30.2 | 37.1 | 24.1 | 34.4 | 20.6 | 26.1 | 16.4 | 25.5 |
| Trading⁴ | | | | | | | | |
| Rates | 5.4 | 7.6 | 4.0 | 5.1 | 5.0 | 7.1 | 3.8 | 5.8 |
| Global Foreign Exchange | 4.3 | 8.5 | 2.3 | 5.1 | 4.4 | 8.6 | 2.5 | 7.7 |
| Credit Trading & Capital Markets | 4.2 | 7.9 | 1.9 | 4.6 | 3.8 | 6.1 | 1.8 | 2.9 |
| Commodities | 1.3 | 2.2 | 0.8 | 1.4 | 1.3 | 2.1 | 0.8 | 1.2 |
| Equities | – | 0.1 | – | – | 0.1 | 0.1 | – | – |
| XVA | 4.0 | 6.8 | 1.8 | 2.8 | 3.1 | 4.1 | 2.3 | 3.5 |
| Total ³ | 11.0 | 14.0 | 8.8 | 10.0 | 9.8 | 13.8 | 7.5 | 13.6 |
| Non-trading | | | | | | | | |
| Treasury Markets | 26.2 | 33.3 | 21.2 | 33.3 | 16.8 | 20.7 | 14.1 | 20.7 |
| Listed private equity | 3.5 | 4.6 | 2.5 | 2.5 | 4.7 | 6.8 | 2.6 | 2.7 |
| Total ³ | 26.7 | 33.4 | 20.6 | 32.0 | 17.2 | 21.3 | 15.3 | 21.3 |

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 (CRD IV/CRR) Part 3 Title I Chapter 3, which restricts the positions permitted in the trading book

Risks not in VaR (unaudited)

In 2019, 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 basis risks where historical market price data for VaR is sometimes more limited and therefore proxied, generating a potential basis risk. 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 for 31 December 2019 section on Market Risk.

Backtesting (unaudited)

In 2019, there were five regulatory backtesting negative exceptions at Group level (in 2018, there were two regulatory backtesting negative exceptions at Group level). These exceptions occurred on:

- 1 April: when markets rallied following the release of strong Chinese manufacturing data
- 30 May: driven by a reduction in US dollar yields and implied volatility which reversed an increase of the previous day
- 10 June: when US Treasury yields rallied following reports that proposed tariffs on goods from Mexico to the US would not be implemented
- 8 August: stronger than expected Chinese renminbi fixing eased concerns over US-China trade tensions and new Chinese economic data signalled some recovery for China's export-heavy economy. US dollar and US Treasury yields rose
- 19 August: US and Mexico reached agreement on illegal migration. President Trump announced suspension of proposed tariffs on Mexican goods. US dollar yields rose

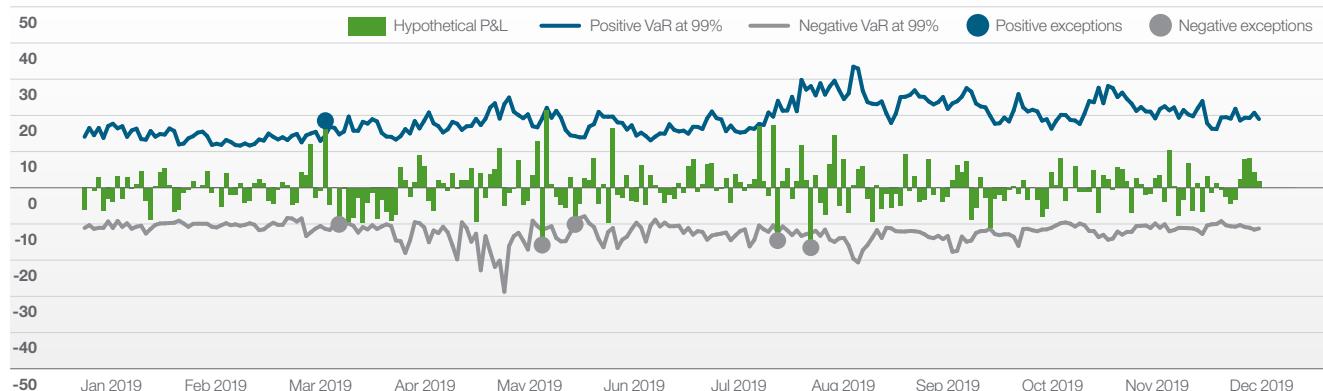
In total, there have been five Group exceptions in the previous 250 business days which is within the 'amber zone' applied internationally to internal models by bank supervisors (Basel Committee on Banking Supervision, *Supervisory framework for the use of backtesting in conjunction with the internal 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 profit and loss of each day given the actual market movement without taking into account any intra-day trading activity.

2019 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

| | 2019 | 2018 |
|---|------|------|
| Number of loss days reported for Financial Markets trading book total product income ¹ | 1 | 8 |

1 Reflects total product income for Financial Markets:

→ Including credit valuation adjustment (CVA) and funding valuation adjustment (FVA) risk

→ Excluding Treasury Markets business (non-trading) and periodic valuation changes for Capital Markets, expected loss provisions and overnight indexed swap (OIS) discounting

Average daily income earned from Market Risk-related activities¹

| | 2019 \$million | 2018 \$million |
|-----------------------|-------------------|-------------------|
| Trading | | |
| Interest Rate Risk | 3.6 | 3.1 |
| Foreign Exchange Risk | 4.5 | 3.9 |
| Commodity Risk | 0.6 | 0.8 |
| Equity Risk | – | – |
| Total | 8.7 | 7.8 |
| Non-trading | | |
| Interest Rate Risk | 1.7 | 2.4 |
| Equity Risk | 0.3 | 0.4 |
| Total | 2.0 | 2.8 |

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 7.9 per cent of the Group's regulatory capital risk-weighted asset (RWA) requirement (refer to risk-weighted

assets tables (page 239). As highlighted in the VaR disclosure, during 2019 the majority of Market Risk was managed within Treasury Markets and Financial Markets, which span both the 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 | 47,212 | 47,201 | 11 | Interest Rate, Foreign Exchange, Commodity or Equity Risk |
| Loans and advances to banks | 75,346 | 22,478 | 52,868 | Interest Rate or Foreign Exchange Risk |
| Loans and advances to customers | 314,754 | 43,264 | 271,490 | Interest Rate or Foreign Exchange Risk |
| Debt securities and other eligible bills | 165,761 | 22,740 | 143,021 | Interest Rate mainly, but also Foreign Exchange or Equity Risk |
| Equities | 2,760 | 2,208 | 552 | Equities Risk mainly, but also Interest or Foreign Exchange Risk |
| Other assets | 42,022 | – | 42,022 | Interest Rate, Foreign Exchange, Commodity or Equity Risk |
| Total | 647,855 | 137,891 | 509,964 | |
| Financial liabilities | | | | |
| Deposits by banks | 37,432 | – | 37,432 | Interest Rate or Foreign Exchange Risk |
| Customer accounts | 452,733 | – | 452,733 | Interest Rate or Foreign Exchange Risk |
| Debt securities in issue | 61,535 | – | 61,535 | Interest Rate mainly, but also Foreign Exchange or Equity Risk |
| Derivative financial instruments | 48,484 | 48,472 | 12 | Interest Rate, Foreign Exchange, Commodity or Equity Risk |
| Short positions | 4,153 | – | 4,153 | Interest Rate, Foreign Exchange, Commodity or Equity Risk |
| Total | 604,337 | 48,472 | 555,865 | |

Structural foreign exchange exposures

The table below sets out the principal structural foreign exchange exposures (net of investment hedges) of the Group.

| | 2019 \$million | 2018 \$million |
|-------------------|-------------------|-------------------|
| Hong Kong dollar | 8,432 | 7,792 |
| Indian rupee | 3,930 | 3,819 |
| Renminbi | 3,344 | 2,900 |
| Singapore dollar | 2,531 | 2,852 |
| Korean won | 2,393 | 2,148 |
| Taiwanese dollar | 1,418 | 1,238 |
| UAE dirham | 1,994 | 1,852 |
| Malaysian ringgit | 1,557 | 1,513 |
| Thai baht | 929 | 1,304 |
| Indonesian rupiah | 1,139 | 999 |
| Pakistani rupee | 441 | 458 |
| Other | 4,558 | 3,999 |
| | 32,666 | 30,874 |

As at 31 December 2019, the Group had taken net investment hedges using derivative financial investments of \$1,997 million (31 December 2018: \$2,137 million) to partly cover its exposure to the Korean won, \$789 million (31 December 2018: \$800 million) to partly cover its exposure to the Taiwanese dollar, \$1,565 million (31 December 2018: \$1,606 million) to partly cover its exposure to the renminbi and \$713 million (31 December 2018: \$712 million) to partly cover its exposure to the Indian rupee. 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 an increase of \$358 million (31 December 2018: \$336 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 236).

Counterparty Credit Risk

Counterparty Credit Risk is the potential for loss in the event of the default of a derivative counterparty, after taking into account the value of eligible collateral and risk mitigation techniques. The Group's counterparty credit exposures are included in the Credit Risk section.

Derivative financial instruments Credit Risk mitigation

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 \$28,659 million (2018: \$32,283 million).

In addition, the Group enters 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.

Liquidity and Funding Risk

Liquidity and Funding Risk is the risk that we may not have sufficient stable or diverse sources of funding to meet our obligations as they fall due.

The Group's Liquidity and Funding Risk framework requires each country to ensure that it operates within predefined liquidity limits and remains 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. In 2019 the Global Cross Border and Remote Booking Model Policy was implemented to set out the overall risk management approach for cross border booking of assets and liabilities.

In April 2019, the Group resolved the previously disclosed investigations by the US Authorities and the Financial Conduct Authority related to historical sanctions compliance and financial crime controls. These legacy investigation issues were the main regulatory uncertainties facing the Group. We will continue to maintain a strong liquidity position and would continue to optimise this where possible subject to a number of factors including market conditions and current and future regulatory requirements.

The Group has relatively low levels of sterling and euro funding and exposures within the context of the overall Group balance sheet. The result of the UK referendum to leave the EU has therefore not had a material first order liquidity impact to date. A new subsidiary has been established in Germany (Standard Chartered Bank AG) to grow our continental Europe franchise.

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.

In 2019, the Group issued approximately \$6.1 billion of senior debt securities and \$1 billion of subordinated debt securities and \$0.5 billion of Additional Tier 1 securities from its holding company (HoldCo) Standard Chartered PLC. (2018: \$4.6 billion of term senior debt and \$0.5 billion of subordinated debt securities).

Debt refinancing levels are low. In the next 12 months approximately \$6.8 billion of the Group's senior debt, subordinated debt and Additional Tier 1 securities in total are falling due for repayment either contractually or callable by the Group.

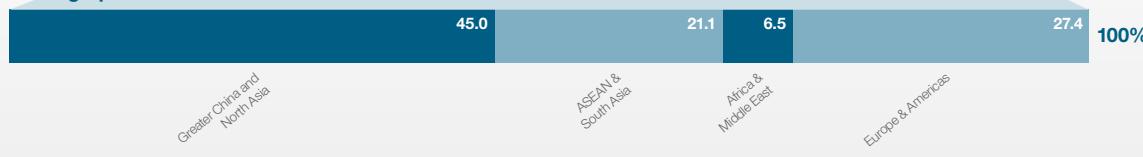
The information presented in the Liquidity Pool section (page 198) is on a financial view. This is the location in which the transaction or balance was booked and provides a more accurate view of where liquidity risk is actually located.

The chart below shows the composition of liabilities in which customer deposits make up 62.8 per cent of total liabilities and equity as at 31 December 2019, the majority of which are 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 per cent of Group customer accounts.

Group's composition of liabilities 31 December 2019



Geographic distribution of customer accounts 31 December 2019



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 144 per cent (2018: 154 per cent) with a prudent surplus to both Board-approved Risk Appetite and regulatory requirements. Both the liquidity buffer and cash outflows grew during the year in line with the overall balance sheet growth. However, higher net outflows, mainly due to reduced inflows, exceeded the growth in high-quality liquid assets (HQLA) resulting in an overall decrease in the ratio as we looked to optimise our liquidity position.

We also held adequate liquidity across our footprint to meet all local prudential LCR requirements where applicable.

| | 2019 \$million | 2018 \$million |
|--------------------------|-------------------|-------------------|
| Liquidity buffer | 158,415 | 149,602 |
| Total net cash outflows | 110,269 | 97,443 |
| Liquidity coverage ratio | 144% | 154% |

Stressed coverage (unaudited)

The Group intends to maintain a prudent and sustainable funding and liquidity position, in all countries and currencies, such that it can withstand a severe but plausible liquidity stress.

Our approach to managing liquidity and funding is reflected in the following Board-level 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 the Group 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 hence is 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 2019, i.e. respective countries are able to survive for a period of time as defined under each scenario. The combined scenario at 31 December 2019 showed the Group maintained liquidity resources to survive greater than 60 days, as per our Board 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 2019 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 2019, the estimated contractual outflow of a two-notch long-term ratings downgrade is \$1.3 billion.

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 Board 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 remained broadly unchanged from last year at 64.2 per cent (2018: 63.1 per cent).

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| Total loans and advances to customers ^{1,2} | 264,841 | 250,922 |
| Total customer accounts ³ | 412,303 | 397,764 |
| Advances-to-deposits ratio | 64.2% | 63.1% |

1 Excludes reverse repurchase agreement and other similar secured lending of \$1,469 million and includes loans and advances to customers held at fair value through profit and loss of \$6,896 million

2 Loans and advances to customers for the purpose of the advances-to-deposits ratio excludes \$9,109 million of approved balances held with central banks, confirmed as repayable at the point of stress. The loans and advances to customers balance at 31 December 2018 used in the advances-to-deposits ratio at 31 December 2018 has decreased by \$7,412 million from \$258,334 million to \$250,922 million to exclude approved balances held with central banks. The advances-to-deposits ratio has been restated from 64.9 per cent to 63.1 per cent as a result

3 Includes customer accounts held at fair value through profit or loss of \$6,947 million (31 December 2018: \$6,751 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). The NSFR is due to become a binding regulatory requirement in June 2021 with a minimum of 100 per cent. Pending implementation of the final rules, the Group continues to monitor NSFR in line with the BCBS' final recommendation (BCBS295).

The NSFR is a balance sheet metric which requires institutions to maintain a stable funding profile in relation to the characteristics of their assets and off-balance sheet activities over a one-year horizon. It is the ratio between the amount of available stable funding (ASF) and the amount of required stable funding (RSF). ASF factors are applied to balance sheet liabilities and capital, based on their perceived stability and the amount of stable funding they provide. Likewise, RSF factors are applied to assets and off-balance sheet exposures according to the amount of stable funding they require. 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 \$158 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. Cash and balances at central banks at 31 December 2019 in the table below has increased compared to year end as a result of the inclusion of approved term amounts confirmed as repayable at the point of stress.

| | 2019 | | | | |
|--|--|---------------------------------|-----------------------------------|--------------------------------|--------------------|
| | Greater China & North East Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Level 1 securities | | | | | |
| Cash and balances at central banks | 15,109 | 11,535 | 1,265 | 24,326 | 52,235 |
| Central banks, governments/public sector entities | 31,735 | 7,952 | 2,201 | 39,136 | 81,024 |
| Multilateral development banks and international organisations | 2,761 | 1,183 | 160 | 7,448 | 11,552 |
| Other | – | – | 14 | 1,104 | 1,118 |
| Total Level 1 securities | 49,605 | 20,670 | 3,640 | 72,014 | 145,929 |
| Level 2A securities | 4,824 | 1,928 | 63 | 3,217 | 10,032 |
| Level 2B securities | – | 343 | – | 2,111 | 2,454 |
| Total LCR eligible assets | 54,429 | 22,941 | 3,703 | 77,342 | 158,415 |
| | | | | | |
| | 2018 | | | | |
| | Greater China & North East Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Level 1 securities | | | | | |
| Cash and balances at central banks | 16,267 | 2,645 | 1,416 | 28,232 | 48,560 |
| Central banks, governments/public sector entities | 33,462 | 9,900 | 1,540 | 30,166 | 75,068 |
| Multilateral development banks and international organisations | 1,543 | 1,451 | 195 | 8,487 | 11,676 |
| Other | – | – | – | 1,125 | 1,125 |
| Total Level 1 securities | 51,272 | 13,996 | 3,151 | 68,010 | 136,429 |
| Level 2 A securities | 3,943 | 1,083 | 60 | 5,296 | 10,382 |
| Level 2 B securities | – | 1,264 | – | 1,527 | 2,791 |
| Total LCR eligible assets | 55,215 | 16,343 | 3,211 | 74,833 | 149,602 |

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 a 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 that have not been pledged and cannot be used to secure funding, meet collateral needs, or be sold to reduce potential/future funding requirements, as assessed by the Group.

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.

| | 2019 | | | | | | | | | | | | |
|--|--|-----------------|-----------------|--------|---|---|---|--|--------------------------------|--|--------|--------------------------------|-----------------|
| | 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 positioned at the central bank (i.e. 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 |
| | As a result of assets securitisations \$million | Other \$million | Total \$million | | | | Other assets that are capable of being encumbered \$million | Derivatives and reverse repo/stock lending \$million | Cannot be encumbered \$million | | | | |
| Cash and balances at central banks | 52,728 | – | – | – | 9,843 | 42,885 | – | – | – | – | 52,728 | | |
| Derivative financial instruments | 47,212 | – | – | – | – | – | – | – | 47,212 | – | 47,212 | | |
| Loans and advances to banks | 75,346 | 326 | 73 | 399 | – | 40,600 | 13,341 | 19,610 | 1,396 | 74,947 | | | |
| Loans and advances to customers | 314,754 | 298 | 1,082 | 1,380 | – | – | 259,061 | 40,804 | 13,509 | 313,374 | | | |
| Investment securities | 168,521 | – | 7,919 | 7,919 | 1,284 | 108,209 | 47,399 | – | 3,710 | 160,602 | | | |
| Other assets | 42,022 | – | 16,080 | 16,080 | – | – | 14,516 | – | 11,426 | 25,942 | | | |
| Current tax assets | 539 | – | – | – | – | – | – | – | – | 539 | 539 | | |
| Prepayments and accrued income | 2,700 | – | – | – | – | – | 1,530 | – | 1,170 | 2,700 | | | |
| Interests in associates and joint ventures | 1,908 | – | – | – | – | – | – | – | – | 1,908 | 1,908 | | |
| Goodwill and intangible assets | 5,290 | – | – | – | – | – | – | – | – | 5,290 | 5,290 | | |
| Property, plant and equipment | 6,220 | – | – | – | – | – | 444 | – | 5,776 | 6,220 | | | |
| Deferred tax assets | 1,105 | – | – | – | – | – | – | – | – | 1,105 | 1,105 | | |
| Assets classified as held for sale | 2,053 | – | – | – | – | – | – | – | – | 2,053 | 2,053 | | |
| Total | 720,398 | 624 | 25,154 | 25,778 | 11,127 | 191,694 | 336,291 | 107,626 | 47,882 | 694,620 | | | |

2018

| | 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 positioned at the central bank (i.e. pre-positioned plus encumbered) \$million | Assets not positioned at the central bank | | | | | |
| | Assets \$million | As a result of securitisations \$million | Other \$million | | Total \$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 | |
| Cash and balances at central banks | 57,511 | — | — | — | 8,152 | 49,359 | — | — | — | 57,511 |
| Derivative financial instruments | 45,621 | — | — | — | — | — | — | 45,621 | — | 45,621 |
| Loans and advances to banks | 82,065 | 447 | — | 447 | — | 45,623 | 13,918 | 20,698 | 1,379 | 81,618 |
| Loans and advances to customers | 299,371 | 497 | 7 | 504 | — | — | 243,802 | 41,037 | 14,028 | 298,867 |
| Investment securities | 149,568 | — | 7,521 | 7,521 | — | 95,523 | 40,591 | — | 5,933 | 142,047 |
| Other assets | 35,401 | — | 16,287 | 16,287 | — | — | 11,440 | — | 7,674 | 19,114 |
| Current tax assets | 492 | — | — | — | — | — | — | — | 492 | 492 |
| Prepayments and accrued income | 2,505 | — | — | — | — | — | 1,356 | — | 1,149 | 2,505 |
| Interests in associates and joint ventures | 2,307 | — | — | — | — | — | — | — | 2,307 | 2,307 |
| Goodwill and intangible assets | 5,056 | — | — | — | — | — | — | — | 5,056 | 5,056 |
| Property, plant and equipment | 6,490 | — | — | — | — | — | 400 | — | 6,090 | 6,490 |
| Deferred tax assets | 1,047 | — | — | — | — | — | — | — | 1,047 | 1,047 |
| Assets classified as held for sale | 1,328 | — | — | — | — | — | — | — | 1,328 | 1,328 |
| Total | 688,762 | 944 | 23,815 | 24,759 | 8,152 | 190,505 | 311,507 | 107,356 | 46,483 | 664,003 |

The Group received \$85,415 million (31 December 2018: \$82,534 million) as collateral under reverse repurchase agreements that was eligible for repledging; of this the Group sold or repledged \$44,530 million (31 December 2018: \$40,552 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 cashflows.

Within the tables below, cash and balances with central banks, interbank placements and investment securities that are fair value through other comprehensive income are used by the Group principally for liquidity management purposes.

As at the reporting date, assets remain predominantly short-dated, with 56 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.

| | 2019 | | | | | | | | |
|---|-----------------------------|--|---|--|--|--|--|--|-----------------|
| | 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 | 42,885 | - | - | - | - | - | - | 9,843 | 52,728 |
| Derivative financial instruments | 6,643 | 5,751 | 3,835 | 2,714 | 1,860 | 3,955 | 9,439 | 13,015 | 47,212 |
| Loans and advances to banks ^{1,2} | 33,133 | 19,030 | 11,069 | 5,150 | 3,464 | 1,701 | 1,366 | 433 | 75,346 |
| Loans and advances to customers ^{1,2} | 86,927 | 37,322 | 20,849 | 10,088 | 12,640 | 21,517 | 38,624 | 86,787 | 314,754 |
| Investment securities | 11,968 | 11,837 | 17,180 | 11,789 | 7,070 | 34,859 | 44,488 | 29,330 | 168,521 |
| Other assets | 20,689 | 18,223 | 1,433 | 105 | 75 | 264 | 133 | 20,915 | 61,837 |
| Total assets | 202,245 | 92,163 | 54,366 | 29,846 | 25,109 | 62,296 | 94,050 | 160,323 | 720,398 |
| Liabilities | | | | | | | | | |
| Deposits by banks ^{1,3} | 31,873 | 2,931 | 1,079 | 361 | 528 | 174 | 486 | - | 37,432 |
| Customer accounts ^{1,4} | 349,992 | 50,546 | 25,552 | 10,270 | 9,545 | 2,622 | 1,553 | 2,653 | 452,733 |
| Derivative financial instruments | 7,086 | 5,922 | 4,249 | 2,990 | 2,031 | 5,007 | 10,069 | 11,130 | 48,484 |
| Senior debt | 325 | 1,373 | 2,870 | 607 | 495 | 3,083 | 11,248 | 11,318 | 31,319 |
| Other debt securities in issue ¹ | 5,612 | 12,234 | 8,766 | 895 | 1,449 | 280 | 56 | 924 | 30,216 |
| Other liabilities | 17,701 | 17,206 | 3,039 | 600 | 908 | 1,866 | 835 | 11,191 | 53,346 |
| Subordinated liabilities and other borrowed funds | - | 17 | 754 | - | - | - | 5,523 | 9,913 | 16,207 |
| Total liabilities | 412,589 | 90,229 | 46,309 | 15,723 | 14,956 | 13,032 | 29,770 | 47,129 | 669,737 |
| Net liquidity gap | (210,344) | 1,934 | 8,057 | 14,123 | 10,153 | 49,264 | 64,280 | 113,194 | 50,661 |

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 Financial instruments (pages 285 to 307)

2 Loans and advances include reverse repurchase agreements and other similar secured lending of \$60.4 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of \$7.8 billion

4 Customer accounts include repurchase agreements and other similar secured borrowing of \$40.4 billion

| | 2018 | | | | | | | | |
|---|-----------------------------|--|---|--|--|--|--|--|-----------------|
| | 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 | 49,359 | — | — | — | — | — | — | 8,152 | 57,511 |
| Derivative financial instruments | 6,902 | 5,861 | 5,827 | 3,509 | 2,333 | 4,458 | 8,079 | 8,652 | 45,621 |
| Loans and advances to banks ^{1,2} | 38,331 | 20,549 | 11,209 | 5,214 | 2,835 | 2,584 | 1,064 | 279 | 82,065 |
| Loans and advances to customers ^{1,2} | 84,846 | 33,756 | 18,133 | 11,641 | 10,321 | 17,519 | 39,306 | 83,849 | 299,371 |
| Investment securities | 15,297 | 13,589 | 14,131 | 14,300 | 17,402 | 25,695 | 31,303 | 17,851 | 149,568 |
| Other assets | 21,155 | 8,909 | 2,385 | 224 | 135 | 96 | 155 | 21,567 | 54,626 |
| Total assets | 215,890 | 82,664 | 51,685 | 34,888 | 33,026 | 50,352 | 79,907 | 140,350 | 688,762 |
| Liabilities | | | | | | | | | |
| Deposits by banks ^{1,3} | 30,368 | 2,593 | 572 | 553 | 397 | 244 | 230 | 60 | 35,017 |
| Customer accounts ^{1,4} | 331,633 | 51,553 | 23,643 | 10,966 | 11,634 | 3,631 | 1,154 | 2,967 | 437,181 |
| Derivative financial instruments | 7,467 | 6,072 | 6,136 | 3,544 | 2,140 | 5,257 | 8,886 | 7,707 | 47,209 |
| Senior debt | 1,259 | 959 | 509 | 5,087 | 667 | 2,878 | 6,327 | 10,093 | 27,779 |
| Other debt securities in issue ¹ | 4,893 | 9,792 | 8,062 | 177 | 715 | 1,030 | 16 | 1,395 | 26,080 |
| Other liabilities | 22,835 | 8,698 | 4,130 | 852 | 536 | 868 | 401 | 11,823 | 50,143 |
| Subordinated liabilities and other borrowed funds | 23 | 17 | — | — | — | 2,522 | 4,421 | 8,018 | 15,001 |
| Total liabilities | 398,478 | 79,684 | 43,052 | 21,179 | 16,089 | 16,430 | 21,435 | 42,063 | 638,410 |
| Net liquidity gap | (182,588) | 2,980 | 8,633 | 13,709 | 16,937 | 33,922 | 58,472 | 98,287 | 50,352 |

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 Financial instruments (pages 285 to 307)

2 Loans and advances include reverse repurchase agreements and other similar secured lending of \$61.7 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of \$5.0 billion

4 Customer accounts include repurchase agreements and other similar secured borrowing of \$39.4 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, the majority of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful, given the instruments are undated. Interest payments on these instruments are included within the relevant maturities up to five years.

| | 2019 | | | | | | | | |
|---|-----------------------------|--|---|--|--|--|--|--|-----------------|
| | 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 | 33,034 | 2,977 | 1,112 | 381 | 588 | 189 | 502 | - | 38,783 |
| Customer accounts | 350,679 | 50,908 | 26,552 | 10,415 | 9,839 | 2,694 | 1,625 | 3,127 | 455,839 |
| Derivative financial instruments ¹ | 47,000 | 5 | 18 | 170 | 314 | 355 | 512 | 110 | 48,484 |
| Debt securities in issue | 5,951 | 13,615 | 11,886 | 1,559 | 2,210 | 3,882 | 12,431 | 13,557 | 65,091 |
| Subordinated liabilities and other borrowed funds | - | - | 1,009 | 26 | 395 | 641 | 7,140 | 15,124 | 24,335 |
| Other liabilities | 15,341 | 16,870 | 3,046 | 601 | 865 | 1,876 | 885 | 12,376 | 51,860 |
| Total liabilities | 452,005 | 84,375 | 43,623 | 13,152 | 14,211 | 9,637 | 23,095 | 44,294 | 684,392 |
| | 2018 | | | | | | | | |
| | 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 | 30,467 | 2,609 | 593 | 569 | 409 | 267 | 250 | 62 | 35,226 |
| Customer accounts | 332,115 | 51,845 | 24,686 | 11,094 | 11,780 | 3,700 | 1,226 | 3,552 | 439,998 |
| Derivative financial instruments ¹ | 45,665 | 137 | 141 | 9 | 91 | 31 | 679 | 456 | 47,209 |
| Debt securities in issue | 6,169 | 11,345 | 8,786 | 5,310 | 1,628 | 3,685 | 7,104 | 13,000 | 57,027 |
| Subordinated liabilities and other borrowed funds | 23 | - | 255 | - | 414 | 3,169 | 6,154 | 13,865 | 23,880 |
| Other liabilities | 19,746 | 8,757 | 4,129 | 892 | 520 | 885 | 407 | 12,302 | 47,638 |
| Total liabilities | 434,185 | 74,693 | 38,590 | 17,874 | 14,842 | 11,737 | 15,820 | 43,237 | 650,978 |

1 Derivatives are on a discounted basis

Interest Rate Risk in the Banking Book (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 repricing 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.

Estimated one-year impact to earnings from a parallel shift in yield curves at the beginning of the period of:

| | 2019 | | | |
|-------------------|-----------------------|-------------------------------------|-------------------------------------|--------------------|
| | USD bloc \$million | HKD, SGD & KRW bloc \$million | Other currency bloc \$million | Total \$million |
| + 50 basis points | (10) | 60 | 90 | 140 |
| - 50 basis points | 10 | (40) | (90) | (120) |

Estimated one-year impact to earnings from a parallel shift in yield curves at the beginning of the period of:

| | 2018 | | | |
|-------------------|-----------------------|-------------------------------------|-------------------------------------|--------------------|
| | USD bloc \$million | HKD, SGD & KRW bloc \$million | Other currency bloc \$million | Total \$million |
| + 50 basis points | 10 | 110 | 90 | 210 |
| - 50 basis points | (20) | (70) | (90) | (180) |

As at 31 December 2019, the Group estimates the one-year impact of an instantaneous, parallel increase across all yield curves of 50 basis points to be an earnings benefit of \$140 million. The corresponding impact from a parallel decrease of 50 basis points would result in an earnings reduction of \$120 million.

The benefit from rising interest rates is primarily from reinvesting at higher yields and from assets repricing faster and to a greater extent than deposits. The asymmetry between the up and down shock is primarily driven by differing behavioural assumptions, which are scenario specific. Overall NII sensitivity under both the up and down shock has reduced versus 31 December 2018, driven by Treasury Markets risk management activity to mitigate the risk to income in falling rate environment.

The US dollar sensitivity is dampened further by the impact of funding trading book assets with Banking Book liabilities. The reported 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 Trading Book income and is excluded from the reported sensitivities. If this were to be included, it would make the US dollar earnings sensitivity positively correlated with changes in US dollar interest rates. Further information on the impact of changes in interest rates on Trading Book is set out in the Market Risk section (pages 190 to 195).

Operational Risk (unaudited)

Operational Risks arise from the processes executed within the Group. Risks associated with these processes are mapped into a Group Process Universe where the Control Assessment Standards are applied. The Standards are benchmarked against regulatory requirements.

Operational Risk profile

The Operational Risk profile is the Group's overall exposure to non-financial risk, at a given point in time, covering all Principal Risk Types. The Operational Risk profile comprises both Operational Risk events (including losses) and the current exposures to non-financial risks.

Operational Risk events and losses

Operational losses are one indicator of the effectiveness and robustness of the non-financial risk control environment. As at 31 December 2019, recorded operational losses for 2019 excluding monetary penalties to the US authorities and the Financial Conduct Authority (FCA) for legacy conduct and control issues are lower than 2018. Operational losses in 2019 comprise unrelated non-systemic events which were not individually significant.

Losses in 2018 include incremental events that were recognised in 2019. As at 31 December 2019, the largest loss recorded for 2018 relates to a regulatory settlement on historic conduct and control issues related to the Group's Foreign Exchange trading and sales business of \$40.0 million in the Trading and Sales Basel business line.

The Group's profile of operational loss events in 2019 and 2018 is summarised in the table below. It shows the percentage distribution of gross operational losses by Basel business line.

Distribution of operational losses by Basel business line

| | % Loss | |
|-------------------------|-------------------|-------------------|
| | 2019 ¹ | 2018 ² |
| Agency services | 0.3% | 0.8% |
| Asset management | — | — |
| Commercial Banking | 14.0% | 8.9% |
| Corporate Finance | — | — |
| Corporate items | 16.2% | 3.2% |
| Payment and settlements | 4.7% | 9.0% |
| Retail Banking | 53.0% | 31.9% |
| Retail brokerage | 0.2% | — |
| Trading and sales | 11.6% | 46.2% |

1 Excludes monetary penalties to the US authorities and the FCA

2 Losses in 2018 have been restated to include incremental events recognised in 2019

The Group's profile of operational loss events in 2019 and 2018 is also summarised by Basel event type in the table below. It shows the percentage distribution of gross operational losses by Basel event type.

Distribution of operational losses by Basel event type

| | % Loss | |
|---|-------------------|-------------------|
| | 2019 ¹ | 2018 ² |
| Business disruption and system failures | 1.8% | 3.8% |
| Clients products and business practices | 3.6% | 37.8% |
| Damage to physical assets | — | 0.1% |
| Employment practices and workplace safety | — | 0.1% |
| Execution delivery and process management | 58.2% | 37.6% |
| External fraud | 35.5% | 18.3% |
| Internal fraud | 0.9% | 2.3% |

1 Excludes monetary penalties to the US authorities and the FCA

2 Losses in 2018 have been restated to include incremental events recognised in 2019

Other principal risks (unaudited)

Losses arising from operational failures for other principal risks (for example: Compliance, Conduct, Reputational, Information and Cyber Security and Financial Crime Risk) are reported as operational losses. Operational losses do not include Operational Risk-related credit impairments.

Enterprise Risk Management Framework

Effective risk management is essential in delivering 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 the communities in which they operate by taking and managing appropriate levels of risk, which in turn generates returns for shareholders.

The Enterprise Risk Management Framework (ERMF) enables the Group to manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our Risk Appetite. The ERMF has been designed with the explicit goal of improving the Group's risk management, and since its launch in January 2018, it has been embedded across the Group and rolled out to its branches and subsidiaries.

In 2019, we completed a comprehensive review of the ERMF and the following changes were approved by the Board:

- Model Risk was elevated to a Principal Risk Type (effective in 2020) with enhancements to the Group's approach to Model Risk management
- Climate Risk was introduced as a material cross-cutting risk that, while not a Principal Risk Type in itself, manifests through other relevant Principal Risk Types
- A process of self-assessments performed by the branches and subsidiaries to assess the overall adoption and effectiveness of the ERMF locally was formalised
- Our existing Principal Risk Types were updated as follows:
 - Country Risk coverage was expanded from Country Cross-Border Risk to Gross Country Risk
 - Principles related to environment and social risks, defence and dual use goods were incorporated under Reputational Risk
 - Fraud Risk was reclassified as a risk sub-type from Operational Risk to Financial Crime

The revised ERMF was approved on 12 December 2019 and became effective in January 2020.

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 in 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 as follows:



- As part of the strategy review process, conducting an impact analysis on the risk profile from 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
- As part of the strategy review process, confirming 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 ERMF and the Group Risk Appetite Statement where projections allow

Roles and responsibilities

Senior Managers Regime

Roles and responsibilities under the ERMF 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 ERMF and for identifying material risk types to which the Group may be potentially exposed. The Group Chief Risk Officer delegates effective implementation of the Risk Type Frameworks to Risk Framework Owners who provide second line of defence oversight for the Principal Risk Types. In addition, the Group Chief Risk Officer has been formally identified as the relevant Senior Manager responsible for Climate Risk management as it relates to financial and non-financial risks to the Group arising from climate change. This does not include elements of corporate social responsibility, the Group's contribution to climate change and/or Sustainable Finance strategy in supporting a low-carbon transition, which are the responsibility of other relevant Senior Managers.

The Risk function

The Risk function is responsible for the sustainability of our business through good management of risk across the Group by providing oversight and challenge, thereby ensuring that business is conducted in line with regulatory expectations.

The Group Chief Risk Officer directly manages the Risk function, which is separate and independent from the origination, trading and sales functions of the businesses. The Risk function is responsible for:

- Maintaining the ERMF, ensuring that it remains relevant and appropriate to the Group's business activities, and is effectively communicated and implemented across the Group, and administering related governance and reporting processes
- Upholding the overall integrity of the Group's risk and return decisions to ensure that risks are properly assessed, that these 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
- Overseeing and challenging the management of Principal Risk Types under the ERMF

The independence of the Risk function ensures that the necessary balance in making risk and return decisions is not compromised by short-term pressures to generate revenues.

In addition, the Risk function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the broader organisation.

The Risk function supports the Group's commitment to be Here for good by building a sustainable framework that places regulatory and compliance standards and a culture of appropriate conduct at the forefront of the Group's agenda, in a manner proportionate to the nature, scale and complexity of the Group's business.

In January 2019, we integrated Conduct, Financial Crime and Compliance (CFCC) risks under a single function under the Management Team leadership of the Group

Head, Corporate Affairs, Brand & Marketing and CFCC. CFCC works alongside the Risk function within the framework of the ERMF to deliver a unified second line of defence.

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 below.

| Lines of defence | Definition | Key responsibilities include |
|------------------|---|--|
| 1st | The businesses and functions engaged in or supporting revenue-generating activities that own and manage the risks | <ul style="list-style-type: none"> → Propose the risks required to undertake revenue-generating activities → Identify, assess, monitor and escalate risks and issues to the second line and senior management¹ and promote a healthy risk culture and good conduct → Manage risks within Risk Appetite, set and execute remediation plans 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, senior management and the Board | <ul style="list-style-type: none"> → Identify, monitor and escalate risks and issues to the Group Chief Risk Officer, senior management 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, there is material non-compliance with policy requirements or when operational controls do not effectively manage risk → Set risk data aggregation, risk reporting and data quality requirements → Ensure that there are appropriate controls to comply with applicable laws and regulations, and escalate significant non-compliance matters to senior management and the appropriate committees |
| 3rd | The Internal Audit function provides independent assurance on the effectiveness of controls that support first line's risk management of business activities, and the processes maintained by the second line | <ul style="list-style-type: none"> → Independently assess whether management has identified the key risks in the businesses 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 Individuals designated as senior management functions under the FCA and PRA Senior Managers Regime

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 their associated thresholds. These directly constrain the aggregate risk exposures that can be taken across the Group. The Group Risk Appetite is reviewed at least on an annual basis to ensure that it is fit for purpose and aligned with strategy, and focus is given to emerging or new risks. 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 defined in accordance with risk management principles that inform our overall approach to risk management and our risk culture. We follow the highest ethical standards and ensure a fair outcome for our clients, as well as facilitating 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, as well as 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.

The Group Risk Appetite is supplemented by risk control tools such as granular level limits, policies, standards and other operational control parameters that are used to keep the Group's risk profile within Risk Appetite. 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, Board Risk Committee and the Group Risk Committee, including the status of breaches and remediation plans where applicable. To keep the Group's risk profile within Risk Appetite (and therefore also risk capacity), we have cascaded critical Group Risk Appetite metrics across our Principal Risk Types to our footprint markets with significant business operations. Country Risk Appetite is managed at a country or local level with Group and regional oversight. In addition to Risk Appetite Statements for the Principal Risk Types, the Group also has a Risk Appetite Statement for Climate Risk which is a material cross-cutting risk that can manifest through other risk types. The Group aims to measure and manage financial and non-financial risks from climate change, and reduce emissions related to our own activities and those related to the financing of clients in alignment with the Paris Agreement.

The Group Risk Committee, the Group Financial Crime Risk Committee, the Group Non-Financial 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 approved by the Board are set out in the Principal risks section (pages 212 to 227)

Risk identification and assessment

Identification and assessment of potentially 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. There are also sources of risk that arise beyond our own operations such as the Group's dependency on suppliers for the provision of services and technology. As the Group remains accountable for risks arising from the actions of such third parties, failure to adequately monitor and manage these relationships could materially impact the Group's ability to operate and could have an impact on our ability to continue to provide services that are material to the Group.

To facilitate risk identification and assessment, the Group maintains a dynamic risk-scanning process with inputs from the internal and external risk environment, as well as potential threats and opportunities from the business and client perspectives. The Group maintains an inventory of the Principal Risk Types and risk sub-types that are inherent to the strategy and business model; and emerging risks that include near-term as well as longer-term uncertainties. Near-term risks are those that are on the horizon and can be measured and mitigated to some extent, while uncertainties are longer-term matters that should be on the radar but are not yet fully measurable.

The Group Chief Risk Officer and the Group Risk Committee review regular reports on the risk profile for the Principal Risk Types, adherence to the approved Risk Appetite and the Group risk inventory including emerging risks. They use this information to escalate material developments in each risk event and make recommendations to the Board on any potential changes to our Corporate Plan.

Stress testing

The objective of stress testing is to support the Group in assessing that it:

- Does not have a portfolio with excessive risk concentration 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 key business model risks and 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 impact as required

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 traded and liquidity positions as described in the sections on Traded Risk (page 215), and Capital and Liquidity Risk (page 217). 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 test submissions to the Bank of England to the Board Risk Committee, who review 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 the Board to ensure that the Group strategy remains within the Board-approved Risk Appetite.

Principal Risk Types

Principal Risk Types are risks that are inherent in our strategy and business model and have been formally defined in the Group's ERMF. These risks are managed through distinct Risk Type Frameworks (RTFs) which are approved by the Group Chief Risk Officer. The Principal Risk Types and associated Risk Appetite Statements are approved by the Board.

In 2019, we performed a review of our Principal Risk Types and elevated Model Risk to a Principal Risk Type (effective in 2020) and implemented enhancements undertaken to the Group's approach to Model Risk management. In addition to Principal Risk Types, the Group may be exposed to material cross-cutting risks that manifest through other Principal Risk Types. The Group Chief Risk Officer can direct risk management frameworks and appoint Risk Framework Owners to perform second line of defence activities for such cross-cutting risks. The Group currently recognises Climate Risk as a material cross-cutting risk. Climate Risk is defined as the potential for financial loss and non-financial detriments arising from climate change and society's response to it.

In the coming years we will consider if existing Principal Risk Types or incremental risks should be treated as cross-cutting risks. The table below shows the Group's current Principal Risk Types.

| 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 |
| Traded Risk | → Potential for loss resulting from activities undertaken by the Group in financial markets |
| Capital and Liquidity Risk | → Capital: Potential for insufficient levels, composition or distribution of capital to support our normal activities → Liquidity: Risk that we may not have sufficient stable or diverse sources of funding to meet our obligations as they fall due |
| Country Risk | → Potential for losses due to political or economic events in a country |
| Reputational Risk | → Potential for damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation because of stakeholders taking a negative view of the organisation, its actions or inactions – leading stakeholders to change their behaviour |
| Operational Risk | → Potential for loss resulting from inadequate or failed internal processes and systems, human error, or from the impact of external events (including legal risks) |
| Compliance Risk | → Potential for penalties or loss to the Group, or for an adverse impact to our clients, stakeholders or to the integrity of the markets in which we operate through a failure on our part to comply with laws or regulations |
| Conduct Risk | → Risk of detriment to the Group's clients, investors, shareholders, market integrity, competition and counterparties or risk of detriment from the inappropriate supply of financial services, including instances of willful or negligent misconduct |
| Financial Crime Risk | → 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, anti-bribery and corruption, and fraud |
| Information and Cyber Security Risk | → 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 |
| Model Risk* | → Potential loss that may occur as a consequence of decisions or the risk of mis-estimation that could be principally based on the output of models, due to errors in the development, implementation or use of such models |

* Effective from January 2020

➤ Further details of our principal risks and how these are being managed are set out in the [Principal risks section \(pages 212 to 227\)](#)

ERMF effectiveness reviews

The Group Chief Risk Officer is responsible for annually affirming the effectiveness of the ERMF to the Board Risk Committee. To facilitate this, an ERMF effectiveness review was established in 2018, which follows the principle of evidence-based self-assessments for all the Risk Type Frameworks and relevant policies.

The annual ERMF effectiveness review, first introduced in 2018, was conducted in 2019 and enables measurement of progress against the 2018 baseline. The 2019 effectiveness review has shown that:

- ➔ Since the launch of the ERMF in 2018, the focus in 2019 has been on effective embedding of the framework across the organisation and we have made progress on overall effectiveness

- ➔ We have an established risk taxonomy through the Principal Risk Types and risk sub-types which provides a common risk language across the three lines of defence and ultimate risk oversight by senior management and the Board. There is also stronger first line ownership of risks
- ➔ In 2019, risk management for both financial and non-financial risks improved year-on-year. Financial risks continue to be managed more effectively on a relative basis as compared with the non-financial risks. This reflects the maturity of these Risk Type Frameworks and the underlying risk management practices

- ➔ Self-assessments performed in our footprint markets reflect the use of the ERMF and Principal Risk Types, with reinforced first line ownership of risks. Country and regional risk committees are playing a more active role in managing and overseeing material issues arising in countries. Automation opportunities for manual risk oversight processes will continue to be explored in 2020

Ongoing structured ERMF effectiveness reviews enable us to identify improvement opportunities and proactively build plans to address them. Over the course of 2020, the Group aims to further strengthen its risk management practices and target improvements in the management of non-financial risk types.

Executive and Board risk oversight

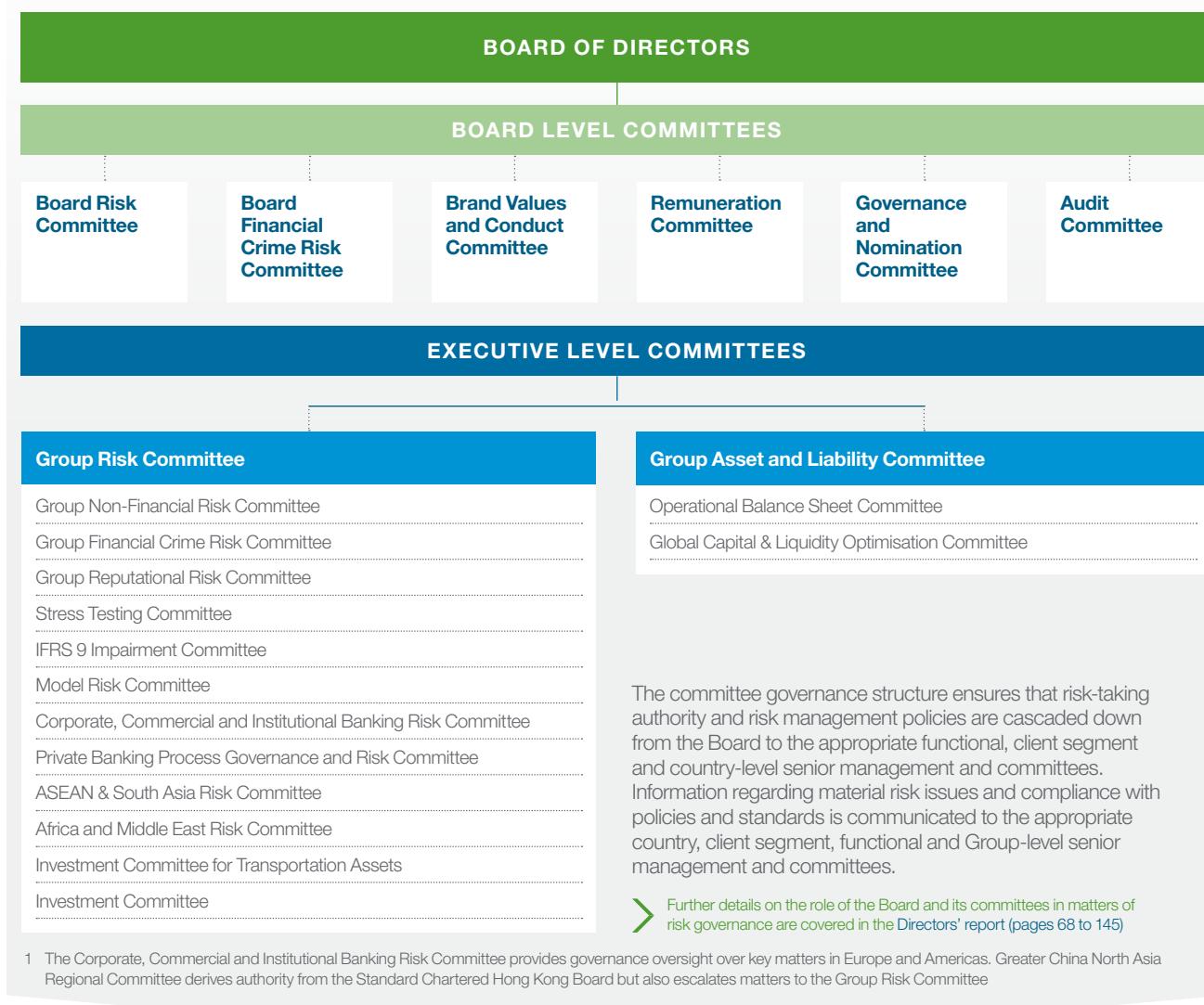
Overview

The Board has ultimate responsibility for risk management and is supported by the six Board-level committees. The Board approves

the ERMF based on the recommendation from the Board Risk Committee, which also recommends the Group Risk Appetite Statement for all Principal Risk Types other than Financial Crime Risk. Financial Crime Risk Appetite is reviewed and recommended to the Board by the Board Financial Crime Risk Committee.

In addition, the Brand Values and Conduct Committee oversees the brand, valued behaviours, reputation and conduct of the Group. The Committee reviews the effectiveness of the Group's Conduct Risk Type Framework and manages Reputational Risk in line with the Reputational Risk Type Framework.

Board and Executive level risk committee governance structure



Group Risk Committee

The Group Risk Committee, which derives its authority from the Group Chief Risk Officer, 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 Group's Management Team. The Committee determines the ERMF and oversees its effective implementation across the Group, including the delegation of any part of its authorities to appropriate individuals or properly constituted sub-committees.

Group Risk Committee sub-committees

The Group Non-Financial Risk Committee, chaired by the Global Head of Risk, Functions and Operational Risk, governs the non-financial Principal Risk Types across clients, businesses, products and functions. The non-financial Principal Risk Types in scope are Operational Risk, Compliance Risk, Conduct Risk, Information and Cyber Security Risk and Reputational Risk that is consequential in nature arising from potential failures of Principal Risk Types. The Committee also reviews the adequacy of the internal control systems across all Principal Risk Types.

The Group Financial Crime Risk Committee, chaired by the Group Head, Corporate Affairs, Brand & Marketing and CFCC, as the Compliance and Money Laundering Reporting Officer, governs the Financial Crime Risk Type Framework across the Group. The committee ensures that the Financial Crime risk profile is managed within approved Risk Appetite and policies. The Committee is also responsible for recommending the Financial Crime Risk Appetite Statement and Risk Appetite metrics to the Board Financial Crime Risk Committee.

The Group Reputational Risk Committee, chaired by the Group Head, Corporate Affairs, Brand & Marketing and CFCC, ensures the effective management of Reputational Risk across the Group.

This includes providing oversight of matters arising from clients, products, transactions and strategic coverage-related decisions (i.e. primary Reputational Risk sources) and matters escalated by the respective Risk Framework Owners (i.e. secondary Reputational Risk sources).

The Stress Testing Committee, chaired by the Global Head, Enterprise Risk Management, ensures the effective management of enterprise stress testing in line with the Group's enterprise stress testing policy and applicable regulatory requirements. In addition, the Committee reviews, challenges and approves scenarios for stress tests and stress test results prior to management actions.

The IFRS 9 Impairment Committee, chaired by the Global Head, Enterprise Risk Management, ensures the effective management of expected credit loss computations as well as stage allocation of financial assets for quarterly financial reporting within the authorities set by the Group Risk Committee.

The Model Risk Committee, chaired by the Global Head, Enterprise Risk Management, ensures the effective measurement and management of Model Risk in line with internal policies and Model Risk Appetite.

The Corporate, Commercial and Institutional Banking Risk Committee, chaired by the Chief Risk Officer, Business, ensures the effective management of risk throughout Corporate & Institutional Banking and Commercial Banking, in support of the Group's strategy. The Committee also provides governance oversight over key matters in Europe and Americas.

The Private Banking Process Governance and Risk Committee ensures the effective management of risk throughout Private Banking with Group Risk Appetite. The committee is chaired jointly by the Chief Risk Officer, Commercial Banking and Private Banking and the Global Head, Private Banking and Wealth Management.

The two regional risk committees are chaired by the Chief Risk Officer for the respective region. These ensure the effective management of risk in the regions in support of the Group's strategy.

The Investment Committee for Transportation Assets, chaired by the Chief Risk Officer, Business, ensures the optimisation of the Group's investment in aviation and shipping operating lease assets, with the aim of delivering better returns through the cycle.

The Investment Committee ensures the optimised wind-down of the Group's existing direct investment activities in equities, quasi-equities (excluding mezzanine), funds and other alternative investments (excluding debt/debt-like instruments). The Committee is chaired by a representative of the Risk function (which includes the Group Chief Risk Officer, Global Head, Enterprise Risk Management and Chief Risk Officer, Business).

Group Asset and Liability committee

The Group Asset and Liability Committee is chaired by the Group Chief Financial Officer. Its members are drawn principally from the Management Team. The Committee is responsible for determining the Group's approach to balance sheet strategy and recovery planning. The Committee is also responsible for ensuring that, in executing the Group's strategy, the Group operates within internally approved Risk Appetite and external requirements relating to capital, loss-absorbing capacity, liquidity, leverage, Interest Rate Risk in the Banking Book, Banking Book Basis Risk and Structural Foreign Exchange Risk, and meets internal and external recovery planning requirements.

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 Type Frameworks for the Group are set and owned by the Chief Risk Officers for the business segments. The Credit Risk function is the second line control function responsible for 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. In addition, they ensure that Credit Risks are properly assessed and transparent; and that credit decisions are controlled in accordance with the Group's Risk Appetite, credit policies and standards. For the Retail Banking segment, the Retail Risk function is also responsible for specific activities such as collections.

Mitigation

Segment-specific policies are in place for the management of Credit Risk.

The Credit Policy for Corporate & Institutional Banking and Commercial Banking sets the principles that must be followed for the end-to-end credit process including credit initiation, credit grading, credit assessment, structuring of product, Credit Risk mitigation, monitoring and control, and documentation.

The Retail Credit Risk Management Policy sets the principles for the management of retail and business banking lending, account and portfolio monitoring, collections management and forbearance programmes. In addition, there are other Group-wide policies integral to Credit Risk management such as those relating to Risk Appetite, Model Risk, stress testing, and impairment provisioning.

The Group also set out standards for the eligibility, enforceability and effectiveness of Credit Risk mitigation arrangements. Potential credit losses from a given account, client or portfolio are mitigated using a range of tools i.e. collateral, netting agreements, credit insurance, credit derivatives and guarantees.

Risk mitigants are also carefully assessed for their market value, legal enforceability, correlation and counterparty risk of the protection provider.

Collateral must be valued prior to drawdown and regularly thereafter as required to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of liquidation. The Group also seeks to diversify its collateral holdings across asset classes and markets.

Where guarantees, credit insurance, standby letters 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.

Governance committee oversight

At the Board level, the Board Risk Committee oversees the effective management of Credit Risk.

At the executive level, the Group Risk Committee appoints sub-committees for the management of Credit Risk – in particular the Corporate, Commercial and Institutional Banking Risk Committee (CCIBRC), the Private Banking Process Governance and Risk Committee, and the regional risk committees for ASEAN & South Asia and Africa & 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, as well as key internal developments and external trends, and ensure that appropriate action is taken.

Decision-making authorities and delegation

The Credit Risk Type Frameworks are the formal mechanism which delegate Credit Risk authorities cascading from the Group Chief Risk Officer, as the Senior Manager of the Credit Risk Type, to individuals such as the business segments' Chief Risk Officers. Named individuals further delegate credit authorities to individual credit officers by applying delegated credit authority matrices, which determine the maximum limits based on risk-adjusted scales by customer type or portfolio.

Credit Risk authorities are reviewed at least annually to ensure that they remain appropriate. In Corporate & Institutional Banking, Commercial Banking and Private Banking, the individuals delegating the Credit Risk authorities perform oversight by reviewing a sample of the limit applications approved by the delegated credit officers on a monthly basis. In Retail Banking, credit decision systems and tools (e.g., application scorecards) are used for credit decisioning. Where manual credit decisions are applied, these are subject to periodic quality control assessment and assurance checks.

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.

In 2019, the Group introduced an Industry Portfolio Mandate (IPM), developed jointly by the Corporate & Institutional Banking and Commercial Banking Business and Risk function to provide a forward-looking assessment of risk and simplification of processes while increasing focus on clients. The IPM is a single platform from which business strategy, risk considerations and client planning are performed with one consensus view which comprises external industry outlook, portfolio overviews, Risk Appetite, underwriting principles and stress test insights.

In Corporate & Institutional Banking and Commercial Banking, clients and 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, or non-performance of an obligation within the stipulated period. Such accounts 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 including exposure reduction, security enhancement, or exiting the account could be undertaken, and certain accounts could also be transferred into the control of Group Special Assets Management (GSAM), which is our specialist recovery unit for Corporate & Institutional Banking and Commercial Banking, and Private Banking that operates independently from our main business.

For Retail Banking exposures, portfolio delinquency trends are monitored on an ongoing basis. Account monitoring is based on behaviour scores and bureau performance (where available). Accounts that are past due (or perceived as high risk and not yet past due) are subject to a collections or recovery process managed by a specialist function independent from the origination function. In some countries, aspects of collections and recovery activities are outsourced.

Credit rating and measurement

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.

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 regulatory framework to calculate Credit Risk capital requirements. The Group has also established a global programme to undertake a comprehensive assessment of capital requirements necessary to be implemented to meet the latest revised Basel III finalisation (Basel IV) regulations.

A standard alphanumeric Credit Risk grade system 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 numeric credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers, while credit grades 13 and 14 are assigned to non-performing or defaulted customers.

Retail Banking internal ratings-based portfolios use application and behavioural 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 Model Risk Committee. Prior to review and approval, 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 for 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 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.

Credit impairment

Expected credit losses are determined for all financial assets that are classified as amortised cost or fair value through other comprehensive income. Expected credit losses are computed as an unbiased, probability-weighted amount determined by evaluating a range of plausible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking. When determining forward looking expected credit losses, the Group also considers a set of critical global or country-specific macroeconomic variables that influence Credit Risk. For more detailed information on macroeconomic data feeding into IFRS 9 expected credit losses calculations, please refer to page 182.

At the time of origination or purchase of a non-credit-impaired financial asset (stage 1), expected credit losses represent cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is a significant increase in the Credit Risk of the asset (stage 2), in which case an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset. If there is observed objective evidence of credit impairment or default (stage 3), expected credit losses continue to be measured on a lifetime basis.

In 2019, the Board approved a new Risk Appetite metric to monitor the stage 1 and stage 2 expected credit losses from assets originated in the last 12 months. The Risk Appetite metric provided the Board with oversight of the quality of assets being originated and to ensure that they are aligned to the Group's strategy.

The Group's definition of default is aligned with the regulatory definition of default as set out in European Capital Requirements Regulation (CRR178) and related guidelines, where the obligor is at least 90 days past due in respect of principal and/or interest. A loan is considered past due (or delinquent), when the customer has failed to make a principal or interest payment in accordance with the loan contract. Financial assets are also considered to be credit-impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cashflows of the financial asset.

In Corporate & Institutional Banking, Commercial Banking and Private Banking, a loan is considered credit-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. These credit-impaired accounts are managed by our specialist recovery unit (GSAM). Where appropriate, the non-material credit impaired accounts are co-managed with the business under the supervision of GSAM.

In Retail Banking, a loan is considered credit-impaired as soon as payment of interest or principal is 90 days overdue or meets other objective evidence of impairment such as bankruptcy, debt restructuring, fraud or death. Financial assets are written off when there is no realistic prospect of recovery and the amount of loss has been determined. For Retail Banking assets, a financial asset is written off when it meets certain threshold conditions which 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.

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. 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. For further details on sensitivity analysis of expected credit losses under IFRS 9, please refer to page 182.

Stress testing

Stress testing is a forward-looking risk management tool that constitutes a key input into the identification, monitoring and mitigation of Credit Risk, as well as contributing to Risk Appetite calibration. Periodic stress tests are performed on the credit portfolio/segment to anticipate vulnerabilities from stressed conditions and initiate timely right-sizing and mitigation plans. Additionally, multiple enterprise-wide and country-level stress tests are mandated by regulators to assess the ability of the Group and its subsidiaries to continue to meet their capital requirements during a plausible, adverse shock to the business. These regulatory stress tests are conducted in line with the principles stated in the Enterprise Stress Testing Policy. The Group's enterprise stress testing programme adopted IFRS 9 in full in 2018 and all enterprise stress tests conducted during 2019 were performed on an IFRS 9 basis. Stress tests for key portfolios are reviewed by the Credit Risk Type Framework Owners (or delegates) as part of portfolio oversight; and matters considered material to the Group are escalated to the Group Chief Risk Officer and respective regional risk committees.

Traded Risk

The Group defines Traded Risk as the potential for loss resulting from activities undertaken by the Group in financial markets

Risk Appetite Statement

The Group should control its trading portfolio and activities to ensure that Traded Risk losses (financial or reputational) do not cause material damage to the Group's franchise

The Traded Risk Type Framework (TRTF) brings together all risk types exhibiting risk features common to Traded Risk. These risk sub-types include Market Risk, Counterparty Credit Risk, Issuer Risk, XVA, Algorithmic Trading and Pension Risk. Traded Risk Management (TRM) is the core risk management function supporting market-facing businesses, specifically Financial Markets and Treasury Markets.

Roles and responsibilities

The TRTF, which sets the roles and responsibilities in respect of Traded Risk for the Group, is owned by the Global Head, Traded Risk Management. The front office, acting as first line of defence, is responsible for the effective management of risks within the scope of its direct organisational responsibilities set by the Board. The TRM function is the second line control function that performs independent challenge, monitoring and oversight of the Traded 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 Traded Risk control owners.

Mitigation

The Group controls its trading portfolio and activities within Risk Appetite by assessing the various Traded Risk factors. These are captured and analysed using proprietary and custom-built analytical tools, in addition to risk managers' specialist market and product knowledge.

TRM has a framework, policies and standards in place ensuring that appropriate Traded Risk limits are implemented. The Group's Traded Risk exposure is aligned with its appetite for Traded Risk, and assessment of potential losses that might be incurred by the Group as a consequence of extreme but plausible events.

Traded Risk limits are applied as required by the TRTF and related standards.

All businesses incurring Traded Risk must do so in compliance with the TRTF. The TRTF requires that Traded Risk limits are defined at a level appropriate to ensure that the Group remains within Traded Risk Appetite. All exposures throughout the Group that the TRM function is responsible for aggregate up to TRM's Group-level reporting. This aggregation approach ensures that the limits structure across the Group is consistent with the Group's Risk Appetite.

The TRTF and Enterprise Stress Testing Policy ensure that adherence to stress-related Risk Appetite metrics is achieved. Stress testing aims at supplementing other risk metrics used within the Group 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 Traded 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 Traded 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, TRM annually to ensure their ongoing effectiveness and sustainability.

Governance committee oversight

At the Board level, the Board Risk Committee oversees the effective management of Traded Risk. At the executive level, the Group Risk Committee delegates responsibilities to the CCIBRC to act as the primary risk governance body for Traded Risk, and to the Stress Testing Committee for stress testing and the Model Risk Committee for Model Risk. Where Traded Risk limits are set at a country level, committee governance is:

- Subsidiary authority for setting Traded Risk limits, where applicable, is delegated from the local Board to the local risk committee, Country Chief Risk Officer and Traded Risk managers

→ Branch authority for setting Traded Risk limits remains with TRM which retains responsibility for monitoring and reporting excesses

→ Joint ventures (JV), e.g. Permata, are formally managed independently from the Group. However, if Standard Chartered exerts significant management influence in practice, such as through senior functional appointments, then the Group regulator (UK PRA) may require the risks to be fully consolidated, just as though it was a subsidiary

Decision-making authorities and delegation

The Group's Risk Appetite Statement, along with the key associated Risk Appetite metrics, is approved by the Board with responsibility for Traded Risk limits, then tiered accordingly.

Subject to the Group's Risk Appetite for Traded Risk, the Group Risk Committee sets Group-level Traded Risk limits, via delegation to the Group Chief Risk Officer. The Group Chief Risk Officer delegates authority for the major business limits and for all other Traded Risk limits to the TRTF Owner (Global Head, TRM) who in turn delegates approval authorities to individual Traded Risk managers.

Additional limits are placed on specific instruments, positions, and portfolio concentrations where appropriate. Authorities are reviewed at least annually to ensure that they remain appropriate and to assess the quality of decisions taken by the authorised person. Key risk-taking decisions are made only by certain individuals 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.

Market Risk – value at risk

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 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 outcomes.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent.

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.

The Group applies two VaR methodologies:

- Historical simulation: this 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 VaRs
- 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.

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.

An analysis of VaR and backtesting results in 2019 is available in the Risk profile section (pages 191 to 193).

Counterparty Credit Risk

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 Traded Risk Appetite for corporate and financial institutions. In addition to analysing potential future movements, the Group uses various single factor or multi-risk factor stress test scenarios to identify and manage Counterparty Credit Risk across derivatives and securities financing transactions.

Underwriting

The underwriting of securities and loans is in scope of the Risk Appetite set by the Group for Traded Risk. Additional limits approved by the Group Chief Risk Officer are set on the underwriting portfolio stress loss, and the maximum holding period. The Underwriting Committee, under the authority of the Group Chief Risk Officer, approves individual proposals to underwrite new security issues and loans for our clients.

Day-to-day Credit Risk management activities for traded securities are carried out by a specialist team within TRM 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 TRM. 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 TRM.

Monitoring

TRM 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 TRM to review risk in light of performance. Monitoring and breach escalation procedures for Traded Risk are aligned with the processes set by the Enterprise Risk Management Risk Appetite unit.

Traded Risk exposures are monitored daily against approved limits. Traded Risk limits apply at end-of-day and at all other times, unless separate intra-day limits have been set. 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 Traded Risk manager with the appropriate delegated authority. Financial Markets traders may adjust their Traded Risk exposures within approved limits and assess risk and reward trade-offs according to market conditions.

TRM reports and monitors limits applied to stressed exposures. Stress scenario analysis is performed on all Traded Risk exposures in Financial Markets and in portfolios outside Financial Markets such as syndicated loans and principal finance. Stress loss excesses are discussed with the business and approved where appropriate, based on delegated authority levels.

Stress testing

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 Traded 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 TRM 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, including XVA (CVA and FVA). Ad hoc scenarios are also prepared, reflecting specific market conditions and for particular concentrations of risk that arise within the business.

Where required by local statute or regulation, TRM'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, composition or distribution of capital to support our normal activities, and Liquidity Risk as the risk that we may not have sufficient stable or diverse sources of funding to meet our obligations as they fall due

Risk Appetite Statement

The Group should maintain a strong capital position including the maintenance of management buffers sufficient to support its strategic aims and 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

Roles and responsibilities

The Treasurer is responsible for developing a Risk Type Framework for Capital and Liquidity Risk and for complying with regulatory requirements at a Group level. The Treasury and Finance functions, as the second line of defence, 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 Risk Type Framework.

Mitigation

The Group develops policies to address material Capital and Liquidity risks and aims to maintain its risk profile within Risk Appetite. In order to do this, metrics are set against Capital Risk, Liquidity and Funding Risk and Interest Rate Risk in the Banking Book. Risk Appetite metrics are also cascaded down to regions and countries in the form of limits and management action triggers.

The Group also maintains a Recovery Plan which is a live document to be used by management in a liquidity or solvency stress. The Recovery Plan includes a set of Recovery Indicators, an escalation framework and a set of management actions capable of being implemented in a stress. A Recovery Plan is also maintained within each major country.

Capital Risk

In order to manage Capital Risk, strategic business and capital plans are drawn up covering a five-year horizon and are approved by the Board annually. The capital plan ensures that adequate levels of capital, including loss-absorbing capacity, 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 and how these might change
- 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, including ongoing capital accretion from the business

Additionally, Risk Appetite metrics including leverage ratios and Tier 1 ratios (in both regular and stressed conditions) and metrics relating to structural FX positions, minimum requirement for own funds and eligible liability (MREL) are being assessed within the Corporate Plan to ensure that our business plan can be achieved within risk tolerances.

Structural FX Risk

The Group's structural position results from the Group's non-US dollar 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 Common Equity Tier 1 ratio.

The Group contracts hedges to manage its structural FX position in accordance with the Board-approved Risk Appetite, and as a result the Group has taken net investment hedges to partially cover its exposure to the Korean won, Chinese renminbi, Taiwanese dollar and Indian rupee to mitigate the FX impact of such positions on its capital ratios.

Liquidity Risk

At Group and country level we implement various business-as-usual and stress risk metrics and monitor these against limits and management action triggers. This ensures that the Group maintains an adequate and well-diversified liquidity buffer as well as a

stable funding base, and that it meets its liquidity and funding regulatory requirements. The approach to managing risks and the Board Risk Appetite are assessed annually through the Internal Liquidity Adequacy Assessment Process. A funding plan is also developed for efficient liquidity projections to ensure that the Group is adequately funded in the required currencies, to meet its obligations and client funding needs.

Interest Rate Risk in the Banking Book

The Group defines Interest Rate Risk in the Banking Book (IRRBB) as the potential for a reduction in future earnings or economic value due to changes in interest rates. This risk arises from differences in the repricing profile, interest rate basis, and optionality of banking book assets, liabilities and off-balance sheet items. IRRBB represents an economic and commercial risk to the Group and its capital adequacy. The Group monitors IRRBB against a Board-approved Risk Appetite.

Governance committee oversight

At the 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 ensures the effective management of risk throughout the Group in support of the Group's strategy, guides the Group's strategy on balance sheet optimisation and ensures that the Group operates within the internally approved Risk Appetite and other internal and external capital and liquidity requirements.

The Group Asset and Liability Committee delegates part of this responsibility to the Operational Balance Sheet Committee to ensure alignment with business objectives.

Country oversight under the capital and liquidity framework resides with country Asset and Liability Committees. Countries must ensure that 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 stress testing in line with the Group's Enterprise Stress Testing Policy and applicable regulatory requirements. The Stress Testing Committee reviews, challenges and approves stress scenarios, results and management actions for all enterprise stress tests. Insights gained from the stress tests are used to inform underwriting decisions, risk management, capital and liquidity planning and strategy.

Decision-making authorities and delegation

The Group Chief Financial Officer has responsibility for capital, funding and liquidity under the Senior Managers Regime. The Group Chief Risk Officer has delegated the Risk Framework Owner responsibilities associated with Capital and Liquidity Risk to the Treasurer. The Treasurer delegates second line oversight and challenge responsibilities to relevant and suitably qualified Treasury and Finance individuals.

Monitoring

On a day-to-day basis, the management of Capital and Liquidity Risk at the country level is performed by the Country Chief Executive Officer and Treasury Markets respectively. The Group regularly reports and monitors Capital and Liquidity Risk inherent in its business activities and those that arise from internal and external events. The management of capital and liquidity is monitored by Treasury and Finance with appropriate escalation processes in place.

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.

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 considers the impact of extreme but plausible scenarios on its risk profile. A number of stress scenarios, some designed internally, some required by regulators, are run periodically. They provide an insight into the potential impact of significant adverse events on the Group's capital and liquidity position and how this could be mitigated through appropriate management actions to ensure that the Group remains within the approved Risk Appetite and regulatory limits. Daily liquidity stress scenarios are also run to ensure the Group holds sufficient high-quality liquid assets to withstand extreme liquidity events.

Country Risk

The Group defines Country Risk as the potential for losses due to political or economic events in a country

Risk Appetite Statement

The Group manages its Country Risk exposures following the principle of diversification across geographies and controls business activities in line with the level of jurisdiction risk

Roles and responsibilities

The Country Risk Type Framework provides clear accountability and roles for managing risk through the three lines of defence model. The Global Head, Enterprise Risk Management is responsible for the management and control of Country Risk across the Group and is supported by the regional 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 regional and country Chief Executive Officers who are responsible for the application of the framework; identification of Country Risk sub-types; and contributing to the limit setting approach by providing insight into the country business strategy. The first line also has responsibilities for ensuring that exposures remain within approved limits and in the event of any breaches, for putting in place appropriate remediation plans in a timely manner.

Mitigation

Standards are developed and deployed to implement requirements and controls that all countries must follow to ensure effective management of Country Risk. The standards outline the process for Country Risk limit setting, monitoring and reporting exposures. In response to growing concerns over the Country Risk outlook for a particular country, sovereign ratings may be downgraded, and country limits may also be reduced.

Governance committee oversight

At the 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. At a country level, the Country Risk Committee (or Executive Risk Committee for subsidiaries) is responsible for monitoring all risk issues for the respective country, including Country Risk.

Decision-making authorities and delegation

The Country Risk Type Framework is the formal mechanism through which the delegation of Country Risk authorities is made. Approval authorities for Country Risk limits have been set based on the size of the proposed limit and the sovereign rating. The key principle is that large nominal limits, as well as higher risk jurisdictions, will require escalation for approval based on set levels per the delegated authorities approval matrix.

Monitoring

In 2019, risk coverage of Country Risk was expanded from Country Cross-Border Risk to Gross Country Risk which is an aggregate of Transfer and Convertibility Risk and Local Currency Risk. This is to provide a more holistic and enhanced approach to Country Risk.

Monitoring and reporting of Country Risk is included in the standards and covers the monitoring of exposures relative to Risk Appetite thresholds and limits, as well as the reporting of material exposures to internal committees and externally where appropriate. Risk Appetite focusses on monitoring Gross Country Risk exposure to a single country as a percentage of aggregated Gross Country Risk exposure across all countries. The Group Risk Committee monitors Risk Appetite thresholds on a traffic-light indicator basis, and these provide an early warning signal of stress and concentration risk. An escalation process to the Board Risk Committee is in place based on the traffic-light indicators monitoring system.

Enhanced capabilities have been established with the Country Risk Dashboard to monitor and manage Country Risk exposures for the expanded scope of Country Risk.

Stress testing

The Group Country Risk team produces stressed sovereign ratings which are used by the relevant Credit and Traded Risk teams in calculating risk-weighted assets during described extreme but plausible stress scenarios.

Reputational Risk

The Group defines Reputational Risk as the potential for damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation because of stakeholders taking a negative view of the organisation, its actions or inactions – leading stakeholders to change their behaviour.

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

The Global Head, Enterprise Risk Management is the Risk Framework Owner for Reputational Risk under the Group's Enterprise Risk Management Framework. For primary risks, the responsibility of Reputational Risk management at country level 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 Chief Executive Officers, Business Heads and Product Heads in respect of risk management activities of reputational-related risks. The Group recognises that there is also the potential for consequential Reputational Risk should it fail to control other principal risks. Such secondary Reputational Risks are managed by the Risk Framework Owners of each principal risk who are responsible for enhancing existing risk management frameworks to incorporate Reputational Risk management approaches.

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 primary and secondary 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, including, but not limited to, explicit principles related to environment and social risks and defence and dual use goods. 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 or decline the risk or impose conditions upon proposals, to protect the Group's reputation. Secondary Reputational Risk mitigation derives from the effective management of other principal risks.

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 ensures the effective management of primary Reputational Risk across the Group.

The Group Reputational Risk Committee's remit is to:

- Challenge, constrain and, if required, 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 primary 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

The Group Non-Financial Risk Committee has oversight of the effective management of secondary Reputational Risk.

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 standards 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 standards. 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 risks
- The analysis of prevailing stakeholder concerns and industries with greater exposure to environmental, social and governance issues

In 2019, enhanced capabilities have been established to integrate risk identification and assessment into the client on-boarding and review process, and transaction reviews. In addition, web-scraping technology has been combined with internal data to provide detailed risk monitoring, analytics and drill down capabilities.

Stress testing

Although Reputational Risk is not an explicit separate regulatory factor in enterprise stress tests, it 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.

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 (including legal risks).

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 Type Framework (ORTF) is set by the Global Head of Risk, Functions and Operational Risk and is applicable enterprise-wide. This Framework defines and collectively groups operational risks which have not been classified as principal risks into non-Principal Risk Types (non-PRTs) and sets standards for the identification, control, monitoring and treatment of risks. These standards are applicable across all PRTs and non-PRTs. The non-PRTs relate to execution capability, governance, reporting and obligations, legal enforceability, and operational resilience (including client service, third party vendor services, change management, safety and security and system availability).

The ORTF reinforces clear accountability for managing risk throughout the Group and delegates second line of defence responsibilities to identified subject matter experts. For each non-PRT, the expert sets policies for the organisation to comply with, and provides guidance, oversight and challenge over the activities of the Group. They ensure that key risk decisions are only taken by individuals with the requisite skills, judgement, and perspective to ensure that the Group's risk-return objectives are met.

Mitigation

The ORTF sets out the Group's overall approach to the management of Operational Risk in line with the Group's Operational Risk Appetite. This is supported by Control Assessment Standards (CAS) which define roles and responsibilities for the identification, control and monitoring of risks (applicable to all non-PRTs and PRTs).

The CAS are used to determine the design strength and reliability of each process, and require:

- The recording of processes run by client segments, products, and functions into a process universe
- The identification of potential breakdowns to these processes and the related risks of such breakdowns

- An assessment of the impact of the identified risks based on a consistent scale
- The design and monitoring of controls to mitigate prioritised risks
- Assessments of residual risk and timely actions for elevated risks

Risks that exceed the Group's Operational Risk Appetite require treatment plans to address underlying causes.

Governance committee oversight

At the Board level, the Board Risk Committee oversees the effective management of Operational Risk. At the executive level, the Group Risk Committee delegates authority primarily to the Group Non-Financial Risk Committee (GNFRC) to monitor the Group's Operational Risk Appetite and to oversee the Group's Operational Risk profile. The GNFRC has the authority to challenge, constrain and, if required, stop business activities where risks are not aligned with the Group's Operational Risk Appetite.

Regional, business-segments and functional committees also provide enterprise oversight of their respective processes and related operational risks. In addition, Country Non-Financial Risk Committees (CNFRCs) oversee the management of Operational Risks at the country (or entity) level. In smaller countries, the responsibilities of the CNFRC may be exercised directly by the Country Risk Committee (for branches) or Executive Risk Committee (for subsidiaries).

Monitoring

To deliver services to clients and to participate in the financial services sector, the Group runs processes which are exposed to operational risks. The Group prioritises and manages risks which are significant to clients and to the financial services sectors. Control indicators are regularly monitored to determine the residual risk the Group is exposed to. The residual risk assessments and reporting of events form the Group's Operational Risk profile. The completeness

of the Operational Risk profile ensures appropriate prioritisation and timeliness of risk decisions, including risk acceptances with treatment plans for risks that exceed acceptable thresholds.

The Board is informed on adherence to Operational Risk Appetite through metrics reported for selected risks. These metrics are monitored, and escalation thresholds are devised based on the materiality and significance of the risk. These Operational Risk Appetite metrics are consolidated on a regular basis and reported at relevant Group committees. This provides senior management with the relevant information to inform their risk decisions.

Stress testing

Stress testing and scenario analysis are used to assess capital requirements for operational risks. This approach considers the impact of extreme but plausible scenarios on the Group's Operational Risk profile. A number of scenarios have been identified to test the robustness of the Group's processes, and assess the potential impact on the Group. These scenarios include anti-money laundering, sanctions, as well as information and cyber security.

Compliance Risk

The Group defines Compliance Risk as the potential for penalties or loss to the Group, or for an adverse impact to our clients, stakeholders or to the integrity of the markets in which we operate through 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 entirely avoided, the Group strives to reduce this to an absolute minimum

Roles and responsibilities

The Group Head, Corporate Affairs, Brand & Marketing and Conduct, Financial Crime and Compliance (Group Head, CABM & CFCC) as Risk Framework Owner for Compliance Risk provides support to senior management on regulatory and compliance matters by:

- Providing interpretation and advice on regulatory requirements and their impact on the Group
- Setting enterprise-wide standards for compliance, through the establishment and maintenance of a risk-based compliance framework, the Compliance Risk Type Framework (Compliance RTF)
- Setting a programme for monitoring Compliance Risk

The Compliance RTF sets out the Group's overall approach to the management of Compliance Risk and the roles and responsibilities in respect of Compliance Risk for the Group. All activities that the Group engages in must be designed to comply with the applicable laws and regulations in the countries in which we operate. The CFCC function is the second line that provides oversight and challenge of the first line risk management activities that relate to Compliance Risk.

The Compliance RTF defines Compliance Risk sub-types. Where Compliance Risk arises, or could arise, from failure to manage another principal risk or risk sub-type, the oversight and management processes for that specific principal risk or risk sub-type must be followed and the responsibility rests with the other Risk Framework Owner or control function to ensure that effective oversight and challenge of the first line can be provided by the appropriate second line function.

Each of the assigned second line functions has responsibilities including monitoring relevant regulatory developments from

Non-Financial Services regulators at both Group and country levels, policy development, implementation, and validation as well as oversight and challenge of first line processes and controls.

In addition, the CFCC leadership team was strengthened in 2019 by bringing in new skills and breadth of experience. Notably, there is a new Group Regulatory and Public Affairs team to monitor regulatory reforms in key markets and establish a protocol of horizon scanning for emerging Compliance Risk. This protocol helps to ensure that regulatory reforms with the potential to affect the Group in multiple markets are identified and steps taken in good time to help ensure compliance.

Mitigation

The CFCC function develops and deploys relevant policies and standards setting out requirements and controls for adherence by the Group to ensure continued compliance with applicable laws and regulations. Through a combination of risk assessment, control standard setting, control monitoring and compliance assurance activities, the Compliance Risk Framework Owner seeks to ensure that all policies are operating as expected to mitigate the risk that they cover. The installation of appropriate processes and controls is the primary tool for the mitigation of Compliance Risk. In this, the requirements of the Operational Risk Type Framework are followed to ensure a consistent approach to the management of processes and controls. Several material technological solutions were deployed in 2019 to improve efficiencies and simplify processes. These include implementation of an enhanced systems to better track matters raised by our regulators and breaches of regulations, and digital portals and chatbots providing improved access to compliance advice.

Governance committee oversight

Compliance Risk and the risk of non-compliance with laws and regulations resulting from failed processes and controls are overseen by Business, Product and Function Non-Financial Risk Committees.

The Conduct and Compliance Non-Financial Risk Committee has a consolidated view of these risks and helps to ensure that appropriate governance is in place for these. In addition, the Committee helps to ensure that elevated levels of Compliance Risk are reported to the Group Non-Financial Risk Committee, Group Risk Committee and Board Audit Committee. Within each country, oversight of Compliance Risk is delegated through the Country Non-Financial Risk Committee.

Decision-making authorities and delegation

Decision-making and approval authorities follow the Enterprise Risk Management Framework approach and risk thresholds. The Group Head, CABM & CFCC has the authority to delegate second line responsibilities within the CFCC function to relevant and suitably qualified individuals.

Monitoring

The monitoring of controls designed to mitigate the risk of regulatory non-compliance in processes are governed in line with the Operational Risk Type Framework. The Group has a monitoring and reporting process in place for Compliance Risk, which includes escalation and reporting to Conduct and Compliance Non-Financial Risk Committee, Group Risk Committee and Board Audit Committee as appropriate. In 2019, monitoring of Compliance Risk was further enhanced with the introduction of new Risk Appetite metrics.

Stress testing

Stress testing and scenario analysis are used to assess capital requirements for Compliance Risk and form part of the overall scenario analysis portfolio managed under the Operational Risk Type Framework. Specific scenarios are developed annually with collaboration between the business, which owns and manages the risk, and the CFCC function, which is second line to incorporate significant Compliance Risk tail events. This approach considers the impact of extreme but plausible scenarios on the Group's Compliance Risk profile.

Conduct Risk

The Group defines Conduct Risk as the risk of detriment to the Group's clients, investors, shareholders, market integrity, competition and counterparties, or risk of detriment from the inappropriate supply of financial services, including instances of wilful or negligent misconduct.

Risk Appetite Statement

The Group has no appetite for negative Conduct Risk outcomes arising from negligent or wilful actions by the Group or individuals, recognising that whilst incidents are unwanted, they cannot be entirely avoided

In addition to the Group's external stakeholders, Conduct Risk may also arise in respect to our behaviour towards each other as colleagues. The Group believes that all employees are entitled to a fair and safe working environment that is free from discrimination, exploitation, bullying, harassment or inappropriate language.

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 of defence is required to ensure that potential Conduct Risks arising in the business, functions and countries are identified, assessed and managed appropriately. Senior management in the first line of defence are accountable for embedding the right culture relating to Conduct Risk. The CFCC function is the second line for Conduct Risk, and is responsible for providing independent guidance, oversight, and challenge to the first line as well as setting the risk management standards that the first line must adhere to. The Group Head of Corporate Affairs, Brand & Marketing (CABM) and CFCC is the Risk Framework owner for Conduct Risk. As Conduct Risk may be derived from the other principal risks and their risk sub-types, no specific Conduct Risk sub-types have been defined. Where Conduct Risk is derived through the crystallisation of risks under the other principal risks, the potential Conduct Risk is evaluated and considered through the other principal risks. Any materialised or forward-looking risks defined in the various principal risks which do not meet the Group's Conduct standards are included in the Conduct Plans.

Conduct Plans

The Conduct Plans are used for the end-to-end process of risk identification and assessment of Conduct Risk against the Conduct Outcomes, and remediation actions. Action plans to mitigate Conduct Risks are identified and documented in the Conduct Plan. It is a live and dynamic document and must be kept regularly updated, including as and when there are potential or materialised conduct risks identified through other principal risks. Identified conduct risks and the corresponding mitigation should be monitored by relevant governance forums to ensure effective and timely resolution. The Conduct Plans should meet minimum standards as follows:

- Conduct Plans are owned by the management of each country, region, business and function within the Group. As the first line of defence, management is responsible to ensure that the Conduct Plans are regularly reviewed and updated. The CFCC function as the second line of defence and Risk Framework Owner is responsible for challenging management on the quality and completeness of the plan, as well as the effectiveness and timeliness of the remediation strategy
- Conduct Plans highlight the key conduct risks that are inherent in the processes and activities performed or impacted within a country, region, business or function
- The Group Conduct Management Principles, which highlight various conduct outcomes, should be used as a guide to help with the process of identifying relevant conduct risks

→ For each of the risks identified, appropriate remediation action, enhancements to the control environment, responsible action owners and timeframes for resolution must be clearly recorded within the Conduct Plan

→ Regular engagement should take place between owners of the Group and geographic Conduct Plans to ensure appropriate escalation and communications related to conduct risks and the mitigation strategy applied

→ Conduct Plans should also reflect Conduct Risks based on one-off projects, adverse trends from conduct management information, internal conduct incidents, deficiencies identified through internal assurance activities across the three lines of defence, emerging risks/trends and external developments

Governance committee oversight

The Board Risk Committee, Brand Values and Conduct Committee, Group Risk Committee, Group Non-Financial Risk Committee and the Conduct and Compliance Non-Financial Risk Committee are responsible for ensuring that the Group effectively manages its Conduct Risk. As Risk Framework Owner for Conduct Risk, the Group Head, CABM & CFCC sets reporting thresholds for escalation of Conduct Risk to the Conduct and Compliance Non-Financial Risk Committee, Group Non-Financial Risk Committee and Group Risk Committee. The Board Risk Committee and the Brand Values and Conduct Committee receive periodic reports that provide updates relating to the Group's approach to managing Conduct Risk across our countries, regions, businesses and functions.

Decision-making authorities and delegation

Conduct Risk challenge and acceptance authority is exercised by the Group Head, CABM & CFCC, and delegated within the CFCC function as second line.

Monitoring and mitigation

Conduct Risk monitoring is done by the businesses, functions, regions and countries based on identified conduct metrics and other principal risk assessment activities.

Following the end of each quarter, all businesses, functions, regions and countries are required to self-assess and report their progress against the agreed actions as set out in Conduct Plans to their respective CFCC second line delegate to validate.

This responsibility rests with the respective business head, function head or Chief Executive Officer.

To provide a view of the key Conduct Risks facing the Group, three revised Group-level Risk Appetite metrics will be used. These relate to the Group's main Conduct Risk outcomes: Fair Outcomes for Clients; Employee Welfare and Relations; and Effective Markets and Stakeholder Confidence (e.g. regulators and investors). The Group Risk Assessment Matrix (GRAM) will be used to rate the key drivers for each of the three categories. The use of the GRAM will help to ensure that a consistent approach is followed when assessing the impact and likelihood of potential Conduct Risk outcomes.

Stress testing

The assessment of Conduct Risk vulnerabilities under stressed conditions or extreme events with a low likelihood of occurring are carried out through enterprise stress testing. This is currently covered primarily through Operational Risk driven stress scenarios.

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, anti-bribery and corruption, and fraud.

Risk Appetite Statement

The Group has no appetite for breaches in laws and regulations related to financial crime, recognising that while incidents are unwanted, they cannot be entirely avoided

Roles and responsibilities

The Group Head, CABM & CFCC 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 Risk. The Group Head, CABM & CFCC is the Group's Compliance and Money-Laundering Reporting Officer and performs the Financial Conduct Authority (FCA) controlled function and senior management function in accordance with the requirements set out by the FCA, including those set out in their handbook on systems and controls. 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.

In 2019, Fraud Risk, previously a risk sub-type under Operational Risk Type Framework (ORTF), was transferred to Financial Crime Risk. Second line of defence activities for Fraud Risk lie with the Global Head, Fraud.

Mitigation

There are four Group policies in support of the Financial Crime Risk Type Framework:

- Anti-bribery and corruption as set out in the Group Anti-Bribery and Corruption Policy
- Anti-money laundering and countering terrorists financing as set out in the Group Anti-Money Laundering and Counter Terrorist Financing Policy
- Sanctions as set out in the Group Sanctions Policy
- Fraud as set out in the Group Fraud Risk Management Policy

The Group operates risk-based assessments and controls in support of its Financial Crime Risk programme, including (but not limited to):

- Group Risk Assessment - a Group-wide Financial Crime Risk assessment that is undertaken annually to assess the inherent Financial Crime Risk exposures and the effectiveness of the implemented controls by which these exposures are mitigated, so that the Group can direct and allocate appropriate mitigating resources
- Country Risk Assessment (Geographic Risk Rating) – an assessment and measurement of the inherent Financial Crime Risk within specific countries or jurisdictions based on political, economic and criminal factors
- Product Risk Assessment – an assessment of the inherent Financial Crime Risks within the products offered by the Group
- Client Risk Assessment – a model, calibrated and monitored using Group Model Validation standards, designed to dynamically measure the inherent Financial Crime Risks posed by a client relationship
- Financial Crime Surveillance – risk-based systems and processes to prevent and detect financial crime

The strength of controls is tested and assessed through the Group's ORTF, in addition to oversight by CFCC Assurance and Group Internal Audit.

Governance committee oversight

Financial Crime Risk within the Group is governed by the Group Financial Crime Risk Committee; and the Group Non-Financial Risk Committee for Fraud Risk which is appointed by and reports into the Group Risk Committee. Both committees are responsible for ensuring the effective management of Operational Risk relating to Financial Crime Risk and Fraud Risk compliance throughout the Group. The Board appoints the Board Financial Crime Risk Committee to provide oversight on anti-bribery and corruption, anti-money laundering (and terrorist financing) and sanctions; and the Board Risk Committee for oversight on Fraud Risk.

The Committees provide oversight of the effectiveness of the Group's policies, procedures, systems, controls and assurance mechanisms designed to identify, assess, manage, monitor, detect or prevent money laundering, non-compliance with sanctions, bribery, corruption, internal/external fraud and tax crime by third parties.

Decision-making authorities and delegation

The Group Head, CABM & CFCC is the Risk Framework Owner for Financial Crime Risk under the Group's Enterprise Risk Management Framework and has delegated authorities to effectively implement the Financial Crime Risk Type Framework, to the Co-Heads, Financial Crime Compliance. Certain aspects of Financial Crime Compliance, second line oversight and challenge, are further delegated within the CFCC function. Approval frameworks are in place to allow for risk-based decisions on client on-boarding, potential breaches of sanctions regulation or policy, and situations of potential money laundering (and terrorist financing), bribery and corruption or internal and external fraud.

Monitoring

The Group monitors Financial Crime Risk compliance against a set of Risk Appetite metrics that are approved by the Board. These metrics are reviewed periodically and reported regularly to the Group Financial Crime Risk Committee, Group Non-Financial Risk Committee, Board Risk Committee and Board Financial Crime Risk Committee.

In 2019, new metrics were being introduced, including for internal and external fraud losses, and these Group Risk Appetite metrics are being cascaded to countries for local adoption and close monitoring.

Stress testing

The assessment of Financial Crime vulnerabilities under stressed conditions or extreme events with a low likelihood of occurring is carried out through enterprise stress testing.

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 2019, the Group consolidated its information and cyber security (ICS) efforts to withstand cyber threats, eliminate duplication and improve clarity of roles. The Group Chief Operating Officer has been given overall first line of defence responsibility for ICS Risk and holds full accountability for the Group's end-to-end ICS strategy. In order to create a more business and client-aligned ICS support team, the role of the Chief Information Security Officer (CISO) position moved to the first line and the second line role has been re-framed as the Chief Information Security Risk Officer (CISRO).

The Group CISRO continues to operate as the second line of defence, having overall responsibility for governance, oversight and challenge of ICS Risk and providing insight to senior management and the Board on the Group's ICS Risk management.

The ICS Risk Type Framework (RTF) emphasises business ownership and individual accountability for managing ICS Risk. It defines the first line roles of Information Asset Owners, Information System Owners and Information Custodians as named individuals within each business, and the accountability for classifying and managing risks to the information assets and systems. The Heads of ICS, within Group CISO, provide Information Asset and System Owners a centralised first line point of contact to ensure controls are embedded effectively and consistently across the Group.

Mitigation

ICS Risk is managed through a structured ICS policy framework comprising a risk assessment methodology and supporting policies and standards which are aligned to industry best practice models.

The CISRO function monitors compliance to the ICS policy framework through an assessment of each key control domain as defined by the ICS RTF through the ICS Risk profile report. Within the ICS Risk profile, appropriate mitigating activity for each key control domain is identified, undertaken and reported against by the business.

In 2019, the Board approved a refreshed ICS strategy supporting the overall Group strategy and delivery of the ICS RTF risk management principles. A key part is investing in digitisation and partnerships to better serve our clients.

Governance committee oversight

ICS Risk within the Group is currently governed via the Board Risk Committee which has responsibility for approving the definition of ICS Risk and the Group Risk Appetite. In addition, the Group Risk Committee (GRC) has delegated authority to the Group Non-Financial Risk Committee (GNFRC) to ensure effective implementation of the ICS RTF. The GRC and GNFRC retain responsibility for oversight of ICS Risk control domains rated very high and high respectively. Sub-committees of the GNFRC have oversight of ICS Risk management arising from business, country and functional areas.

These governance committees have responsibility for providing oversight of ICS Risk against Risk Appetite and measuring performance of ICS Risk management activities across the first line. Chairs of governance committees ensure adequate representation for all business units and countries across the Group who are responsible for managing ICS Risk. Escalation of ICS risks which fall outside the defined appetite for the Group are overseen by these committees to ensure effective mitigation.

At a management level, the Group has also created the Cyber Security Advisory Forum, chaired by the Group Chief Executive, as a way of ensuring the Management Team, the Chairman and several non-executive directors are well informed on ICS Risk, and to increase business understanding and awareness so that business priorities drive the security and cyber resilience agenda.

Decision-making authorities and delegation

The ICS RTF is the formal mechanism through which the delegation of ICS Risk authorities is made. The Group Chief Risk Officer has delegated the ICS Risk Framework Owner authority to the CISRO. The CISRO has, where appropriate, delegated second line authority to Information Security Risk Officers to assume the responsibilities for approval for business, functions, and countries.

Approval of ICS Risk ratings follow an approval matrix defined by the ICS RTF where the Group Chief Risk Officer and Group CISRO sign off very high and high risks respectively.

Information Asset Owners, Information System Owners and Information Custodians are responsible for the identification, creation and implementation of processes as required to comply with the ICS policy framework.

Monitoring

Monitoring and reporting on the ICS Risk Appetite profile ensures that performance which falls outside the approved Risk Appetite is highlighted and reviewed at the appropriate governance committee or authority levels and ensures that adequate remediation actions are in place where necessary.

Identification of ICS risks are performed through the following processes:

- ➔ Dynamic ICS Risk scanning is carried out through industry and specialist activities; inputs from legal, regulatory and mandatory bodies; changes to information and technology use in society, opportunities or incidents; and identifying emerging threats to the Group's information assets and systems
- ➔ An ICS Risk profile assessment exercise is performed to identify and ascertain severity ratings of risks to information assets and systems. Risks identified within the key control domains are documented within ICS Risk profiles and reviewed monthly as part of risk governance to ensure effective mitigation against the approved appetite. During these reviews, the status of each risk is assessed to identify any changes to materiality and likelihood, which in turn affect the overall risk score and rating. Risks which exceed defined thresholds are escalated to appropriate governance bodies. Group CISRO performs a consolidation of completed ICS Risk profiles for the Group and produces a holistic aggregated risk position with appropriate key control and risk indicators, which are used to govern the overall ICS Risk

Stress testing

Group CISRO determines ICS Risk controls to be subjected to scenario-based resiliency stress testing and sensitivity analysis, which is aimed to either ensure robustness of control or ability to respond should a control fail.

The Group's stress testing approach entails:

- ➔ Group CISRO oversees all ICS risk-related stress testing the Group carries out to meet regulatory requirements
- ➔ Incident scenarios affecting information assets and systems are periodically tested to assess the incident management capability in the Group
- ➔ Penetration testing and vulnerability scanning are performed against the Group's internet-facing services and critical information assets/systems

Emerging Risks

In addition to our Principal Risk Types that we manage through Risk Type Frameworks, policies and Risk Appetite, we also maintain an inventory of emerging risks. Emerging risks refer to unpredictable and uncontrollable outcomes from events which may have the potential to materially impact our business. These include near-term risks that are on the horizon and can be measured or mitigated to some extent, as well as longer-term uncertainties that are on the radar but not yet fully measurable.

In 2019, we undertook a thorough review of our Emerging Risks, using the approach described in the Enterprise Risk Management Framework section (page 206 to 211). The key results of the review are detailed below.

Populism is on the rise globally. Policies such as income redistribution, public spending increases, a rise in trade barriers and tariffs, tax cuts, restrictions on immigration, and pro-nationalist or anti-global rhetoric pose a risk to long-term economic progression and overlay the majority of our Emerging Risks.

Key changes to our Emerging Risks:

The following items have been removed as emerging risks:

- 'Emerging Markets (EM) – upcoming elections, interest rate rises, and FX risks' – Due to the successful completion of elections this year in key markets such as Indonesia, India, Malaysia, Brazil and Sri Lanka and the significant reduction in the likelihood of interest rate rises this risk has decreased and is no longer considered an Emerging Risk. However, we continue monitoring at regional and country level to detect horizon risks and analyse potential adverse developments.

The following items have been amended or added as new emerging risks:

- 'China slowdown and impact on regional economies with close ties to China' – The novel coronavirus (Covid-19) outbreak has raised concerns over growth prospects in China and the risk this poses to the broader Asian and global outlook
- 'Hong Kong social unrest' – The ongoing social unrest since the Fugitive Offenders and Mutual Legal Assistance in Criminal Matters Legislation Bill ('Extradition Bill') was proposed in February 2019 have resulted in increased concern and elevated risk
- 'Interbank Offered Rate (IBOR) discontinuation and transition' – There are concerns regarding the impact of the discontinuation of the IBOR benchmarks and the transition to risk-free rates (RFRs)
- 'Japan Korea diplomatic dispute' – The disagreement over wartime labour compensation has escalated and may affect the trade of critical raw materials

Our list of emerging risks, based on our current knowledge and assumptions, is set out below, with our subjective assessment of their impact, likelihood and velocity of change. This reflects the latest internal assessment of material risks that the Group faces as identified by senior management. This list is not designed to be exhaustive and there may be additional risks which could materialise or have an adverse effect on the Group.

Our mitigation approach for these risks may not be successful in completely eliminating them, but rather shows the Group's attempt to reduce or manage the risk. As certain risks develop and materialise over time, management will take appropriate incremental steps based on the materiality of the impact of the risk to the operations of the Group:

Geopolitical considerations (Risk ranked according to severity)

| Emerging Risk | Risk trend since 2018 | Context | How these are mitigated/next steps |
|--|-----------------------|--|---|
| US China trade tensions driven by geopolitics and trade imbalance | ↔ | <ul style="list-style-type: none"> → Trade tensions between the US and China continue driven by trade imbalance and geopolitical tensions → In 2018 the US imposed trade tariffs on \$550 billion of imports from China; China retaliated with tariffs on \$185 billion of US goods. In March 2019, talks began to end the trade war. The talks were fraught with complications and the relationship between the two countries initially deteriorated → The countries have however recently announced a 'phase one' deal → Whilst the prospect of an all-out trade war has receded slightly, the situation remains fragile, particularly given the backdrop of the 2020 Presidential election and China's protest over the US Senate's passing of the HK Human Rights and Democracy Act which threatens Hong Kong's special trade status → As opposed to merely slowing global growth, the risks are that the US-China dispute persists, expands to other regions such as Europe, and ultimately develops into a full-blown global trade war → The Group has a significant revenue stream from supporting cross-border trade | <ul style="list-style-type: none"> → A sharp slowdown in US-China and, more broadly, world trade and global growth is a feature of the Group stress scenarios including the Internal Capital Adequacy Assessment Process (ICAAP) and the annual Bank of England (BoE) stress testing exercise. This included a sharp slowdown in China scenario which was assessed in September 2019. These stress tests provide visibility to key vulnerabilities so that management can implement timely interventions |

| Emerging Risk | Risk trend since 2018 | Context | How these are mitigated/next steps |
|--|-----------------------|---|--|
| Hong Kong social unrest | | <ul style="list-style-type: none"> → In February 2019, the Hong Kong government proposed the Fugitive Offenders and Mutual Legal Assistance in Criminal Matters Legislation (Amendment) Bill (the 'Extradition Bill'), triggering significant public reaction from June onwards → Continual large-scale social unrest initially demanded the withdrawal of the proposed Extradition Bill but later expanded to cover other issues including transparency, justice and democracy. There is evidence of de-escalation since December 2019 although the situation remains fluid → Key economic indicators suggest a notable slowdown in Hong Kong's economy → The unrest has not had a significant effect on operations and the portfolio to date → Hong Kong remains the largest profit contributor to the Group | <ul style="list-style-type: none"> → The Group has formed a 'command centre' managed by Standard Chartered Bank Hong Kong, which assesses emerging risks and directs the Group's response → The Group's ongoing stress tests provide insight to develop strategies to mitigate these. Exposures that may result in material credit impairment and increased risk-weighted assets are closely monitored and actively managed → Detailed portfolio reviews are conducted on an ongoing basis, most recently in the fourth quarter of 2019 |
| Middle East geopolitical tensions | | <ul style="list-style-type: none"> → The past 12 months have seen an increase in volatility across the Middle East. Conflicts continue in Syria, Yemen, Lebanon and Iraq → Following Major General Qasem Soleimani's death in a US drone strike, Iran took retaliatory action against US bases in Iraq and Ukrainian International Airlines flight PS752 was downed by an Iranian missile when departing Tehran → Following the decision by the US to withdraw its troops from Northern Syria, Turkey commenced a military operation to create a buffer zone on its border with Syria. In response, Syrian and Kurdish forces agreed to align against the Turkish army → There were attacks on Saudi oil installations claimed by Houthi rebels fighting against Saudi Arabian and UAE forces in Yemen. The attacks temporarily closed down 5 per cent of global oil production and led to new US sanctions on Iran. The US authorised the deployment of additional forces to the region. Iran further reduced its compliance with the Joint Comprehensive Plan of Action and is expanding its stock of low-enriched uranium → Attacks on oil tankers took place in the Strait of Hormuz off the coast of UAE and Oman. The US attributed the attacks to Iran; an accusation Iran denied → The boycott of Qatar by the Arab quartet (Saudi Arabia, UAE, Bahrain and Egypt) continues and has contributed to the downward pressures on economic growth in the region. There is little incentive for the parties to alter their positions in the absence of any strong external pressure to do so → Qatar's internal outlook is more positive given the country's response to the blockade, improved self-reliance and high foreign currency reserves → The Group has a material presence across the region | <ul style="list-style-type: none"> → The Group has continued monitoring at regional and country level to detect horizon risks and analyse potential adverse developments → The direct impact on our Middle East portfolio to date has been limited, though the developments inevitably impact confidence and economic prospects for the region → Qatar's Risk Appetite and underwriting standards have been adjusted to reflect current conditions |



Risk heightened in 2019



Risk reduced in 2019



Risk remained consistent with 2018 levels

Potential impact

Refers to the extent to which a risk event might affect the Group

High (significant financial or non-financial risk)

Medium (some financial or non-financial risk)

Low (marginal financial or non-financial risk)

Likelihood

Refers to the possibility that a given event will occur

High (almost certain)

Medium (likely or possible)

Low (unlikely or rare)

Velocity of change

Refers to when the risk event might materialise

Fast (risk of sudden developments with limited time to respond)

Moderate (moderate pace of developments for which we expect there will be time to respond)

Steady (gradual or orderly developments)

| Emerging Risk | Risk trend since 2018 | Context | How these are mitigated/next steps |
|---------------------------------------|-----------------------|--|---|
| Brexit implications | ↓ | <p>Potential impact: Low</p> <p>Likelihood: High</p> <p>Velocity of change: Steady</p> | <ul style="list-style-type: none"> → The UK general election result has reduced the immediate risk surrounding the exit of the UK from the European Union (Brexit) and transition is currently due to continue until December 2020 → Brexit could have implications on the economic outlook for the Eurozone and the UK, which might in turn have global implications because of changes in policy direction. The uncertainties linked to Brexit negotiations could delay corporate investment decisions until there is more clarity |
| Japan-Korea diplomatic dispute | ↑ | <p>Potential impact: Medium</p> <p>Likelihood: High</p> <p>Velocity of change: Steady</p> | <ul style="list-style-type: none"> → As the Japan-Korea dispute over wartime labour compensation escalated, Japan imposed export restrictions on South Korea along with other key Asian countries such as China and Singapore, regarding important raw materials for semiconductors and organic light emitting diode (OLED) displays, with effect from 4 July 2019 → South Korean chip manufacturers rely on these imports → This supply shortage is expected to have minimal immediate impact because the use of these raw materials is limited to high-end products. However, adoption of these advanced technologies is critical for retaining technological leadership and is expected to accelerate in the medium term → These are important markets for the Group |

Macroeconomic considerations

| Emerging Risk | Risk trend since 2018 | Context | How these are mitigated/next steps |
|---|-----------------------|--|---|
| Novel coronavirus outbreak, China slowdown and impact on regional economies with close ties to China | ↑ | <p>Potential impact: High</p> <p>Likelihood: High</p> <p>Velocity of change: Fast</p> | <ul style="list-style-type: none"> → Asia remains the main driver of global growth supported by internal drivers, led by China → Chinese authorities have confirmed a new coronavirus 'Covid-19', which is a family of viruses that cause respiratory infections such as severe acute respiratory syndrome (SARS) and middle east respiratory syndrome (MERS) → By 31 January 2020, the World Health Organisation declared a global health emergency as the outbreak spread well beyond China with the majority of cases in mainland China → Governments around the world have taken measures to contain the spread of the virus including travel restrictions. Some companies have scaled back their operations in China → The rapid spread of the novel coronavirus outbreak presents risks to regional economic growth → The outbreak has raised comparisons with SARS in 2003, which infected over 8,000 people and led to approximately 700 deaths. SARS caused widespread economic disruption as fear of infection resulted in a reduction in retail activity as well as a downturn in hospitality and tourism. There are risks the effect will be greater due to China's increased global economic importance → The economic impact of the novel coronavirus outbreak will depend on how the virus spreads and the response of the authorities. Prior to the outbreak, China GDP growth slowed to 6.0 per cent in Q3 and 6.1 per cent in Q4 2019, the weakest pace in almost 30 years → Highly trade-oriented economies such as Hong Kong and Singapore with close ties to China would weaken in the event of an economic slowdown. Regional supply chain economies such as Korea, Taiwan and Malaysia would also be impacted from a fall in economic activity → Greater China, North Asia and South East Asian economies remain key strategic regions for the Group and Hong Kong remains the largest profit contributor |

Environmental and social considerations

| Emerging Risk | Risk trend since 2018 | Context | How these are mitigated/next steps |
|---|-----------------------|---|--|
| Climate-related transition and physical risks¹ <p>Potential impact: High</p> <p>Likelihood: High</p> <p>Velocity of change: Moderate</p> | ▲ | <ul style="list-style-type: none"> → National governments have, through the United Nations Framework Convention on Climate Change process and Paris Agreement, made commitments to enact policies which support the transition to a lower-carbon economy, limiting global warming to “well below 2°C” and therefore mitigating the most severe physical effects of climate change → The PRA published its formal Supervisory Statement SS 3/19 with regards to climate-related risks in April 2019. The Supervisory Statement requires significant measures to be taken by banks in identification, assessment, management, reporting, governance and disclosure of the financial and non-financial risks arising from climate change. The expectation is that regulatory guidance and expectation will increase → Such policies may have significant impacts, for example on energy infrastructure developed in our markets, and thus present ‘transition’ risks for our clients. The Group, for example, could be impacted by climate change from a credit or reputational perspective due to the impact on our clients’ operations or their underlying business model → 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 | <ul style="list-style-type: none"> → The Group recognises the distinction and linkages between managing its contribution to climate change (through direct and financed emissions) and managing the financial and non-financial risks arising from climate change. The Group is committed to respond responsibly and with urgency on both → The 2019 Taskforce for Climate-related Financial Disclosures (TCFD)-aligned disclosures provide details on the Group’s progress. The TCFD report includes current emissions intensities for the Group’s automotive and cement manufacturing portfolios, as measured through the pilot methodology developed by 2 Degrees Investing Initiative → The Group announced that it will only support clients who actively transition their business to generate less than 10 per cent of earnings from thermal coal by 2030. The Group recognises, however, that transitioning to clean technology will require significant changes across our markets, and because of that has chosen to implement this decision on a phased basis, using set milestones, beginning 1 January 2021. The Group’s environmental and social requirements are documented in our Position Statements and our Prohibited Activities include aspects of oil and gas and mining and metals sectors → The Group has a public target to fund and facilitate \$35 billion towards renewable energy from 2020 to the end of 2024 → A Climate Risk Management Forum has been established internally to provide oversight on the development and implementation of the Climate Risk framework → The Group is a member of the Risk Management Working Group under the BoE’s Climate Financial Risk Forum and led the Framework and Governance section of the handbook → The Group is actively collaborating with clients, regulators, investors, peer banks, external experts and coalition platforms (such as United Nations Environment Programme Finance Initiative (UNEP-FI)) to solve the collective challenges in the approach to managing climate-related risks |

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

Legal considerations (Risk ranked according to severity)

| Emerging Risk | Risk trend since 2018 | Context | How these are mitigated/next steps |
|---|-----------------------|--|--|
| <p>Interbank Offered Rate ('IBOR') discontinuation and transition</p> <p>Potential impact: High</p> <p>Likelihood: High</p> <p>Velocity of change: Moderate</p> | | <ul style="list-style-type: none"> → With the significant decrease in liquidity and volume of transactions upon which the London Interbank Offered Rate (LIBOR) benchmark submissions are made, regulators have expressed concern over the robustness and sustainability of the IBOR benchmarks. In 2014, the Financial Stability Board published a report on reforming major interest rate benchmarks, seeking alternative risk free rates (RFRs) for the IBOR currencies (US dollar, pound sterling, euro, Swiss franc and Japanese yen) → In 2017, the UK Financial Conduct Authority (FCA) announced that it had reached an agreement with LIBOR panel banks to contribute to LIBOR until the end of 2021. It is likely that several panel banks will cease contributing to LIBOR by the end of 2021, leading to LIBOR's cessation. Given this, the FCA called for the industry to start preparing for LIBOR cessation, by transitioning from IBORs to RFRs → Transition from LIBOR to RFRs presents several risks: (i) there are fundamental differences between LIBOR and RFRs and value transfer may arise in transitioning contracts from one to the other; (ii) the market may transition at different paces in different regions and across different products, presenting various sources of basis risk and posing major challenges on hedging strategies; (iii) clients may not be treated fairly through-out the transition or may not be aware of the options available to them and the implications of decisions taken, which may result in unfair financial detriment, (iv) changes in processes, systems and vendor arrangements associated with the transition may not be within appropriate tolerance levels, (v) Legal risk in relation to the fall-back risks associated with the transition and (vi) Accounting and Financial Reporting risk in that the changes in underlying rates, such as on cashflows and valuations, may not be incorporated correctly → The lack of liquidity in some of the RFR markets may present challenges to the transition until resolved, as will the likely different transition timelines for the five LIBOR currencies. The efficiency of our contract digitisation and remediation work is heavily reliant on the release of standardised fall-back language, including the outcomes of the Tough Legacy Task Force, established under the Sterling Risk-Free Reference Rates Working Group. Complexity in managing the IBOR transition is also increasing as a result of growing interest from a number of our local regulators, given our footprint, and the work required where there are local IBORs requiring transition as well → As LIBOR is the most widely used benchmark, its cessation and transition to RFRs will have profound impact on all participants in the financial markets → Whilst the Group does not submit to LIBOR, LIBOR is heavily relied upon by the Group as a reference rate for many financial instruments | <ul style="list-style-type: none"> → The Group has set up a global IBOR Transition Programme to consider all aspects of the transition and how risks from the transition can be mitigated. A Management Team member is the Senior Manager for the IBOR Transition Programme → Efforts to raise awareness of the transition, both internally and with clients, have started, with internal training sessions and client seminars held in Thailand, Hong Kong and Singapore as of December 2019 → From an industry and regulatory perspective, the Group is actively participating in and contributing to different RFR Working Groups, industry associations and business forums focusing on different aspects of the LIBOR (or IBOR, as applicable) to RFR transition → The Group monitors the developments at these IBOR-related forums and reflects and aligns significant industry decisions into the Group's transition plans, as required |

| Emerging Risk | Risk trend since 2018 | Context | How these are mitigated/next steps |
|---|--|--|---|
| Regulatory changes | Potential impact: Medium Likelihood: High Velocity of change: Steady | <ul style="list-style-type: none"> → Rules have been defined in many key areas of regulation that could impact our business model and how we manage our capital and liquidity positions → Prudential treatment of software: The Capital Requirements Regulation (CRR) II introduces a new prudential treatment for software intangibles: it excludes "prudently valued" software assets from the scope of those assets which must be deducted from Common Equity Tier 1. According to CRR II, the value of "prudently valued" software assets is not materially affected by resolution, insolvency or liquidation → Crypto assets: There is currently considerable uncertainty around the regulatory treatment of crypto assets. In May 2019, the Financial Stability Board published a report that referred to the ongoing work by the Basel Committee. While the current Basel framework does not set out an explicit treatment of banks' exposures to crypto assets, it does set out minimum requirements for the capital and liquidity treatment of "other assets". The BCBS is now considering whether to formally clarify the prudential treatment of crypto-assets across the set of risk categories (credit risk, counterparty credit risk, market risk, liquidity risk, etc.) → Other: These include the upcoming Basel III changes to capital calculation methodology for credit and operational risk, revised framework for Credit Valuation Adjustment risk, Fundamental Review of the Trading Book and implementation of Margin Reforms → Ongoing regulatory scrutiny and emphasis on local responsibilities for remotely booked business. The degree of reliance on global controls is reducing, and the focus is on local controls and governance | <ul style="list-style-type: none"> → We actively monitor regulatory initiatives across our footprint to identify any potential impact and change to our business model → With respect to the finalisation of Basel III: <ul style="list-style-type: none"> - The Group has mobilised a Risk & Finance sponsored Programme to undertake a comprehensive assessment of the Capital and Operational impacts of the Basel III Finalisation regulations. Capital optimisation efforts and business strategies are being reviewed considering these requirements - We continuously review a menu of prospective capital accretive actions, along with their impact on the Group strategy and financial performance → 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 |
| Regulatory reviews and investigations, legal proceedings | Potential impact: High Likelihood: Medium Velocity of change: Moderate | <ul style="list-style-type: none"> → The Group has been, and will 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 → In recent years, authorities have exercised their discretion to impose severe penalties on financial institutions in connection with violations of laws and regulations, and there can be no assurance that future penalties will not be of similar or increased severity → 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 | <ul style="list-style-type: none"> → We continue to invest in enhancing systems and controls, and implementing remediation programmes where relevant → The Group cooperates with regulatory reviews, requests for information and investigations and actively manages legal proceedings → We continue to train and educate our people on relevant issues including conduct, conflicts of interest, information security and financial crime compliance in order to reduce our exposure to legal and regulatory proceedings |

Technological considerations (Risk ranked according to severity)

| Emerging Risk | Risk trend since 2018 | Context | How these are mitigated/next steps |
|---|---|--|---|
| <p>New technologies and digitisation (including business disruption risk, responsible use of Artificial Intelligence and Obsolescence Risk)</p> <p>Potential impact: High</p> <p>Likelihood: High</p> <p>Velocity of change: Fast</p> |  | <ul style="list-style-type: none"> → Innovation in the financial services industry is happening at a relentless pace. Artificial intelligence (AI) and blockchain technology have continued to gather speed with a growing number of use cases that address evolving customer expectations to which the Group must adapt its operating model or risk competitive disadvantage → In Retail Banking, the Group continues to observe significant shifts in customer value propositions as markets deepen. Fintechs are delivering digital-only banking offerings with a differentiated user experience, value propositions and product pricing. There is growing usage of AI and machine learning (ML) to deliver highly personalised services, e.g. virtual chatbots to provide digital financial advice and predictive analytics to cross-sell products. The Group may be unable to compete effectively if it fails to appropriately invest in innovation and disruptive technologies → In the Corporate Banking sector, we continue to observe an increasing focus on process digitisation to streamline processes and provide scalable and personalised solutions for corporate clients. There are growing use cases for blockchain technologies, e.g. streamline cross-border payments and automate key documentation. AI and ML have also been increasingly used in predictive risk modelling, e.g. loan default forecasting. Failure to expediently adapt and harness such technologies would place the Group at a competitive disadvantage → There is an increasing usage of partnerships and alliances by banks to respond to a rapidly changing banking landscape and disruption from existing players and new entrants. This is making partnerships and alliances an integral part of banks' emerging business model and value proposition to the clients → As these new technologies grow in sophistication and become further embedded across the banking and financial services industry, banks may become more susceptible to technology-related risks. For example, the growing usage of big data and cloud computing solutions has heightened cyber security risks in banks. Banks may also face increased risks of business model disruption as new products and technologies continue to emerge → Regulators are increasing emphasis on the importance of resilient technology infrastructure in terms of elimination of cyber risk and improving reliability. The challenge is in renewing our technology and infrastructure to reduce the risks presented by obsolescence when the demands of delivering ongoing technology investment into this estate and its required performance levels continue to rise significantly | <ul style="list-style-type: none"> → The Group continues to undertake a rigorous approach in monitoring emerging trends and new developments, opportunities and risks in the technology space which may have implications on the banking sector. The Group manages the risks at two levels: firstly, staying relevant to clients and markets and; secondly understanding and managing new types of risk → In 2017, the Group set up the SC Ventures unit to spearhead Group-wide digital advancement. The unit is gaining momentum to promote innovation, invest in disruptive technologies and deliver client digital solutions. SC Ventures recently launched its eXellerator innovation lab in China, adding to the Group's other eXellerator labs in Singapore, Hong Kong, London, San Francisco and Kenya. The labs are designed to drive innovation, invest in promising fintech and implement new business models in banking → The Group has continued to make headway in harnessing new technologies to develop innovative solutions. This has included deploying blockchain technology solutions to digitise cross-border trade documents and optimise supply chain financing. The Group is also co-creating new solutions and establishing new partnerships to improve the client experience. For example, the Group recently announced a strategic partnership with SAP Ariba to make SCB's financial supply chain solutions accessible to businesses in the Asia Pacific region through Ariba Network. This is the world's largest digital business network → The Group has an integrated strategy to leverage technology to manage cyber risk and combat cyber-enabled financial crime. Rapid adoption of new technologies requires that we also determine how the Group's security standards, capabilities and processes need to be applied. In some cases, this includes adapting new security aspects considering new technology. The Group is also implementing a framework to ensure Fairness, Ethics, Accountability and Transparency in the Group's usage of data analytics and AI → The Group maintains its vigilant watch on legal and regulatory trends in relation to the usage of new technologies and related data risks. The Group is also developing a crypto asset risk framework to better manage these risks → The Group is actively targeting the reduction of obsolescent/end of support technology following a Technology & Innovation led programme under the oversight of the Risk function and the Group's senior executives. The target is to address the Group's obsolescence risk by evergreening and use of new technologies such as the Cloud. We also continue to focus on clients by delivering on outage reductions, enhanced protection by raising cyber defences and efficiency by improvements to technology deployment |

| Emerging Risk | Risk trend since 2018 | Context | How these are mitigated/next steps |
|--|-----------------------|--|--|
| Increased data privacy and security risks from strategic and wider use of data <p>Potential impact: High</p> <p>Likelihood: High</p> <p>Velocity of change: Moderate</p> | | <ul style="list-style-type: none"> → As digital technologies grow in sophistication and become further embedded across the banking and financial services industry, the potential impact profile with regards to data risk is changing. Banks may become more susceptible to technology-related data security risks as well as customer privacy issues. The growing use of big data for analysis purposes and cloud computing solutions are examples of this → In addition, these risks represent an emerging and topical theme both from a regulatory and compliance perspective (i.e. the EU General Data Protection Regulation (GDPR) raises the profile of data protection compliance) → As the Group moves towards cloud computing solutions and an increasing use of big data for analysis purposes, this leads to increased susceptibility to data security and customer privacy risks | <ul style="list-style-type: none"> → We have existing governance and control frameworks for the deployment of new technologies and services and are developing a Data Management risk sub-type → To manage the risks posed by rapidly evolving security threats and technology adoption, we have designed a Transformation and Remediation Portfolio (TRP). This is a multi-year initiative with a focus on security improvements and providing assurance to regulators that we are building a sustainable Information and Cyber Security programme that will secure its information and technology assets for the long-term. The programme is progressing with capability being built out in multiple areas including governance, investment prioritisation and execution risk management → We maintain a vigilant watch on legal and regulatory developments in relation to data protection and customer privacy to identify any potential impact to the business and to implement appropriate mechanisms to control this risk → For the Group, GDPR principally impacts Group locations and client segments in the EU, functions such as Human Resources and downstream suppliers such as hubs and external vendors that process personal data caught by the GDPR ('EU personal data'). A GDPR programme has been established to review and remediate vendor contracts and intra-group agreements that involve the processing of EU personal data |

Capital review

The Capital review provides an analysis of the Group's capital and leverage position and requirements.

Capital summary (unaudited)

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 risk-weighted assets (RWA)

| | 2019 | 2018 |
|--------------------------------------|----------------|---------|
| CET1 capital | 13.8 % | 14.2 % |
| Tier 1 capital | 16.5 % | 16.8 % |
| Total capital | 21.2 % | 21.6 % |
| UK leverage | 5.2 % | 5.6 % |
| Risk-weighted assets (RWA) \$million | 264,090 | 258,297 |

The Group's Common Equity Tier 1 (CET1) capital and Tier 1 leverage position are well above current minimum requirements. For further detail see the Capital section in the Standard Chartered PLC Pillar 3 Disclosures for FY 2019.

The Group's Pillar 2A requirement increased to 3.4 per cent of RWA, from 2.9 per cent, of which at least 1.9 per cent must be held in CET1. This requirement can vary over time. The Hong Kong Monetary Authority (HKMA) reduced the Hong Kong countercyclical buffer to 2.0 per cent from 2.5 per cent. The combined impact of changes to the Pillar 2A requirements and Hong Kong countercyclical buffer rates increased the Group's CET1 minimum requirement from 10.0 per cent to 10.2 per cent at 31 December 2019. The Financial Policy Committee announced it would increase the UK countercyclical buffer from 1.0 per cent to 2.0 per cent to take effect from 16 December 2020 and this change (based on the period end balance sheet) is expected to increase the Group's minimum CET1 requirements by 6 basis points to 10.3 per cent by the end of 2020.

The Group's fully phased minimum requirement for own funds and eligible liabilities (MREL) is 22.8 per cent of RWA from 1 January 2022. The Group's combined buffer (the capital conservation, global systemically important institution (G-SII) and countercyclical buffers) is additive to the minimum requirement, resulting in a total MREL requirement of 26.7¹ per cent of RWA from 1 January 2022. The Group's MREL position at 31 December 2019 was 28.6 per cent of RWA and 9.4 per cent of leverage exposure.

The Group has continued its programme of MREL issuance from its holding company in 2019, issuing around \$7.7 billion of MREL eligible securities during the period, including the Group's inaugural issuance of Australian dollar senior notes. The Group also priced an inaugural SGD750 million Additional Tier 1 (AT1) and its first emerging-markets focused sustainability bond of EUR500 million in the period.

In the period, the Group completed a buy-back of \$1.0 billion of its ordinary share capital. The impact of the \$1.0 billion buy-back on the Group's CET1 ratio was a reduction of around 39 basis points.

The Group is a G-SII, with a 1.0 per cent G-SII CET1 buffer. The Standard Chartered PLC 2018 G-SII disclosure is published at: sc.com/fullyearresults

1 Fully phased minimum 2022 MREL requirement includes the estimated impact of the proposed UK countercyclical buffer increase from 1.0 per cent to 2.0 per cent with effect from 16 December 2020

Capital ratios (unaudited)

| | 2019 | 2018 |
|----------------|--------------|-------|
| CET1 | 13.8% | 14.2% |
| Tier 1 capital | 16.5% | 16.8% |
| Total capital | 21.2% | 21.6% |

CRD IV Capital base¹

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| CET1 instruments and reserves | | |
| Capital instruments and the related share premium accounts | 5,584 | 5,617 |
| Of which: share premium accounts | 3,989 | 3,965 |
| Retained earnings | 24,044 | 25,377 |
| Accumulated other comprehensive income (and other reserves) | 11,685 | 11,878 |
| Non-controlling interests (amount allowed in consolidated CET1) | 723 | 686 |
| Independently reviewed interim and year-end profits | 2,301 | 1,072 |
| Foreseeable dividends net of scrip | (871) | (527) |
| CET1 capital before regulatory adjustments | 43,466 | 44,103 |
| CET1 regulatory adjustments | | |
| Additional value adjustments (prudential valuation adjustments) | (615) | (564) |
| Intangible assets (net of related tax liability) | (5,318) | (5,146) |
| Deferred tax assets that rely on future profitability (excludes those arising from temporary differences) | (129) | (115) |
| Fair value reserves related to net losses on cash-flow hedges | 59 | 10 |
| Deduction of amounts resulting from the calculation of excess expected loss | (822) | (875) |
| Net gains on liabilities at fair value resulting from changes in own Credit Risk | (2) | (412) |
| Defined-benefit pension fund assets | (26) | (34) |
| Fair value gains arising from the institution's own Credit Risk related to derivative liabilities | (38) | (127) |
| Exposure amounts which could qualify for risk weighting of 1250% | (62) | (123) |
| Total regulatory adjustments to CET1 | (6,953) | (7,386) |
| CET1 capital | 36,513 | 36,717 |
| AT1 capital instruments | 7,184 | 6,704 |
| AT1 regulatory adjustments | (20) | (20) |
| Tier 1 capital | 43,677 | 43,401 |
| Tier 2 capital instruments | 12,318 | 12,325 |
| Tier 2 regulatory adjustments | (30) | (30) |
| Tier 2 capital | 12,288 | 12,295 |
| Total capital | 55,965 | 55,696 |
| Total risk-weighted assets (unaudited) | 264,090 | 258,297 |

1 CRD IV capital is prepared on the regulatory scope of consolidation

Movement in total capital

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| CET1 at 1 January | 36,717 | 38,162 |
| Ordinary shares issued in the period and share premium | 25 | 14 |
| Share buy-back ¹ | (1,006) | – |
| Profit for the period | 2,301 | 1,072 |
| Foreseeable dividends net of scrip deducted from CET1 | (871) | (527) |
| Difference between dividends paid and foreseeable dividends | (641) | (575) |
| Movement in goodwill and other intangible assets | (172) | (34) |
| Foreign currency translation differences | (180) | (1,161) |
| Non-controlling interests | 37 | (164) |
| Movement in eligible other comprehensive income | 284 | 60 |
| Deferred tax assets that rely on future profitability | (14) | 10 |
| Decrease/(increase) in excess expected loss | 53 | 267 |
| Additional value adjustments (prudential valuation adjustment) | (51) | 10 |
| IFRS 9 day one transitional impact on regulatory reserves | (43) | (441) |
| Exposure amounts which could qualify for risk weighting | 61 | 18 |
| Other | 13 | 6 |
| CET1 at 31 December | 36,513 | 36,717 |
| AT1 at 1 January | 6,684 | 6,699 |
| Issuances net of redemptions | 552 | – |
| Foreign currency translation difference | 9 | (15) |
| Excess on AT1 grandfathered limit (ineligible) | (81) | – |
| AT1 at 31 December | 7,164 | 6,684 |
| Tier 2 capital at 1 January | 12,295 | 13,897 |
| Regulatory amortisation | (1,111) | 166 |
| Issuances net of redemptions | 1,000 | (1,713) |
| Foreign currency translation difference | (12) | (215) |
| Tier 2 ineligible minority interest | 31 | 144 |
| Recognition of ineligible AT1 | 81 | – |
| Other | 4 | 16 |
| Tier 2 capital at 31 December | 12,288 | 12,295 |
| Total capital at 31 December | 55,965 | 55,696 |

1 \$1,006 million includes share buy-back expenses of \$6 million

The main movements in capital in the period were:

- The CET1 ratio decreased from 14.2 per cent to 13.8 per cent predominantly because of higher RWAs, the impact of the \$1.0 billion share buy-back and other distributions to shareholders, including preference dividends, partly offset by profit for the period
- CET1 capital decreased by \$0.2 billion, mainly due to the share buy-back of \$1.0 billion and other distributions during the period of \$1.5 billion, partly offset by profit after tax of \$2.3 billion
- AT1 increased slightly to \$7.2 billion, mainly due to the new issuance of SGD 750 million of AT1 securities
- Tier 2 capital was unchanged at \$12.3 billion mainly due to \$1.0 billion of new subordinated debt issuance, offset by amortisation of \$1.1 billion during the year

Risk-weighted assets by business (unaudited)

| | 2019 | | | |
|-----------------------------------|--------------------------|-------------------------------|--------------------------|-------------------------|
| | Credit Risk \$million | Operational Risk \$million | Market Risk \$million | Total risk \$million |
| Corporate & Institutional Banking | 98,227 | 13,261 | 20,562 | 132,050 |
| Retail Banking | 37,138 | 7,314 | — | 44,452 |
| Commercial Banking | 25,440 | 2,626 | — | 28,066 |
| Private Banking | 5,681 | 728 | — | 6,409 |
| Central & other items | 49,178 | 3,691 | 244 | 53,113 |
| Total risk-weighted assets | 215,664 | 27,620 | 20,806 | 264,090 |
| 2018 | | | | |
| Corporate & Institutional Banking | 96,954 | 13,029 | 19,008 | 128,991 |
| Retail Banking | 35,545 | 7,358 | — | 42,903 |
| Commercial Banking | 27,711 | 2,770 | — | 30,481 |
| Private Banking | 5,103 | 758 | — | 5,861 |
| Central & other items | 45,825 | 4,135 | 101 | 50,061 |
| Total risk-weighted assets | 211,138 | 28,050 | 19,109 | 258,297 |

Risk-weighted assets by geographic region (unaudited)

| | 2019 \$million | 2018 \$million |
|-----------------------------------|-------------------|-------------------|
| Greater China & North Asia | 85,695 | 81,023 |
| ASEAN & South Asia | 88,942 | 87,935 |
| Africa & Middle East | 49,244 | 53,072 |
| Europe & Americas | 43,945 | 40,789 |
| Central & other items | (3,736) | (4,522) |
| Total risk-weighted assets | 264,090 | 258,297 |

Movement in risk-weighted assets (unaudited)

| | 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 |
| As at 1 January 2018 | 109,368 | 36,345 | 29,712 | 5,134 | 45,671 | 226,230 | 30,478 | 23,040 | 279,748 |
| Assets (decline)/growth | (1,527) | 1,466 | (1,347) | 56 | 2,896 | 1,544 | — | — | 1,544 |
| Net credit migration | (2,120) | 25 | 237 | — | 494 | (1,364) | — | — | (1,364) |
| Risk-weighted assets efficiencies | (3,540) | (597) | — | — | (748) | (4,885) | — | — | (4,885) |
| Model, methodology and policy changes | (3,338) | (671) | 66 | — | 77 | (3,866) | — | (1,948) | (5,814) |
| Disposals | — | — | — | — | (626) | (626) | — | — | (626) |
| Foreign currency translation | (1,889) | (1,023) | (957) | (87) | (1,939) | (5,895) | — | — | (5,895) |
| Other non-credit risk movements | — | — | — | — | — | — | (2,428) | (1,983) | (4,411) |
| Aa at 31 December 2018 | 96,954 | 35,545 | 27,711 | 5,103 | 45,825 | 211,138 | 28,050 | 19,109 | 258,297 |
| Assets (decline)/growth | 1,303 | 1,020 | (557) | 528 | 4,093 | 6,387 | — | — | 6,387 |
| Net credit migration | 2,565 | 832 | (642) | 8 | 607 | 3,370 | — | — | 3,370 |
| Risk-weighted assets efficiencies | (1,112) | (33) | (403) | — | (2,404) | (3,952) | — | — | (3,952) |
| Model, methodology and policy changes | (904) | (7) | — | — | 1,400 | 489 | — | 500 | 989 |
| Disposals | (397) | — | (441) | — | — | (838) | — | — | (838) |
| Foreign currency translation | (182) | (219) | (228) | 42 | (343) | (930) | — | — | (930) |
| Other non-Credit Risk movements | — | — | — | — | — | — | (430) | 1,197 | 767 |
| As at 31 December 2019 | 98,227 | 37,138 | 25,440 | 5,681 | 49,178 | 215,664 | 27,620 | 20,806 | 264,090 |

Movements in risk-weighted assets

RWA increased by \$5.8 billion, or 2.2 per cent from 31 December 2018 to \$264.1 billion. This was mainly due to increases in Credit Risk RWA of \$4.5 billion, Market Risk RWA \$1.7 billion, partly offset by a decrease of \$0.4 billion in Operational Risk RWA.

Corporate & Institutional Banking

Credit risk RWA increased by \$1.3 billion to \$98.2 billion mainly due to:

- \$2.6 billion increase due to net credit migration principally in Greater China & North Asia and Europe & Americas
- \$1.3 billion increase due to asset balance growth in Financial Markets and Corporate Finance, primarily in Greater China & North Asia, partly offset by asset decline in Africa & Middle East
- \$1.1 billion decrease due to RWA efficiencies, relating to a number of initiatives across the segment
- \$0.9 billion decrease due to the implementation of the internal model method (IMM) for Counterparty Credit Risk
- \$0.4 billion decrease due to the disposal of Principal Finance assets
- \$0.2 billion decrease from foreign currency translation due to depreciation of currencies in Europe and India against the US dollar.

Retail Banking

Credit Risk RWA increased by \$1.6 billion to \$37.1 billion mainly due to:

- \$1.0 billion asset balance growth in Greater China & North Asia
- \$0.8 billion increase from net credit migration primarily in Greater China & North Asia and in Africa & Middle East
- \$0.2 billion decrease from foreign currency translation mainly due to depreciation of currencies in Korea against the US dollar

Commercial Banking

Credit Risk RWA decreased by \$2.3 billion to \$25.4 billion mainly due to:

- \$0.6 billion RWA decrease due to decline in asset balances in Greater China & North Asia
- \$0.6 billion decrease due to net credit migration primarily in Greater China & North Asia and in Africa & Middle East
- \$0.4 billion decrease in RWA efficiencies primarily relating to SME clients
- \$0.4 billion decrease due to the disposal of Principal Finance assets
- \$0.2 billion decrease from foreign currency translation due to depreciation of currencies in India, Korea and Pakistan against the US dollar.

Private Banking

Credit Risk RWA increased by \$0.6 billion to \$5.7 billion principally due to asset balance growth in wealth management products primarily in Greater China & North Asia

Central & other items

Central & other items RWA mainly relates to the Treasury Markets liquidity portfolio, the Group's principal joint venture investment, PT Bank Permata Tbk, equity investments and deferred/current tax assets.

Credit Risk RWA increased by \$3.4 billion to \$49.2 billion mainly due to:

- \$4.1 billion RWA increase from asset balance growth, primarily in Europe & Americas and ASEAN & South Asia regions
- \$0.6 billion increase in net credit migration primarily in Greater China & North Asia and in Africa & Middle East
- \$1.4 billion increase from the implementation of the IFRS 16 standard relating to leases on property
- \$2.4 billion of benefit from RWA efficiency initiatives on Treasury exposures (Interbank Loans & Treasury bills)
- \$0.3 billion decrease from foreign currency translation due to depreciation of currencies in Pakistan, Ghana and Korea against the US dollar.

Market Risk

Total Market Risk RWA increased by \$1.7 billion, or 8.9 per cent from 31 December 2018 to \$20.8 billion. This change was due mainly to increased RWA under standardised rules, and a net increase in internal models approach (IMA) RWA following an increase in regulatory backtesting exceptions, as explained on page 192, partly offset by reduced IMA positions.

Operational Risk

Operational Risk RWA reduced by \$0.4 billion to \$27.6 billion, comprising a decrease in the average income over a rolling three-year time horizon, as lower 2018 income replaced higher 2015 income, and a reduced average beta factor, due to a shift towards lower beta businesses. This represents a 1.5 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 5.2 per cent, which is above the current minimum requirement of 3.7 per cent. The lower UK leverage ratio in the period was mainly due to: an increased exposure measure reflecting asset growth (on and off balance sheet), lower derivative and regulatory consolidation adjustments partly offset by a small increase in Tier 1 capital following the new issuance of SGD750 million of AT1 securities in the period.

UK leverage ratio (unaudited)

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| Tier 1 capital (transitional) | 43,677 | 43,401 |
| Additional Tier 1 capital subject to phase-out | (1,671) | (1,743) |
| Tier 1 capital (end point) | 42,006 | 41,658 |
| Derivative financial instruments | 47,212 | 45,621 |
| Derivative cash collateral | 9,169 | 10,323 |
| Securities financing transactions (SFTs) | 60,414 | 61,735 |
| Loans and advances and other assets | 603,603 | 571,083 |
| Total on-balance sheet assets | 720,398 | 688,762 |
| Regulatory consolidation adjustments ¹ | (31,485) | (45,521) |
| Derivatives adjustments | | |
| Derivatives netting | (32,852) | (34,300) |
| Adjustments to cash collateral | (11,853) | (14,827) |
| Net written credit protection | 1,650 | 1,221 |
| Potential future exposure on derivatives | 32,961 | 28,498 |
| Total derivatives adjustments | (10,094) | (19,408) |
| Counterparty Risk leverage exposure measure for SFTs | 7,005 | 8,281 |
| Off-balance sheet items | 122,341 | 115,335 |
| Regulatory deductions from Tier 1 capital | (6,913) | (6,847) |
| UK leverage exposure (end point) | 801,252 | 740,602 |
| UK leverage ratio (end point) | 5.2% | 5.6% |
| UK leverage exposure quarterly average | 816,244 | 734,976 |
| UK leverage ratio quarterly average | 5.1% | 5.8% |
| Countercyclical leverage ratio buffer | 0.1% | 0.1% |
| G-SII additional leverage ratio buffer | 0.4% | 0.3% |

¹ Includes adjustment for qualifying central bank claims



INCLUSIVE COMMUNITIES

Infusing tea pluckers with financial independence

Tea plucking is largely done by women in Sri Lanka, the world's third-largest tea producer. Despite working long hours and contributing more to the household income than men, female tea pluckers have limited control over their wages and lack access to basic financial services.

To help address this, we are empowering women and young people on Sri Lanka's tea estates to take control of their finances and increase their income as part of Futuremakers by Standard Chartered, our new global initiative to promote economic inclusion.

Together with local partners including Chrysalis, an affiliate of CARE International in Sri Lanka, we are providing tea pluckers with basic financial skills, such as saving and budgeting, as well as micro-loans and business mentoring so they can set up small-scale businesses. The project is delivered by Standard Chartered employee volunteers who travel to the estates to train workers, review business proposals and act as mentors to help ensure the businesses succeed.

To date, 129 community members from 11 estates have received financial training and 14 businesses are being supported. One of these businesses is run by 24-year-old Vaneeshwari and her father. After completing her financial training, Vaneeshwari submitted a proposal to expand the family's existing business, which provides cattle feed to local farmers. She secured a small loan to increase its working capital and to pay wages for eight employees. Business is thriving and with the profits, they have been able to lease a vehicle for the business. Longer term, Vaneeshwari plans to use her increased income to send her siblings to school.

By supporting entrepreneurs like Vaneeshwari, we aim to create more prosperous and inclusive communities where we operate.

➤ Read more about our approach to sustainable and responsible business on pages 51 to 56





FINANCIAL STATEMENTS

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Our aim is to create more prosperous and inclusive communities.

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 2019 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the Group and Company cash flow statements, 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 2019 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
- 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 first appointed as auditor by the company before 1973. The period of total uninterrupted engagement is for more than the 47 financial years ended 31 December 2019. 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.

Risks of material misstatement

vs 2018

| Recurring risks | | vs 2018 |
|---|---|---------|
| Credit impairment | ↑ | |
| User access management | ↔ | |
| Valuation of financial instruments held at fair value | ↔ | |
| Goodwill | ↔ | |
| Recoverability of Parent Company's investment in subsidiaries | ↔ | |

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, 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 decreasing order of audit significance, 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 matters | The risk | How our audit addressed the key audit matter |
|---|---|---|
| Credit impairment Charge: \$908 million (2018: \$653 million) Provision: \$6,391 million (2018: \$7,400 million) | Subjective estimate The estimation of expected credit losses (ECL) on financial instruments involves significant judgement and estimates. The carrying value of financial instruments within the scope of IFRS 9 ECL may be materially misstated if judgements or estimates made by the Group are inappropriate. The most significant areas where we identified greater levels of management judgement in the Group's estimation of ECLs and therefore required greater levels of audit focus are: → Significant Increase in Credit Risk (SICR) –the identification of Early Alert Non-Purely Precautionary as a qualitative indicator for identifying a significant increase in credit risk is highly judgemental and can materially impact the ECL recognised for wholesale facilities with a tenor greater than 12 months as these determine whether a 12 month or lifetime provision is recorded → Economic base case – IFRS 9 requires the Group to measure ECL on a forward-looking basis, incorporating future macro-economic variables (MEVs) reflecting a range of future conditions. The first five years of the economic base case is the key driver of the range of future conditions | Our procedures included: Control design, observation and operation: We tested the design, implementation and operational effectiveness of controls over the assessment and calculation of material SICR indicators and criteria, including credit risk monitoring controls over the Early Alert process. Assessing application of methodology: We performed the following procedures: → Inspected the Group's papers on technical decisions, including the appropriateness of SICR thresholds → Inspected and challenged management's assessment of SICR monitoring → We performed credit file reviews over a sample of stage 1 and stage 2 (good book) counterparties to assess whether management's qualitative staging criteria had been appropriately applied, given the use of Early Alert Non-Purely Precautionary status as a stage 2 trigger Our financial risk modelling expertise: We involved our own financial risk modelling specialists in evaluating the appropriateness of the Group's SICR criteria. We assessed on a sample basis the appropriateness of the allocation of facilities into either stage 1 or stage 2. Control design, observation and operation: We tested the design, implementation and operational effectiveness of management's review of the base case economic forecast for all MEVs. Our economic scenario expertise: We involved our economics specialists to assist us in assessing the appropriateness of the Group's methodology and model for determining the economic scenarios used. We also assessed the key economic variables used which included benchmarking samples of economic variables to independent external sources as well as assessing whether the base forecast used by the Group is indicative of bias. Independent re-performance: We independently challenged management's base forecast by calculating the impact on ECL of replacing management's forecast for material MEVs over a 5 year time horizon with economic Consensus values at year-end and comparing the results with management's calculations. |

| Key audit matters | The risk | How our audit addressed the key audit matter |
|---------------------------------------|---|--|
| Credit impairment continued | <ul style="list-style-type: none"> → Complex ECL models – inherently judgemental modelling techniques are used to estimate ECLs which involves determining Probabilities of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The PD Models specifically identified as significant are: Global Corporate; Rest-Of-World Commercial; Retail China Personal Loans; Retail Hong Kong Cards; Retail Korea Personal Loans; Retail Malaysia Personal Loans; Retail Singapore Cards and Retail Taiwan Personal Loans → Qualitative adjustments – adjustments to model-driven ECL results are raised to address model limitations or emerging risks and trends in underlying portfolios, which are inherently judgemental → Individually assessed stage 3 exposures carrying value – the carrying value of loans and advances to banks and customers, may be materially misstated if individual impairments are not appropriately identified and estimated. The identification of impaired assets and the estimation of impairment are highly judgmental. We have identified, estimation of future cash flows, valuation of collateral and probability weighting of scenarios to be the assumptions with high estimation uncertainty | <p>Control design, observation and operation: We tested the design, implementation and operational effectiveness of model monitoring controls and Group Model Validation's (GMV) revalidation of IFRS 9 credit models.</p> <p>Our financial risk modelling expertise: We involved our financial risk management modelling specialists to assist us in assessing the appropriateness of material models used by the Group. For these models, we assessed the credit risk modelling approach and methodology, re-performed certain aspects of the model validation and independently evaluated model monitoring results arising in the year. We have also challenged the completeness and accuracy of material post model adjustments calculated to address areas of identified model underperformance.</p> <p>Independent re-performance: For material models, we independently recalculated the PD, EAD and LGD for a sample of exposures, comparing the results with management's calculations.</p> <p>Control design, observation and operation: We tested the design, implementation and operational effectiveness of management's control in relation to review of the ECL output, including the IFRS 9 Impairment Committee review and approval of any overlay</p> <p>Assessing qualitative adjustments to model-driven ECL: We assessed the appropriateness of overlays to model-driven ECL by performing the following procedures:</p> <ul style="list-style-type: none"> → Tested a sample (risk based) of good book individual credit impairments for Corporate & Institutional Banking (CIB) and Commercial banking (CB) to identify any pockets of stress → Assessed and challenged management overlays applied to modelled ECL output specifically around the need for overlays arising from specific macro-economic issues → Assessed the completeness of management's ECL year-end true-up adjustments, including assessing whether overlays are required for geo-political or economic events or modelling deficiencies → Substantively tested the inter-system data flows and performed procedures to assess the integrity of underlying credit data used in the ECL calculation <p>Control design, observation and operation: We tested the design, implementation and operational effectiveness of credit downgrade controls, including reduction of limits, completion of downgrade checklists and management's approval of IFRS 9 impairment calculations.</p> <p>Assessing individual exposures: We selected a sample (based on quantitative thresholds) of larger clients identified by the Group as either high risk stage 2 or stage 3. We obtained the Group's assessment of the recoverability of these exposures and challenged whether individual impairment provisions, or lack of, were appropriate. Our procedures varied based on whether the account was classified as higher risk stage 2 or stage 3:</p> <ul style="list-style-type: none"> → High risk stage 2 – For each of the sampled loans we assessed the appropriateness of the classification of the account as a higher risk performing loan and the Group Special Assets Management (GSAM) review of the Stage 2 ECL attributed to the account → Stage 3 – Our procedures focused on the underlying recovery scenarios and assumptions, and the weighting applied to each scenario. On a case-by-case basis we: <ul style="list-style-type: none"> - Assessed the underlying cash flows through challenge of underlying scenarios and corroboration to evidence - Tested collateral valuations through inspecting valuation reports and, where relevant performed procedures to determine the reliability of management's expert - Confirmed that underlying data driving assumptions was accurate by agreeing to source documents such as loan agreements - Corroborated legal proceedings influencing the Group's recovery through publicly available documents - Performed sensitivity analysis on probability weightings assigned to each scenario |

| Key audit matters | The risk | How our audit addressed the key audit matter |
|--|--|---|
| Credit impairment continued | <p>The effect of these matters is that, as part of our risk assessment, we determined that the value of ECL has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (see page 187) disclose the sensitivity estimated by the Group.</p> | <p>Assessing transparency: We assessed whether the disclosures relating to ECL appropriately explains the uncertainty which exists when determining the expected credit losses. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we assessed whether the disclosure of the key judgements and assumptions made by management is sufficiently clear.</p> <p>Response to model performance issues: Due to model performance issues identified during the performance of management's routine controls over model validation and model monitoring, our audit risk associated with complex ECL models increased. As a result, we expanded the extent of our testing over complex ECL models and qualitative adjustments by performing additional substantive procedures to address the heightened risk. Such additional procedures included:</p> <ul style="list-style-type: none"> → Reproduction and evaluation of the management analysis used to corroborate ECL model outputs → Independent development of a challenger approach to assess the reasonableness of model outputs → Replication of model validation tests for new models developed to quantify model adjustments at year end → Where relevant, assessment and evaluation of management's qualitative analysis used to conclude on the appropriateness of model outputs <p>Our results: We considered the credit impairment charge, the provision recognised and the related disclosures to be acceptable (2018: acceptable).</p> |
| User access management Refer to page 88 (Audit Committee Report) | <p>Control performance</p> <p>The Group's key financial accounting and reporting processes are highly dependent on the automated controls over the Group's IT systems. There is a risk that gaps in the user access management controls specifically in relation to privileged user access management for key financial accounting and reporting systems may undermine our ability to place some reliance thereon in our audit.</p> | <p>Our procedures included:</p> <p>Control design, observation and operation: We tested the design, operation and effectiveness of controls over granting, removal and appropriateness of access rights, including privileged access rights.</p> <p>Test of details: We obtained the Group's evaluation of the access rights, including privileged access rights, granted to applications relevant to financial accounting and reporting systems and tested the resolution of a sample of exceptions.</p> <p>Our results: Our testing identified some weaknesses in the design and operation of user access management controls (2018: We identified some control weaknesses).</p> <p>As a result we extended our testing by testing a combination of mitigating controls and substantive testing to address control weaknesses identified, including:</p> <ul style="list-style-type: none"> → Tested the design and operation of alternative monitoring controls, including access administration and monitoring of activity using privileged users, incident management and change management → Obtained and inspected the last log in dates of users with privileged access, to identify whether they accessed any financial accounting and reporting system during 2019 → Assessed the nature of user IDs not subject to monitoring controls to ascertain the level of privilege and potential impact on financial and reporting systems → Obtained and evaluated reports which assessed the coding of the in scope applications to evaluate whether any unauthorised changes have taken place <p>When the above mitigating procedures were performed, we have reduced the audit risk relating to user access management controls to an acceptable level. (2018: Acceptable).</p> |

| Key audit matters | The risk | How our audit addressed the key audit matter |
|---|---|---|
| Valuation of financial instruments held at fair value Fair value of level 3 asset positions \$1,481 million comprising 1% of total fair value financial instrument assets (2018: \$2,581 million, 1%) Fair value of level 3 liability positions \$798 million comprising 1% of total fair value financial instrument liabilities (2018: \$1,046 million, 1%) ➤ Refer to page 87 (Audit Committee Report), page 283 (accounting policy) and page 285 (Note 13 Financial instruments) | Subjective estimate The valuation of level 3 financial instruments held at fair value through profit or loss or through other comprehensive income 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 significant unobservable inputs which is principally the case for level 3 financial instruments. Our work focused on the following: → Identification of level 3 positions → 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 The effect of these matters is that, as part of our risk assessment, we determined that the valuation of level 3 instruments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (page 307) disclose the sensitivity estimated by the Group. | Our procedures included: Control design, observation and operation: We tested the design, implementation and operational effectiveness of the Group's controls over the identification and measurement of Level 3 financial instruments including independent price verification controls, model validation and pricing inputs. Methodology assessment: For a sample of level 3 positions, our own valuations specialist assisted us in assessing the reasonableness of valuation methodologies, model calculation, inputs and assumptions used, considering potential alternatives and sensitivities to key inputs. Independent re-performance: With the assistance of our own valuation specialists we independently re-valued a selection of positions and challenged management on the valuations where they were outside our expected tolerance. Assessing completeness: 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. Assessing transparency: We assessed whether the disclosures appropriately explain the uncertainty which exists in the valuation of level 3 financial instruments. In addition, we assessed whether the disclosure of the key judgements and assumptions made by management is sufficiently clear. Our results: We considered the valuation of level 3 financial instruments held at fair value and the related disclosures to be acceptable (2018: acceptable). |

| Key audit matters | The risk | How our audit addressed the key audit matter |
|---|---|--|
| Goodwill impairment Impairment: \$27 million (2018: \$nil) Goodwill: \$3,079 million (2018: \$3,116 million) ➤ Refer to page 87 (Audit Committee Report) and page 320 (Note 17 Goodwill and Intangible assets including accounting policies) | Subjective estimate 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 (the value in use). The identification of indicators of impairment and the preparation of the estimate of value in use involves subjective judgements and uncertainties. Our work focused on cash generating units (CGUs) which have low headroom or significantly reduced headroom, including: <ul style="list-style-type: none">➔ India➔ Pakistan➔ Taiwan The effect of these matters is that, as part of our risk assessment, we determined that goodwill impairment has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (page 322) disclose the sensitivity estimated by the Group. | Our procedures included: Methodology assessment: Assessed whether the segmentation 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 assisted us in assessing 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 and the future cash flows. Reliability of forecasts: Evaluated the reasonableness of key management judgements and considerations in estimating the forecasts. Historical comparison: Assessed the Group's ability to accurately prepare forecasts by comparing to actual results. Consistency comparison: Assessed the consistency of projected cash flows to the Board approved corporate plan. Assessing transparency: We assessed whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill. Our results: We considered the goodwill impairment recognised, the goodwill balance and the related disclosures to be acceptable. (2018: acceptable). |
| Company: recoverability of Parent Company's investment in subsidiaries Investment in subsidiaries \$58,037 million (2018: \$34,853 million) ➤ Refer to page 87 (Audit Committee Report), page 350 (Note 32 Investment in subsidiary undertakings, joint ventures and associates including accounting policies) | Recoverability of investments: The carrying value of the parent Company's investment in subsidiaries represents 66% (2018: 54%) of the company's total assets. Recoverability of the investment is not considered to be at 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: Compared the carrying amount of a sample of the highest value investments, representing 99% (2018: 99%) of the total investment balance with the relevant subsidiary's 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: Assessing the work performed by the relevant subsidiary audit teams 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 (2018: acceptable). |

We continue to perform procedures over legal and regulatory matters. However, following the settlement in 2019 of the US and UK regulatory investigations in relation to historical sanction breaches, we have not assessed this as one of the key audit matters in our current year audit and, therefore, it is not separately identified in our report this year.

3 Our application of materiality and an overview of the scope of our audit

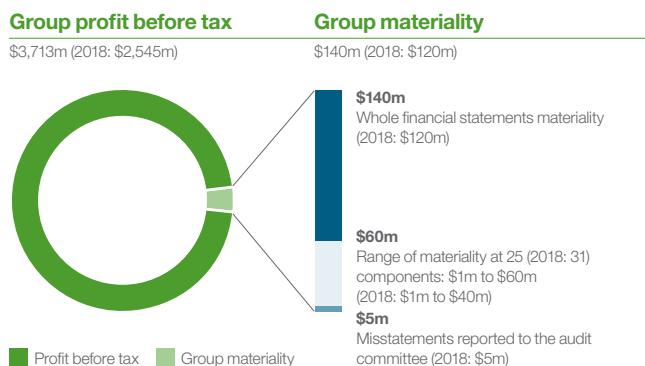
Materiality

Materiality for the Group financial statements as a whole was set at \$140 million (2018: \$120 million) determined with reference to a benchmark of profit before tax for the year of \$3,713 million (of which it represents 3.8%). In the prior year we used 3.5% of normalised profit before tax (\$3,448 million).

Materiality for the parent Company financial statements as a whole was set at \$110 million (2018: \$100 million), determined with reference to a benchmark of net assets of \$52,490 million (2018: \$31,848 million), of which it represents 0.2% (2018: 0.3%). We considered net assets to be the most appropriate benchmark as the parent Company's balance sheet largely consists of investment in subsidiaries and intergroup amounts.

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 (2018: \$5 million) and affecting Group assets or liabilities exceeding \$50 million (2018: \$50 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 \$60 million (2018: \$1 million to \$40 million), having regard to the size and risk profile of the components.



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 enough to require an audit for Group reporting purposes, but were either scoped in on the basis of the significant volume of liquid assets and transactions processed in those components or because they contained significant risks which were covered centrally.

The Group operates 9 (2018: 9) shared service centres (hubs), the outputs of which are included in the financial information of the reporting components they service and therefore they are not separate reporting components. All shared service centres where in-scope financial reporting processes are performed were subject to specified audit procedures, primarily over transaction processing and IT controls.

| | 2019 | 2018 |
|---|------|------|
| Total Group components ¹ | 170 | 176 |
| Components subject to full scope for Group audit | 19 | 27 |
| Components subject to specified risk focused procedures | 6 | 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 either a branch or a subsidiary of the Group

The components within the scope of our work accounted for the percentages illustrated below:



For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

1 Calculation used absolute profit before tax. Specified risk-focused audit procedures coverage was calculated using absolute income and expenses

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. The Group team held a separate IT and hubs conference as part of the audit planning process.

Aside from the audit of the parent Company, consolidation, valuation of financial instruments, modelled expected credit losses and goodwill impairment all audit work was performed by component or hub auditors.

Further, the Group team visited 9 (2018: 12) component and hub locations: Hong Kong; India; Ireland; Malaysia; Singapore; South Korea; United States of America; United Arab Emirates and United Kingdom (2018: China; Ghana; Hong Kong; India; Kenya; Malaysia; Nigeria; Pakistan; Singapore; South Korea; United Arab Emirates and United Kingdom). 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.

Aside from the site visits, regular conference calls were also held with the component auditors. The Group team also 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. This year, for the China component, where the novel coronavirus (Covid-19) prevented entry to the country to review the component team's key work papers and remote access to audit documentation is prohibited, we extended our oversight of the component team through extended telephone discussion and expanded reporting.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this approach is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements (the going concern period).

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- ➔ Availability of funding and liquidity in the event of a market wide stress scenario
- ➔ Impact on regulatory capital requirements in the event of an economic slowdown or recession

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, as included within the Company's recent stress tests, which could result in a rapid reduction of available financial resources.

Based on this work, 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
- ➔ The related statement under the Listing Rules set out on page 138 is materially inconsistent with our audit knowledge

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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
- ➔ 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 emerging and 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 65 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity
- The Principal Risks disclosures on page 212 to 227 describing those risks and explaining how they are being managed and mitigated
- 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 Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

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 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
- The parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns
- Certain disclosures of Directors' remuneration specified by law are not made
- We have not received all the information and explanations we require for our audit

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 145, 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 areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. 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.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, conduct, financial crime including money laundering, sanctions list and market abuse regulations recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, 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. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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.

Paul Furneaux

Senior Statutory Auditor

For and on behalf of KPMG LLP, Statutory Auditor

Public Interest Entity Auditor recognised in accordance with the Hong Kong Financial Reporting Council Ordinance

Chartered Accountants

15 Canada Square

London E14 5GL

27 February 2020

Consolidated income statement

For the year ended 31 December 2019

| | Notes | 2019 \$million | restated ¹ 2018 \$million |
|---|-------|-------------------|--|
| Interest income | | 16,549 | 15,150 |
| Interest expense | | (8,882) | (7,355) |
| Net interest income | 3 | 7,667 | 7,795 |
| Fees and commission income | | 4,111 | 4,029 |
| Fees and commission expense | | (589) | (537) |
| Net fee and commission income | 4 | 3,522 | 3,492 |
| Net trading income | 5 | 3,350 | 2,681 |
| Other operating income | 6 | 878 | 821 |
| Operating income | | 15,417 | 14,789 |
| Staff costs | | (7,122) | (7,074) |
| Premises costs | | (420) | (790) |
| General administrative expenses | | (2,211) | (2,926) |
| Depreciation and amortisation | | (1,180) | (857) |
| Operating expenses | 7 | (10,933) | (11,647) |
| Operating profit before impairment losses and taxation | | 4,484 | 3,142 |
| Credit impairment | 8 | (908) | (653) |
| Goodwill impairment | 9 | (27) | – |
| Other impairment | 9 | (136) | (182) |
| Profit from associates and joint ventures | 32 | 300 | 241 |
| Profit before taxation | | 3,713 | 2,548 |
| Taxation | 10 | (1,373) | (1,439) |
| Profit for the year | | 2,340 | 1,109 |
| Profit attributable to: | | | |
| Non-controlling interests | 29 | 37 | 55 |
| Parent company shareholders | | 2,303 | 1,054 |
| Profit for the year | | 2,340 | 1,109 |
| Earnings per share: | | cents | cents |
| Basic earnings per ordinary share | 12 | 57.0 | 18.7 |
| Diluted earnings per ordinary share | 12 | 56.4 | 18.5 |

1 Refer to Accounting policies section (Note 1). The Group has changed its accounting policies for net interest income and net trading income.

The notes on pages 262 to 377 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

| | Notes | 2019 \$million | 2018 \$million |
|--|-------|-------------------|-------------------|
| Profit for the year | | 2,340 | 1,109 |
| Other comprehensive (loss)/income | | | |
| Items that will not be reclassified to income statement: | | (531) | 382 |
| Own credit (losses)/gains on financial liabilities designated at fair value through profit or loss | | (462) | 394 |
| Equity instruments at fair value through other comprehensive income | | 13 | 36 |
| Actuarial losses on retirement benefit obligations | 30 | (124) | (19) |
| Taxation relating to components of other comprehensive income | 10 | 42 | (29) |
| Items that may be reclassified subsequently to income statement: | | 131 | (1,189) |
| Exchange differences on translation of foreign operations: | | | |
| Net losses taken to equity | | (386) | (1,462) |
| Net gains on net investment hedges | | 191 | 282 |
| Share of other comprehensive income from associates and joint ventures | | 25 | 33 |
| Debt instruments at fair value through other comprehensive income: | | | |
| Net valuation gains/(losses) taken to equity | | 555 | (128) |
| Reclassified to income statement | | (170) | 31 |
| Net impact of expected credit losses | | 7 | – |
| Cashflow hedges: | | | |
| Net (losses)/gains taken to equity | | (64) | 34 |
| Reclassified to income statement | 14 | 21 | 7 |
| Taxation relating to components of other comprehensive income | 10 | (48) | 14 |
| Other comprehensive loss for the year, net of taxation | | (400) | (807) |
| Total comprehensive income for the year | | 1,940 | 302 |
| Total comprehensive income attributable to: | | | |
| Non-controlling interests | 29 | 20 | 34 |
| Parent company shareholders | | 1,920 | 268 |
| Total comprehensive income for the year | | 1,940 | 302 |

Consolidated balance sheet

As at 31 December 2019

| | Notes | 2019 \$million | 2018 \$million |
|---|-------|-------------------|-------------------|
| Assets | | | |
| Cash and balances at central banks | 13,35 | 52,728 | 57,511 |
| Financial assets held at fair value through profit or loss | 13 | 92,818 | 87,132 |
| Derivative financial instruments | 13,14 | 47,212 | 45,621 |
| Loans and advances to banks ¹ | 13,15 | 53,549 | 61,414 |
| Loans and advances to customers ² | 13,15 | 268,523 | 256,557 |
| Investment securities | 13 | 143,731 | 125,901 |
| Other assets | 20 | 42,022 | 35,401 |
| Current tax assets | 10 | 539 | 492 |
| Prepayments and accrued income | | 2,700 | 2,505 |
| Interests in associates and joint ventures | 32 | 1,908 | 2,307 |
| Goodwill and intangible assets | 17 | 5,290 | 5,056 |
| Property, plant and equipment | 18 | 6,220 | 6,490 |
| Deferred tax assets | 10 | 1,105 | 1,047 |
| Assets classified as held for sale | 21 | 2,053 | 1,328 |
| Total assets | | 720,398 | 688,762 |
| Liabilities | | | |
| Deposits by banks | 13 | 28,562 | 29,715 |
| Customer accounts | 13 | 405,357 | 391,013 |
| Repurchase agreements and other similar secured borrowing | 13,16 | 1,935 | 1,401 |
| Financial liabilities held at fair value through profit or loss | 13 | 66,974 | 60,700 |
| Derivative financial instruments | 13,14 | 48,484 | 47,209 |
| Debt securities in issue | 13,22 | 53,025 | 46,454 |
| Other liabilities | 23 | 41,583 | 38,309 |
| Current tax liabilities | 10 | 703 | 676 |
| Accruals and deferred income | | 5,369 | 5,393 |
| Subordinated liabilities and other borrowed funds | 13,27 | 16,207 | 15,001 |
| Deferred tax liabilities | 10 | 611 | 563 |
| Provisions for liabilities and charges | 24 | 449 | 1,330 |
| Retirement benefit obligations | 30 | 469 | 399 |
| Liabilities included in disposal groups held for sale | 21 | 9 | 247 |
| Total liabilities | | 669,737 | 638,410 |
| Equity | | | |
| Share capital and share premium account | 28 | 7,078 | 7,111 |
| Other reserves | | 11,685 | 11,878 |
| Retained earnings | | 26,072 | 26,129 |
| Total parent company shareholders' equity | | 44,835 | 45,118 |
| Other equity instruments | 28 | 5,513 | 4,961 |
| Total equity excluding non-controlling interests | | 50,348 | 50,079 |
| Non-controlling interests | 29 | 313 | 273 |
| Total equity | | 50,661 | 50,352 |
| Total equity and liabilities | | 720,398 | 688,762 |

¹ Reverse repurchase agreements and other similar secured lending balances held at amortised cost of \$1,341 million (31 December 2018: \$3,815 million) have been included with loans and advances to banks

² Reverse repurchase agreements and other similar secured lending balances held at amortised cost of \$1,469 million (31 December 2018: \$3,151 million) have been included with loans and advances to customers

The notes on pages 262 to 377 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 2020 and signed on its behalf by:



José Viñals
Chairman



Bill Winters
Group Chief Executive



Andy Halford
Group Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2019

| | Ordinary share premium account \$million | Preference share premium account \$million | Capital and share merger reserves \$million | Own credit reserve \$million | Capital and share adjustment reserve – debt \$million | Fair value through other comprehensive income reserve \$million | Fair value through other comprehensive income reserve – equity \$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 1 January 2018 | 5,603 | 1,494 | 17,129 ¹ | 54 | (77) | 53 | (45) | (4,454) | 25,895 | 45,652 | 4,961 | 333 | 50,946 | |
| Profit after tax | – | – | – | – | – | – | – | – | – | 1,054 | 1,054 | – | 55 | 1,109 |
| Other comprehensive income/(loss) | – | – | – | 358 | (84) | 67 | 35 | (1,158) | (4) ² | (786) | – | (21) | (807) | |
| Distributions | – | – | – | – | – | – | – | – | – | – | – | – | (97) | (97) |
| Shares issued, net of expenses ³ | 14 | – | – | – | – | – | – | – | – | – | 14 | – | – | 14 |
| Treasury shares purchased | – | – | – | – | – | – | – | – | – | (8) | (8) | – | – | (8) |
| Treasury shares issued | – | – | – | – | – | – | – | – | – | 9 | 9 | – | – | 9 |
| Share option expense, net of taxation | – | – | – | – | – | – | – | – | – | 158 | 158 | – | – | 158 |
| Dividends on ordinary shares | – | – | – | – | – | – | – | – | – | (539) | (539) | – | – | (539) |
| Dividends on preference shares and AT1 securities | – | – | – | – | – | – | – | – | – | (436) | (436) | – | – | (436) |
| Other movements | – | – | – | – | – | – | – | – | – | – | – | – | 3 ⁴ | 3 |
| As at 31 December 2018 | 5,617 | 1,494 | 17,129 | 412 | (161) | 120 | (10) | (5,612) | 26,129 | 45,118 | 4,961 | 273 | 50,352 | |
| Profit after tax | – | – | – | – | – | – | – | – | – | 2,303 | 2,303 | – | 37 | 2,340 |
| Other comprehensive (loss)/income | – | – | – | (410) | 358 | 30 | (49) | (180) | (132) ² | (383) | – | (17) | (400) | |
| Distributions | – | – | – | – | – | – | – | – | – | – | – | – | (35) | (35) |
| Shares issued, net of expenses ³ | 25 | – | – | – | – | – | – | – | – | – | 25 | – | – | 25 |
| Other equity instruments issued, net of expenses | – | – | – | – | – | – | – | – | – | – | – | 552 | – | 552 |
| Treasury shares purchased | – | – | – | – | – | – | – | – | – | (206) | (206) | – | – | (206) |
| Treasury shares issued | – | – | – | – | – | – | – | – | – | 7 | 7 | – | – | 7 |
| Share option expense, net of taxation | – | – | – | – | – | – | – | – | – | 139 | 139 | – | – | 139 |
| Dividends on ordinary shares | – | – | – | – | – | – | – | – | – | (720) | (720) | – | – | (720) |
| Dividend on preference shares and AT1 securities | – | – | – | – | – | – | – | – | – | (448) | (448) | – | – | (448) |
| Share buy-back ⁵ | (58) | – | 58 | – | – | – | – | – | – | (1,006) | (1,006) | – | – | (1,006) |
| Other movements | – | – | – | – | – | – | – | – | – | 6 ⁶ | 6 | – | 55 ⁷ | 61 |
| As at 31 December 2019 | 5,584 | 1,494 | 17,187 | 2 | 197 | 150 | (59) | (5,792) | 26,072 | 44,835 | 5,513 | 313 | 50,661 | |

1 Includes capital reserve of \$5 million, capital redemption reserve of \$13 million and merger reserve of \$17,111 million

2 Comprises actuarial loss, net of taxation and share from associates and joint ventures \$132 million (\$4 million for the year ending 31 December 2018)

3 Comprises share capital of shares issued to fulfil discretionary awards \$1 million, share capital of shares issued to fulfil employee share save options \$1 million (\$5 million for the year ended 31 December 2018) and share premium of shares issued to fulfil employee Sharesave options exercised \$23 million (\$9 million for the year ended 31 December 2018)

4 Movement is mainly due to additional share capital issued by Standard Chartered Bank Angola S.A. subscribed by its non-controlling interest without change in shareholding percentage

5 On 1 May 2019, the Group commenced a share buy-back of its ordinary shares of \$0.50 each up to a maximum consideration of \$1,000 million. Nominal value of share purchases is \$58 million for the year ended 31 December 2019 and the total consideration paid was \$1,006 million which includes share buy-back expenses of \$6 million. The total number of shares purchased was 116,103,483 representing 3.51% of the ordinary shares in issue. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account

6 Comprises \$10 million disposal of non-controlling interest of Phoon Huat Pte Ltd offset by \$4 million withholding tax on capitalisation of revenue reserves for Standard Chartered Bank Ghana Limited

7 Comprises \$72 million of non-controlling interest in SC Digital Solutions offset by \$17 million disposal of non-controlling interest in Phoon Huat Pte Ltd, Sirat Holdings Limited and Ori Private Limited

Note 28 includes a description of each reserve.

The notes on pages 262 to 377 form an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2019

| | Notes | Group | | Company | |
|---|-------|-------------------|-------------------|-------------------|-------------------|
| | | 2019 \$million | 2018 \$million | 2019 \$million | 2018 \$million |
| Cash flows from operating activities: | | | | | |
| Profit before taxation | | 3,713 | 2,548 | 22,306 | 790 |
| Adjustments for non-cash items and other adjustments included within income statement | 34 | 2,417 | 2,635 | (16,760) | 232 |
| Change in operating assets | 34 | (35,285) | (12,837) | (5,473) | 61 |
| Change in operating liabilities | 34 | 29,935 | 33,859 | (4,182) | (462) |
| Contributions to defined benefit schemes | 30 | (137) | (143) | — | — |
| UK and overseas taxes paid | 10 | (1,421) | (770) | — | — |
| Net cash (used in)/from operating activities | | (778) | 25,292 | (4,109) | 621 |
| Cash flows from investing activities: | | | | | |
| Purchase of property, plant and equipment | 18 | (219) | (171) | — | — |
| Disposal of property, plant and equipment | | 119 | 85 | — | — |
| Dividends received from subsidiaries, associates and joint ventures | 32 | 3 | 67 | 4,494 | 1,035 |
| Disposal of subsidiaries | | — | 7 | — | — |
| Purchase of investment securities | | (259,473) | (276,388) | (7,583) | — |
| Disposal and maturity of investment securities | | 241,600 | 263,983 | 1,065 | 621 |
| Net cash (used in)/from investing activities | | (17,970) | (12,417) | (2,024) | 1,656 |
| Cash flows from financing activities: | | | | | |
| Issue of ordinary and preference share capital, net of expenses | 28 | 577 | 14 | 577 | 14 |
| Exercise of share options | | 7 | 9 | 7 | 9 |
| Purchase of own shares | | (206) | (8) | (206) | (8) |
| Cancellation of shares including share buy-back | | (1,006) | — | (1,006) | — |
| Premises and equipment lease liability principal payment | | (332) | — | — | — |
| Gross proceeds from issue of subordinated liabilities | 34 | 1,000 | 500 | 1,000 | 500 |
| Interest paid on subordinated liabilities | 34 | (603) | (602) | (547) | (507) |
| Repayment of subordinated liabilities | 34 | (23) | (2,097) | — | (474) |
| Proceeds from issue of senior debts | 34 | 9,169 | 9,766 | 6,012 | 4,552 |
| Repayment of senior debts | 34 | (7,692) | (7,030) | (3,780) | (3,141) |
| Interest paid on senior debts | 34 | (797) | (507) | (740) | (355) |
| Investment from non-controlling interests | | 56 | — | — | — |
| Dividends paid to non-controlling interests, preference shareholders and AT1 securities | | (483) | (533) | (448) | (436) |
| Dividends paid to ordinary shareholders | | (720) | (539) | (720) | (539) |
| Net cash (used in)/from financing activities | | (1,053) | (1,027) | 149 | (385) |
| Net (decrease)/increase in cash and cash equivalents | | (19,801) | 11,848 | (5,984) | 1,892 |
| Cash and cash equivalents at beginning of the year | | 97,500 | 87,231 | 17,606 | 15,714 |
| Effect of exchange rate movements on cash and cash equivalents | | (245) | (1,579) | — | — |
| Cash and cash equivalents at end of the year | 35 | 77,454 | 97,500 | 11,622 | 17,606 |

Company balance sheet

As at 31 December 2019

| | Notes | 2019 \$million | 2018 \$million |
|---|-------|-------------------|-------------------|
| Non-current assets | | | |
| Investments in subsidiary undertakings | 32 | 58,037 | 34,853 |
| Current assets | | | |
| Derivative financial instruments | 39 | 229 | 9 |
| Financial assets held at fair value through profit or loss | 39 | 4,502 | – |
| Investment securities | 39 | 13,665 | 11,537 |
| Amounts owed by subsidiary undertakings | 39 | 11,622 | 17,606 |
| Taxation | | 15 | 12 |
| Total current assets | | 30,033 | 29,164 |
| Current liabilities | | | |
| Derivative financial instruments | 39 | 738 | 1,128 |
| Amounts owed to subsidiary undertakings | | 26 | – |
| Financial liabilities held at fair value through profit or loss | 39 | 112 | – |
| Other creditors | | 403 | 403 |
| Total current liabilities | | 1,279 | 1,531 |
| Net current assets | | 28,754 | 27,633 |
| Total assets less current liabilities | | 86,791 | 62,486 |
| Non-current liabilities | | | |
| Debt securities in issue | 39 | 19,713 | 17,202 |
| Subordinated liabilities and other borrowed funds | 39 | 14,588 | 13,436 |
| Total non-current liabilities | | 34,301 | 30,638 |
| Total assets less liabilities | | 52,490 | 31,848 |
| Equity | | | |
| Share capital and share premium account | 28 | 7,078 | 7,111 |
| Other reserves | | 17,177 | 17,129 |
| Retained earnings | | 22,722 | 2,647 |
| Total shareholders' equity | | 46,977 | 26,887 |
| Other equity instruments | 28 | 5,513 | 4,961 |
| Total equity | | 52,490 | 31,848 |

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 \$22,309 million (31 December 2018: \$799 million). Please see Note 39 Standard Chartered PLC (Company) for details of the group reorganisation.

The notes on pages 262 to 377 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 2020 and signed on its behalf by:

José Viñals
Chairman

Bill Winters
Group Chief Executive

Andy Halford
Group Chief Financial Officer

Company statement of changes in equity

For the year ended 31 December 2019

| | Share capital and share premium account \$million | Capital and merger reserve \$million | Own credit adjustment \$million | Retained earnings \$million | Other equity instruments \$million | Total \$million |
|---|---|--|---------------------------------------|-----------------------------------|--|--------------------|
| As at 1 January 2018 | 7,097 | 17,129 ¹ | – | 2,664 | 4,961 | 31,851 |
| Profit for the year | – | – | – | 799 | – | 799 |
| Shares issued, net of expenses | 14 | – | – | – | – | 14 |
| Treasury shares purchased | – | – | – | (8) | – | (8) |
| Treasury shares issued | – | – | – | 9 | – | 9 |
| Share option expense, net of taxation | – | – | – | 158 | – | 158 |
| Capitalised on scrip dividend | – | – | – | 22 | – | 22 |
| Dividends on ordinary shares | – | – | – | (561) | – | (561) |
| Dividends on preference share and AT1 securities | – | – | – | (436) | – | (436) |
| As at 31 December 2018 | 7,111 | 17,129 | – | 2,647 | 4,961 | 31,848 |
| Profit for the year | – | – | – | 22,309 ² | – | 22,309 |
| Other comprehensive loss | – | – | (10) | – | – | (10) |
| Shares issued, net of expenses | 25 | – | – | – | – | 25 |
| Other equity instruments issued, net of expenses | – | – | – | – | 552 | 552 |
| Treasury shares purchased | – | – | – | (206) | – | (206) |
| Treasury shares issued | – | – | – | 7 | – | 7 |
| Share option expense, net of taxation | – | – | – | 139 | – | 139 |
| Dividends on ordinary shares | – | – | – | (720) | – | (720) |
| Dividends on preference share and AT1 securities | – | – | – | (448) | – | (448) |
| Cancellation of shares including share buy-back ³ | (58) | 58 | – | (1,006) | – | (1,006) |
| As at 31 December 2019 | 7,078 | 17,187 | (10) | 22,722 | 5,513 | 52,490 |

1 Includes capital reserve of \$5 million, capital redemption reserve of \$13 million and merger reserve of \$17,111 million

2 Includes dividend received of \$20,989 million from Standard Chartered Holding Limited. Of this amount, \$17,978 million was a dividend in specie of Standard Chartered Bank (Hong Kong) Limited and Standard Chartered Bank (China) Limited, while \$3,010 million was a cash dividend related to the sale of Standard Chartered NEA Limited and Standard Chartered Bank (Taiwan) Limited

3 On 1 May 2019, the Group commenced a share buy-back of its ordinary shares of \$0.50 each up to a maximum consideration of \$1,000 million. Nominal value of share purchases is \$58 million for the year ended 31 December 2019 and the total consideration paid was \$1,006 million which includes share buy-back expenses of \$6 million. The total number of shares purchased was 116,103,483 representing 3.51 per cent of the ordinary shares in issue. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account

Note 28 includes a description of each reserve.

The notes on pages 262 to 377 form an integral part of these financial statements.

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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 interests 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 International Financial Reporting

Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU). EU-endorsed IFRS may differ from IFRS published by the International Accounting Standards Board (IASB) if a standard has not been endorsed by the EU.

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 152) to the end of other principal risks in the same section (page 205) excluding:

- Loans and advances by client segment credit quality analysis, (page 161)
- Credit quality by geographic region, (page 162)
- Analysis of stage 2 balances, (page 169)
- Forborne and other modified loans by region, (page 171)
- Credit-impaired (stage 3) loans by geographic region, (page 172)
- Credit quality by industry, (page 179)
- Industry and Retail products analysis by geographic region, (page 180)
- Country Risk, (page 190)
- Risks not in VaR, (page 192)
- Backtesting, (page 192)
- Mapping of market risk items to the balance sheet, (page 194)
- Liquidity coverage ratio (LCR), (page 196)
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- Net stable funding ratio (NSFR), (page 198)
- Liquidity pool, (page 198)
- Encumbrance, (page 198)
- Interest rate risk in the banking book, (page 204)
- Operational Risk, (page 205)
- Other principal risks, (page 205)

b) Capital review: from the start of 'Capital Requirements Directive (CRD) IV capital base' to the end of 'Movement in total capital', excluding capital ratios and risk-weighted assets (RWA).

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, fair value through other comprehensive income, and financial assets and liabilities (including derivatives) at fair value through profit or loss.

The consolidated financial statements are presented in United States dollars (\$), being the presentation currency of the Group and functional currency of the Company, and all values are rounded to the nearest million dollars, except when otherwise indicated.

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:

- Credit impairment (Note 8)
- Taxation (Note 10)
- Financial instruments measured at fair value (Note 13)
- Goodwill impairment (Note 17)
- Provisions for liabilities and charges (Note 24)
- Investments in subsidiary undertakings, joint ventures and associates (Note 32)

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.

New accounting policies adopted by the Group

Net interest and trading income

The Group has changed its accounting policies for net interest income and net trading income. In previous years the Group recognised interest income and expense on financial instruments held at fair value through profit or loss in net interest income, except for fair value elected structured notes and structured deposits for which all gains and losses were recognised in net trading income. The Group now recognises all gains and losses on financial assets and liabilities held at fair value through profit or loss, including contractual interest, in net trading income. Prior period comparatives have been presented under the updated accounting policy, and quantification of the effect of the change in accounting policy on the current and prior period is given in Notes 3 and 5.

1. Accounting policies continued

The Group believes the updated accounting policy gives users of the financial statements reliable and more relevant information because it ensures that all interest income and expense presented on the face of the income statement is measured using the effective interest method as required by IAS 1 Presentation of Financial Statements, it results in a natural offset in net trading income of gains and losses on fair value through profit or loss instruments and derivatives used to economically hedge valuation risks of those instruments, and it is more comparable to our peers' accounting policies. There is no change in opening retained earnings or adjustment to basic or diluted earnings per share as a result of this change in accounting policy.

Interest in suspense

Following a clarification issued by IFRIC in March 2019, if there are any recoveries on stage 3 loans, any contractual interest earned while the asset was in stage 3 is recognised in the credit impairment line. Although this differs from the Group's previous approach of recognising a residual amount of this within interest income, there is no material impact on the classification of amounts reported in the income statement in the current or prior period and accordingly no adjustments have been made to comparative information. Further, the gross asset balances for stage 3 financial instruments have been increased to reflect contractual interest due but not paid with a corresponding increase in credit impairment provisions. These changes have been disclosed within the credit risk section. There has been no net impact on the balance sheet or on shareholders' equity.

Comparatives

Certain comparatives have been represented in line with current year disclosures.

Details of these changes are set out in the relevant sections and notes below:

- Credit risk: Problem credit management and provisioning
- Note 2 Segmental information
- Note 3 Net interest income
- Note 5 Net trading income
- Note 13 Financial instruments
- Note 17 Goodwill and intangible assets

New accounting standards adopted by the Group

IFRS 16 Leases

On 1 January 2019, the Group adopted IFRS 16 Leases, which has been endorsed by the EU. IFRS 16 replaced IAS 17 Leases.

IFRS 16 introduced 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 Group has elected to adopt the modified retrospective approach and has not restated comparative information. The following practical expedients were applied on transition to IFRS 16:

- The Group did not reassess whether premises' leases identified under IAS 17 were leases under IFRS 16
- The Group did not record a lease liability or right-of-use asset for leases with a remaining term of less than 12 months as at 1 January 2019
- The Group excluded initial direct costs from the measurement of right-of-use assets as at 1 January 2019

The judgements in the implementation were determining if a contract contained a lease, and the determination of whether the Group is reasonably certain that it will exercise extension options present in lease contracts. The estimates were the determination of incremental borrowing rates in the respective economic environments. The weighted average discount rate applied to lease liabilities on the transition date 1 January 2019 was 5.0 per cent.

The impact of IFRS 16 on the Group is primarily where the Group is a lessee in property lease contracts. On 1 January 2019, the Group recognised a lease liability, being the remaining lease payments, including extensions options where renewal is reasonably certain, discounted using the Group's incremental borrowing rate at the date of initial application in the economic environment of the lease. The corresponding right-of-use asset recognised is the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. The balance sheet gross-up on 1 January 2019 as a result of recognition of the lease liability and right-of-use asset was \$1,421 million, with no adjustment to retained earnings. The comparative information is not restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The asset is presented in 'Property, plant and equipment' and the liability is presented in 'Other liabilities'. Further information on these balances is shown in Notes 18 and 23.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 is effective from 1 January 2019 and has been endorsed by the EU. It clarifies the accounting for uncertainties in income taxes and has not resulted in a material impact to the Group's financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform

Interest rate benchmark reform is a global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. Historically IBORs such as USD LIBOR have been determined by panels of banks with a heavy reliance on expert judgement. The objective of the reforms is to replace IBORs with alternative nearly risk-free rates (RFRs) that are based on actual market transactions. The Financial Conduct Authority has stated that it will no longer compel panel banks to submit values for LIBORs after 31 December 2021 and it is expected that these benchmarks will cease to exist thereafter. Consequently, financial contracts referencing these benchmarks with a maturity beyond 2021 may need to be amended to reference the alternative RFR in the applicable currency.

1. Accounting policies continued

There remain many uncertainties associated with the IBOR transition, including the prospective assessment of hedge accounting effectiveness because it is not known when hedged items and hedging instruments will be amended to reference alternative RFRs, or how this will change the cash flows on these instruments. Other key risks and uncertainties that require monitoring are:

- It is possible that not all hedged items and corresponding hedging instruments will move to alternative RFRs at the same time
- The liquidity of the alternative RFR term structures has historically been mixed and may continue to be so prior to transition. This raises uncertainty over the appropriate inputs and valuation technique required to assess hedge effectiveness

The IFRS amendments include reliefs which apply to all hedging relationships that are directly affected by interest rate benchmark reform by allowing entities to assume the benchmark interest rate is not altered as a result of IBOR reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing or amount of benchmark-based cash flows of the hedged item or hedging instrument, since our accounting policy requires that forecast cash flows must be highly probable and that the hedging instrument is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk.

Following endorsement of the amendments by the EU, the Group has elected to early adopt the interest rate benchmark reform amendments for the current period. The amendments would have otherwise taken mandatory effect from 1 January 2020. This election reduces the effects of any uncertainty arising from IBOR reform on the current period's financial statements. Had it not made this election, the Group would have been required to further assess the effect of uncertainty arising from IBOR reform on its existing hedge relationships, potentially resulting in discontinuation of hedge relationships. The amendments are applied retrospectively to all designated hedge relationships that were either in force as of the start of the reporting period or designated subsequently.

The amendments allow the Group to assume that the interest rate benchmark on which the cash flows of the hedged item and/or hedging instrument are based is not altered by IBOR reform for the following activities:

- Prospective hedge assessment
- Determining whether a cash flow or forecast transaction for a cash flow hedge is highly probable
- Determining when cumulative balances in the cash flow hedge reserve from de-designated hedges should be recycled to the income statement

For retrospective hedge assessment, the Group will not de-designate a hedge relationship if the actual result is outside the required 80-125 per cent range, but it can be demonstrated that this is solely caused by interest rate benchmark uncertainty and the hedge passes the prospective assessment.

For hedges of non-contractually specified benchmark portions of an interest rate the Group only assesses whether the designated benchmark is separately identifiable at hedge inception.

The Group expects that the IASB will issue further amendments to these standards concerning the potential financial reporting implications when an existing interest rate benchmark is replaced with an alternative RFR.

Further information on the extent to which the IFRS amendments apply to hedge accounting relationships is provided in Note 14 to these financial statements.

New accounting standards in issue but not yet effective IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts was issued in May 2017 to replace IFRS 4 Insurance Contracts and to establish a comprehensive standard for inceptors of insurance policies. The effective date is 1 January 2021, subject to IASB's approval of a deferral until 1 January 2022. The Group is assessing the likely implementation impact of adopting the standards on its financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards

These amendments are effective 1 January 2020 and include limited revisions of definitions of an asset and a liability, as well as new guidance on measurement and derecognition, presentation and disclosure. The concept of prudence has been reintroduced with the statement that prudence supports neutrality.

Amendments to IFRS 3 Business Combinations

These amendments are effective 1 January 2020 on a prospective basis and assist entities in determining whether a transaction should be accounted for as a business combination or asset acquisition.

Amendments to IAS 1 and IAS 8: Definition of Material

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (the amendments) to align the definition of 'material' across the standards and to clarify certain aspects of the definition.

None of the amendments above are expected to result in a material impact on the Group's financial statements.

Going concern

These financial statements were approved by the Board of directors on 27 February 2020. The directors made an assessment of the Group's ability to continue as a going concern and confirm they are satisfied that the Group has adequate resources to continue in business for a period of at least 12 months from the date of approval of these financial statements (refer to the Viability Statement in the Strategic report on page 65). For this reason, the Group continues to adopt the going concern basis of accounting for preparing the financial statements.

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 & Americas. Activities not directly related to a client segment and/or geographic region are included in Central & other items. These mainly include Corporate Centre costs, treasury markets, 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
- Treasury markets, 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 are 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 allocates 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

Profit before taxation (PBT)

| | 2019 | | | | | | |
|---|----------------------|--|-------------------------|--|-------------------------------|---|---------------------|
| | Underlying \$million | Provision for regulatory matters \$million | Restructuring \$million | Gains arising on repurchase of senior and subordinated liabilities \$million | Goodwill impairment \$million | Share of profits of PT Bank joint venture \$million | Statutory \$million |
| Operating income | 15,271 | – | 146 | – | – | – | 15,417 |
| Operating expenses | (10,409) | (226) | (298) | – | – | – | (10,933) |
| Operating profit/(loss) before impairment losses and taxation | 4,862 | (226) | (152) | – | – | – | 4,484 |
| Credit impairment | (906) | – | (2) | – | – | – | (908) |
| Other impairment | (38) | – | (98) | – | (27) | – | (163) |
| Profit from associates and joint ventures | 254 | – | (2) | – | – | 48 | 300 |
| Profit/(loss) before taxation | 4,172 | (226) | (254) | – | (27) | 48 | 3,713 |
| | 2018 | | | | | | |
| | Underlying \$million | Provision for regulatory matters \$million | Restructuring \$million | Gains arising on repurchase of senior and subordinated liabilities \$million | Goodwill impairment \$million | Share of profits of PT Bank joint venture \$million | Statutory \$million |
| Operating income | 14,968 | – | (248) | 69 | – | – | 14,789 |
| Operating expenses | (10,464) | (900) | (283) | – | – | – | (11,647) |
| Operating profit/(loss) before impairment losses and taxation | 4,504 | (900) | (531) | 69 | – | – | 3,142 |
| Credit impairment | (740) | – | 87 | – | – | – | (653) |
| Other impairment | (148) | – | (34) | – | – | – | (182) |
| Profit from associates and joint ventures | 241 | – | – | – | – | – | 241 |
| Profit/(loss) before taxation | 3,857 | (900) | (478) | 69 | – | – | 2,548 |

Basis of preparation

The analysis reflects how the client segments and geographic regions are managed internally. This is described as the Management View (on an underlying basis) 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

The provision for regulatory matters of \$226 million (2018: \$900 million) primarily relates to the agreement to pay monetary penalties to the US Authorities and the FCA following the resolution of investigations concerning historical violations of US sanction laws and regulations and the effectiveness and governance of historical financial crime controls, described further in Note 26.

The Group incurred net restructuring charges of \$254 million in 2019, of which \$148 million related to planned initiatives to reduce ongoing costs and \$60 million related to the Group's ship leasing business that the Group has decided to discontinue.

Reconciliations between underlying and statutory results are set out in the tables below:

2. Segmental information continued

Underlying performance by client segment

| | 2019 | | | | | |
|--|---|--------------------------|------------------------------|---------------------------|---------------------------------|-----------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million | Total \$million |
| Operating income | 7,185 | 5,171 | 1,478 | 577 | 860 | 15,271 |
| External | 7,356 | 4,223 | 1,539 | 329 | 1,824 | 15,271 |
| Inter-segment | (171) | 948 | (61) | 248 | (964) | – |
| Operating expenses | (4,361) | (3,754) | (907) | (514) | (873) | (10,409) |
| Operating profit/(loss) before impairment losses and taxation | 2,824 | 1,417 | 571 | 63 | (13) | 4,862 |
| Credit impairment | (474) | (336) | (123) | 31 | (4) | (906) |
| Other impairment | (32) | 2 | – | – | (8) | (38) |
| Profit from associates and joint ventures | – | – | – | – | 254 | 254 |
| Underlying profit before taxation | 2,318 | 1,083 | 448 | 94 | 229 | 4,172 |
| Provision for regulatory matters | – | – | – | – | (226) | (226) |
| Restructuring | (110) | (63) | (11) | (11) | (59) | (254) |
| Goodwill impairment | – | – | – | – | (27) | (27) |
| Share of profits of PT Bank Permata Tbk joint venture | – | – | – | – | 48 | 48 |
| Statutory profit/(loss) before taxation | 2,208 | 1,020 | 437 | 83 | (35) | 3,713 |
| Total assets | 329,866 | 108,801 | 31,244 | 14,922 | 235,565 | 720,398 |
| Of which: loans and advances to customers including FVTPL | 156,599 | 106,570 | 26,686 | 14,821 | 10,078 | 314,754 |
| loans and advances to customers | 111,304 | 106,332 | 25,990 | 14,821 | 10,076 | 268,523 |
| loans held at fair value through profit or loss | 45,295 | 238 | 696 | – | 2 | 46,231 |
| Total liabilities | 393,040 | 147,698 | 36,864 | 18,480 | 73,655 | 669,737 |
| Of which: customer accounts | 248,748 | 144,045 | 34,083 | 18,424 | 7,433 | 452,733 |
| | 2018 | | | | | |
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million | Total \$million |
| Operating income | 6,860 | 5,041 | 1,391 | 516 | 1,160 | 14,968 |
| External | 7,055 | 4,493 | 1,570 | 270 | 1,580 | 14,968 |
| Inter-segment | (195) | 548 | (179) | 246 | (420) | – |
| Operating expenses | (4,396) | (3,736) | (923) | (530) | (879) | (10,464) |
| Operating profit/(loss) before impairment losses and taxation | 2,464 | 1,305 | 468 | (14) | 281 | 4,504 |
| Credit impairment | (242) | (267) | (244) | – | 13 | (740) |
| Other impairment | (150) | (5) | – | – | 7 | (148) |
| Profit from associates and joint ventures | – | – | – | – | 241 | 241 |
| Underlying profit/(loss) before taxation | 2,072 | 1,033 | 224 | (14) | 542 | 3,857 |
| Provision for regulatory matters | (50) | – | – | – | (850) | (900) |
| Restructuring | (350) | (68) | (12) | (24) | (24) | (478) |
| Gains arising on repurchase of senior and subordinated liabilities | 3 | – | – | – | 66 | 69 |
| Statutory profit/(loss) before taxation | 1,675 | 965 | 212 | (38) | (266) | 2,548 |
| Total assets | 308,496 | 103,780 | 31,379 | 13,673 | 231,434 | 688,762 |
| Of which: loans and advances to customers including FVTPL | 146,575 | 101,635 | 27,271 | 13,616 | 10,274 | 299,371 |
| loans and advances to customers | 104,677 | 101,235 | 26,759 | 13,616 | 10,270 | 256,557 |
| loans held at fair value through profit or loss | 41,898 | 400 | 512 | – | 4 | 42,814 |
| Total liabilities | 369,316 | 140,328 | 37,260 | 19,733 | 71,773 | 638,410 |
| Of which: customer accounts | 243,019 | 136,691 | 34,860 | 19,622 | 2,989 | 437,181 |

2. Segmental information continued

Operating income by client segment

| | 2019 | | | | | |
|--|---|--------------------------|------------------------------|---------------------------|---------------------------------|-----------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million | Total \$million |
| Underlying operating income | 7,185 | 5,171 | 1,478 | 577 | 860 | 15,271 |
| Restructuring | 146 | – | 4 | – | (4) | 146 |
| Statutory operating income | 7,331 | 5,171 | 1,482 | 577 | 856 | 15,417 |
| | 2018 | | | | | |
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million | Total \$million |
| Underlying operating income | 6,860 | 5,041 | 1,391 | 516 | 1,160 | 14,968 |
| Restructuring | (257) | – | (1) | 2 | 8 | (248) |
| Gains arising on repurchase of senior and subordinated liabilities | 3 | – | – | – | 66 | 69 |
| Statutory operating income | 6,606 | 5,041 | 1,390 | 518 | 1,234 | 14,789 |

Underlying performance by region

| | 2019 | | | | | |
|--|--------------------------------------|------------------------------|--------------------------------|-----------------------------|---------------------------------|-----------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Central & other items \$million | Total \$million |
| Operating income | 6,155 | 4,213 | 2,562 | 1,725 | 616 | 15,271 |
| Operating expenses | (3,771) | (2,681) | (1,747) | (1,470) | (740) | (10,409) |
| Operating profit/(loss) before impairment losses and taxation | 2,384 | 1,532 | 815 | 255 | (124) | 4,862 |
| Credit impairment | (194) | (506) | (132) | (98) | 24 | (906) |
| Other impairment | (5) | (1) | 1 | – | (33) | (38) |
| Profit from associates and joint ventures | 247 | – | – | – | 7 | 254 |
| Underlying profit/(loss) before taxation | 2,432 | 1,025 | 684 | 157 | (126) | 4,172 |
| Provision for regulatory matters | – | – | – | – | (226) | (226) |
| Restructuring | (138) | (34) | (18) | (34) | (30) | (254) |
| Goodwill impairment | – | – | – | – | (27) | (27) |
| Share of profits of PT Bank Permata Tbk joint venture | – | 48 | – | – | – | 48 |
| Statutory profit/(loss) before taxation | 2,294 | 1,039 | 666 | 123 | (409) | 3,713 |
| Total assets | 277,704 | 149,785 | 59,828 | 220,579 | 12,502 | 720,398 |
| Of which: loans and advances to customers including FVTPL | 139,977 | 80,885 | 31,487 | 62,405 | – | 314,754 |
| loans and advances to customers | 134,066 | 78,229 | 29,940 | 26,288 | – | 268,523 |
| loans held at fair value through profit or loss | 5,911 | 2,656 | 1,547 | 36,117 | – | 46,231 |
| Total liabilities | 249,004 | 126,213 | 36,144 | 218,794 | 39,582 | 669,737 |
| Of which: customer accounts | 204,286 | 97,459 | 29,280 | 121,708 | – | 452,733 |

2. Segmental information continued

| | 2018 | | | | |
|--|---|---------------------------------|-----------------------------------|--------------------------------|------------------------------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Central & other items \$million |
| Operating income | 6,157 | 3,971 | 2,604 | 1,670 | 566 |
| Operating expenses | (3,812) | (2,711) | (1,810) | (1,453) | (678) |
| Operating profit/(loss) before impairment losses and taxation | 2,345 | 1,260 | 794 | 217 | (112) |
| Credit impairment | (71) | (322) | (262) | (83) | (2) |
| Other impairment | (110) | 6 | – | 17 | (61) |
| Profit from associates and joint ventures | 205 | 26 | – | 3 | 7 |
| Underlying profit/(loss) before taxation | 2,369 | 970 | 532 | 154 | (168) |
| Provision for regulatory matters | – | – | – | (50) | (850) |
| Restructuring | (106) | 105 | (100) | (8) | (369) |
| Gains arising on repurchase of senior and subordinated liabilities | – | – | – | 3 | 66 |
| Statutory profit/(loss) before taxation | 2,263 | 1,075 | 432 | 99 | (1,321) |
| Total assets | 269,765 | 147,049 | 57,800 | 201,912 | 12,236 |
| Of which: loans and advances to customers including FVTPL | 130,669 | 81,905 | 29,870 | 56,927 | – |
| Total liabilities | 238,249 | 127,478 | 36,733 | 198,853 | 37,097 |
| Of which: customer accounts | 196,870 | 96,896 | 29,916 | 113,499 | – |
| | | | | | 437,181 |

Operating income by region

| | 2019 | | | | |
|--|---|---------------------------------|-----------------------------------|--------------------------------|------------------------------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Central & other items \$million |
| Underlying operating income | 6,155 | 4,213 | 2,562 | 1,725 | 616 |
| Restructuring | 87 | (2) | – | – | 61 |
| Statutory operating income | 6,242 | 4,211 | 2,562 | 1,725 | 677 |
| | 2018 | | | | |
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Central & other items \$million |
| Underlying operating income | 6,157 | 3,971 | 2,604 | 1,670 | 566 |
| Restructuring | (7) | 21 | 1 | 6 | (269) |
| Gains arising on repurchase of senior and subordinated liabilities | – | – | – | 3 | 66 |
| Statutory operating income | 6,150 | 3,992 | 2,605 | 1,679 | 363 |
| | | | | | 14,789 |

Additional segmental information (statutory)

| | 2019 | | | | |
|--------------------------------|--|-----------------------------|---------------------------------|------------------------------|------------------------------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million |
| Net interest income | 2,675 | 3,282 | 943 | 315 | 452 |
| Net fees and commission income | 1,559 | 1,505 | 285 | 223 | (50) |
| Net trading and other income | 3,097 | 384 | 254 | 39 | 454 |
| Operating income | 7,331 | 5,171 | 1,482 | 577 | 856 |
| | | | | | 15,417 |

2. Segmental information continued

| | 2018 (restated) ¹ | | | | |
|--------------------------------|---|--------------------------|------------------------------|---------------------------|---------------------------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million |
| Net interest income | 2,498 | 3,142 | 859 | 297 | 999 |
| Net fees and commission income | 1,496 | 1,579 | 284 | 192 | (59) |
| Net trading and other income | 2,612 | 320 | 247 | 29 | 294 |
| Operating income | 6,606 | 5,041 | 1,390 | 518 | 1,234 |
| | | | | | 14,789 |

1 Refer to Note 1 Accounting policies

| | 2019 | | | | |
|--------------------------------|--------------------------------------|------------------------------|--------------------------------|-----------------------------|---------------------------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Central & other items \$million |
| Net interest income | 3,276 | 2,068 | 1,456 | 149 | 718 |
| Net fees and commission income | 1,393 | 1,123 | 617 | 503 | (114) |
| Net trading and other income | 1,573 | 1,020 | 489 | 1,073 | 73 |
| Operating income | 6,242 | 4,211 | 2,562 | 1,725 | 677 |
| | | | | | 15,417 |

| | 2018 (restated) ¹ | | | | |
|--------------------------------|--------------------------------------|------------------------------|--------------------------------|-----------------------------|---------------------------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Central & other items \$million |
| Net interest income | 3,213 | 2,047 | 1,495 | 345 | 695 |
| Net fees and commission income | 1,437 | 1,032 | 643 | 490 | (110) |
| Net trading and other income | 1,500 | 913 | 467 | 844 | (222) |
| Operating income | 6,150 | 3,992 | 2,605 | 1,679 | 363 |
| | | | | | 14,789 |

1 Refer to Note 1 Accounting policies

| | 2019 | | | | | | | | |
|--------------------------------|---------------------|-----------------|-----------------|---------------------|-----------------|---------------------|---------------|--------------|--------------|
| | Hong Kong \$million | Korea \$million | China \$million | Singapore \$million | India \$million | Indonesia \$million | UAE \$million | UK \$million | US \$million |
| Net interest income | 1,893 | 659 | 562 | 731 | 564 | 112 | 365 | (211) | 256 |
| Net fees and commission income | 866 | 160 | 144 | 552 | 244 | 69 | 143 | 70 | 352 |
| Net trading and other income | 1,082 | 152 | 166 | 354 | 232 | 91 | 110 | 904 | 151 |
| Operating income | 3,841 | 971 | 872 | 1,637 | 1,040 | 272 | 618 | 763 | 759 |

| | 2018 (restated) ¹ | | | | | | | | |
|--------------------------------|------------------------------|-----------------|-----------------|---------------------|-----------------|---------------------|---------------|--------------|--------------|
| | Hong Kong \$million | Korea \$million | China \$million | Singapore \$million | India \$million | Indonesia \$million | UAE \$million | UK \$million | US \$million |
| Net interest income | 1,747 | 688 | 605 | 709 | 544 | 127 | 381 | (48) | 240 |
| Net fees and commission income | 908 | 192 | 114 | 490 | 210 | 84 | 164 | 71 | 343 |
| Net trading and other income | 1,092 | 129 | 100 | 349 | 182 | 59 | 92 | 805 | 84 |
| Operating income | 3,747 | 1,009 | 819 | 1,548 | 936 | 270 | 637 | 828 | 667 |

1 Refer to Note 1 Accounting policies

3. Net interest income

Accounting policy

Interest income for financial assets held at either fair value through other comprehensive income or amortised cost, and interest expense on all financial liabilities held at amortised cost is recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

Interest income for financial assets that are either held at fair value through other comprehensive income or amortised cost that have become credit-impaired subsequent to initial recognition (stage 3) and have had amounts written off, is recognised using the credit adjusted effective interest rate. This rate is calculated in the same manner as the effective interest rate except that expected credit losses are included in the expected cash flows. Interest income is therefore recognised on the amortised cost of the financial asset including expected credit losses. Should the credit risk on a stage 3 financial asset improve such that the financial asset is no longer considered credit-impaired, interest income recognition reverts to a computation based on the rehabilitated gross carrying value of the financial asset.

| | 2019 \$million | restated 2018 ¹ \$million |
|---|-------------------|--|
| Balances at central banks | 329 | 364 |
| Loans and advances to banks | 1,834 | 1,783 |
| Loans and advances to customers | 10,693 | 9,947 |
| Listed debt securities | 2,113 | 1,587 |
| Unlisted debt securities | 796 | 695 |
| Other eligible bills | 702 | 683 |
| Accrued on impaired assets (discount unwind) | 82 | 91 |
| Interest income | 16,549 | 15,150 |
| Of which: financial instruments held at fair value through other comprehensive income | 3,246 | 2,827 |
| Deposits by banks | 739 | 594 |
| Customer accounts | 6,202 | 5,006 |
| Debt securities in issue | 1,120 | 988 |
| Subordinated liabilities and other borrowed funds | 756 | 767 |
| Interest expense on IFRS 16 lease liabilities | 65 | – |
| Interest expense | 8,882 | 7,355 |
| Net interest income | 7,667 | 7,795 |

¹ In 2018 the Group reported net interest income of \$8,793 million, consisting of interest income of \$17,264 million and interest expense of \$8,471 million. The difference between this and restated 2018 net interest income of \$7,795 million is \$998 million of net contractual interest receivable on financial instruments measured at fair value through profit or loss being reclassified to net trading income.

Had the financial statements been prepared under the previous year's accounting policy, under which contractual interest on financial instruments measured at fair value through profit or loss (except for fair value elected structured notes and structured deposits) was recorded in net interest income, interest income in the current period would have been \$19,594 million and interest expense would have been \$10,307 million.

4. Net fees and commission

Accounting policy

Fees and commissions charged for services provided by the Group are recognised as or when the service is completed 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.

The determination of the services performed for the customer, the transaction price, and when the services are completed depends on the nature of the product with the customer. The main considerations on income recognition by product are as follows:

Transaction Banking

The Group recognises fee income associated with transactional trade, cash management and custody activities at the point in time the service is provided. The Group recognises income associated with trade contingent risk exposures (such as letters of credit and guarantees) and periodic custody activities over the period in which the service is provided.

Payment of fees is usually received at the same time the service is provided. In some cases, letters of credit and guarantees issued by the Group have annual upfront premiums, which are amortised on a straight-line basis to fee income over the year.

Financial Markets and Corporate Finance

The Group recognises fee income at the point in time the service is provided. Fee income is recognised for a significant non-lending service when the transaction has been completed and the terms of the contract with the customer entitle the Group to the fee. Fees are usually received shortly after the service is provided.

Syndication fees are recognised when the syndication is complete. Fees are generally received before completion of the syndication, or within 12 months of the transaction date.

Wealth Management

Upfront consideration on bancassurance agreements is amortised straight-line over the contractual term. Commissions for bancassurance activities are recorded as they are earned through sales of third-party insurance products to customers. These commissions are received within a short time frame of the commission being earned. Target-linked fees are accrued based on a percentage of the target achieved, provided it is assessed as highly probable that the target will be met. Cash payment is received at a contractually specified date after achievement of a target has been confirmed.

Upfront and trailing commissions for managed investment placements are recorded as they are confirmed. Income from these activities is relatively even throughout the period, and cash is usually received within a short time frame after the commission is earned.

Retail Products

The Group recognises most income at the point in time the Group is entitled to the fee, since most services are provided at the time of the customer's request.

Credit card annual fees are recognised at the time the fee is received since, in most of our retail markets, there are contractual circumstances under which fees are waived, so income recognition is constrained until the uncertainties associated with the annual fee are resolved. The Group defers the fair value of reward points on its credit card reward programmes, and recognises income and costs associated with fulfilling the reward at the time of redemption.

| | 2019 \$million | 2018 \$million |
|--------------------------------|-------------------|-------------------|
| Fees and commissions income | 4,111 | 4,029 |
| Fees and commissions expense | (589) | (537) |
| Net fees and commission | 3,522 | 3,492 |

Total fee income arising from financial instruments that are not fair valued through profit or loss is \$1,495 million (31 December 2018: \$1,478 million) and arising from trust and other fiduciary activities is \$166 million (31 December 2018: \$144 million).

Total fee expense arising from financial instruments that are not fair valued through profit or loss is \$138 million (31 December 2018: \$143 million) and arising from trust and other fiduciary activities is \$27 million (31 December 2018: \$27 million).

4. Net fees and commission continued

| | 2019 | | | | |
|----------------------------------|---|--------------------------|------------------------------|---------------------------|---------------------------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million |
| Transaction Banking | 1,053 | 11 | 212 | — | — |
| Trade | 434 | 11 | 154 | — | — |
| Cash Management | 431 | — | 58 | — | — |
| Securities Services | 188 | — | — | — | — |
| Financial Markets | 265 | — | 30 | — | — |
| Corporate Finance | 168 | — | 27 | 2 | — |
| Lending and Portfolio Management | 85 | — | 14 | — | — |
| Principal Finance | (12) | — | — | — | — |
| Wealth Management | — | 1,132 | 2 | 216 | — |
| Retail Products | — | 362 | — | 5 | — |
| Treasury | — | — | — | — | (22) |
| Others | — | — | — | — | (28) |
| Net fees and commission | 1,559 | 1,505 | 285 | 223 | (50) |
| | | | | | 3,522 |

| | 2018 | | | | |
|----------------------------------|---|--------------------------|------------------------------|---------------------------|---------------------------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million |
| Transaction Banking | 1,066 | 12 | 223 | — | — |
| Trade | 448 | 12 | 163 | — | — |
| Cash Management | 429 | — | 60 | — | — |
| Securities Services | 189 | — | — | — | — |
| Financial Markets | 206 | — | 25 | — | — |
| Corporate Finance | 181 | — | 21 | — | — |
| Lending and Portfolio Management | 57 | — | 13 | — | — |
| Principal Finance | (14) | — | — | — | — |
| Wealth Management | — | 1,167 | 2 | 190 | — |
| Retail Products | — | 403 | — | 2 | — |
| Treasury | — | — | — | — | (22) |
| Others | — | (3) | — | — | (37) |
| Net fees and commission | 1,496 | 1,579 | 284 | 192 | (59) |
| | | | | | 3,492 |

Upfront bancassurance consideration amounts are amortised on a straight-line basis over the contractual period to which the consideration relates. Deferred income on the balance sheet in respect of these activities is \$802 million (31 December 2018: \$886 million). The income will be earned evenly over the next 9.5 years (31 December 2018: 10.5 years).

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 recorded in net trading income in the period in which they arise. This includes contractual interest receivable or payable.

Income is recognised from the sale and purchase of trading positions, margins on market making and customer business and fair value changes.

| | 2019 \$million | restated 2018 ¹ \$million |
|---|-------------------|--|
| Net trading income | 3,350 | 2,681 |
| Significant items within net trading income include: | | |
| Gains on instruments held for trading | 3,296 | 2,756 |
| Gains on financial assets mandatorily at fair value through profit or loss | 1,557 | 788 |
| Gains on financial assets designated at fair value through profit or loss | 31 | 12 |
| Losses on financial liabilities designated at fair value through profit or loss | (1,602) | (864) |

¹ In 2018 the Group reported net trading income of \$1,683 million. The difference between this and restated 2018 net trading income of \$2,681 million is \$998 million of net contractual interest receivable on financial instruments measured at fair value through profit or loss being reclassified to net trading income

Had the financial statements been prepared under the previous year's accounting policy, under which contractual interest on financial instruments measured at fair value through profit or loss (except for fair value elected structured notes and structured deposits) was recorded in net interest income, net trading income in the current period would have been \$1,730 million.

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 fair value through other comprehensive income debt 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.

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| Other operating income includes: | | |
| Rental income from operating lease assets | 540 | 573 |
| Gains less losses on disposal of fair value through other comprehensive income debt instruments | 170 | (31) |
| Gains less losses on amortised cost financial assets | (12) | – |
| Net gain on sale of businesses | – | 9 |
| Dividend income | 17 | 25 |
| Gain on sale of aircrafts | 71 | 74 |
| Gains arising on repurchase of senior and subordinated liabilities ¹ | – | 69 |
| Other | 92 | 102 |
| | 878 | 821 |

1 On 14 June 2018, Standard Chartered PLC repurchased in part, £245.7 million of its £750 million 4.375 per cent senior debt 2038 and £372.5 million of its £900 million 5.125 per cent subordinated debt 2034. On the same date, Standard Chartered Bank repurchased in part, £95.1 million of its £200 million 7.75 per cent subordinated notes (callable 2022). This activity resulted in an overall gain of \$69 million for the Group.

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 108 to 137).

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 in 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 (measured by the fair value of the options granted) received in exchange for the grant of the options is recognised as an expense. Further details are provided in Note 31.

| | 2019 \$million | 2018 \$million |
|-------------------------------|-------------------|-------------------|
| Staff costs: | | |
| Wages and salaries | 5,508 | 5,439 |
| Social security costs | 180 | 171 |
| Other pension costs (Note 30) | 372 | 365 |
| Share-based payment costs | 166 | 166 |
| Other staff costs | 896 | 933 |
| | 7,122 | 7,074 |

Other staff costs include redundancy expenses of \$173 million (31 December 2018: \$153 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:

| | 2019 | | | 2018 ¹ | | |
|----------------------|---------------|------------------|---------------|-------------------|------------------|--------|
| | Business | Support services | Total | Business | Support services | Total |
| At 31 December | 45,469 | 38,929 | 84,398 | 47,401 | 38,001 | 85,402 |
| Average for the year | 45,816 | 38,122 | 83,938 | 48,815 | 37,453 | 86,268 |

1 Prior year headcount has been re-presented due to a change in management view of segments

The Company employed nil staff as at 31 December 2019 (31 December 2018: nil) and it incurred costs of \$32 million (31 December 2018: \$5 million).

Details of directors' pay, benefits, pensions and interests in shares are disclosed in the Directors' remuneration report (pages 119, 120 and 126).

Transactions with directors, officers and other related parties are disclosed in Note 36.

7. Operating expenses continued

| | 2019 \$million | 2018 \$million |
|---------------------------------------|-------------------|-------------------|
| Premises and equipment expenses: | | |
| Rental of premises ¹ | 31 | 374 |
| Other premises and equipment costs | 372 | 395 |
| Rental of computers and equipment | 17 | 21 |
| | 420 | 790 |
| General administrative expenses: | | |
| UK bank levy | 347 | 324 |
| Provision for regulatory matters | 226 | 900 |
| Other general administrative expenses | 1,638 | 1,702 |
| | 2,211 | 2,926 |
| Depreciation and amortisation: | | |
| Property, plant and equipment: | | |
| Premises ¹ | 360 | 86 |
| Equipment | 112 | 94 |
| Operating lease assets | 263 | 304 |
| | 735 | 484 |
| Intangibles: | | |
| Software | 436 | 363 |
| Acquired on business combinations | 9 | 10 |
| | 1,180 | 857 |
| Total operating expenses | 10,933 | 11,647 |

1 As a result of IFRS 16, rental expenses of premises has decreased and has been replaced by depreciation on premises (being the right-of-use asset) and interest expenses (on the lease liability)

The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting. The rate of the levy for 2019 is 0.15 per cent for chargeable short-term liabilities, with a lower rate of 0.075 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 reduce in 2020 and 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. Credit impairment

Accounting policy

Significant accounting estimates and judgements

The Group's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions.

The significant judgements in determining expected credit loss include:

- The Group's criteria for assessing if there has been a significant increase in credit risk; and
- Development of expected credit loss models, including the choice of inputs relating to macroeconomic variables

The calculation of credit impairment provisions also involves expert credit judgement to be applied by the credit risk management team based upon counterparty information they receive from various sources, including relationship managers and on external market information. Details on the approach for determining expected credit loss can be found in the credit risk section, under IFRS 9 Methodology (page 182).

Estimates of forecasts of key macroeconomic variables underlying the expected credit loss calculation can be found within the Risk review, Key assumptions and judgements in determining expected credit loss (page 183).

Expected credit losses

Expected credit losses are determined for all financial debt instruments that are classified at amortised cost or fair value through other comprehensive income, undrawn commitments and financial guarantees.

An expected credit loss represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive over the contractual life of the instrument.

8. Credit impairment continued

Measurement

Expected credit losses are computed as unbiased, probability-weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information, including that which is forward-looking.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of an instrument. Further details on the components of PD, LGD and EAD are disclosed in the Credit Risk section. For less material Retail Banking loan portfolios, the Group has adopted less sophisticated approaches based on historical roll rates or loss rates.

Forward-looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates, house price indices and commodity prices, among others. These assumptions are incorporated using the Group's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning.

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. For example, where there is a greater risk of downside credit losses than upside gains, multiple forward-looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall expected credit loss amounts. These scenarios are determined using a Monte Carlo approach, centred around the Group's most likely forecast of macroeconomic assumptions.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Group is exposed to credit risk. However, for certain revolving credit facilities, which include credit cards or overdrafts, the Group's exposure to credit risk is not limited to the contractual period. For these instruments, the Group estimates an appropriate life based on the period that the Group is exposed to credit risk, which includes the effect of credit risk management actions such as the withdrawal of undrawn facilities.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgement.

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Cash flows from unfunded credit enhancements held are included within the measurement of expected credit losses if they are part of, or integral to, the contractual terms of the instrument (this includes financial guarantees, unfunded risk participations and other non-derivative credit insurance). Although non-integral credit enhancements do not impact the measurement of expected credit losses, a reimbursement asset is recognised to the extent of the expected credit losses recorded.

Cash shortfalls are discounted using the effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired instruments (POCI)) on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

| Instruments | Location of expected credit loss provisions |
|--|--|
| Financial assets held at amortised cost | Loss provisions: netted against gross carrying value ¹ |
| Financial assets held FVOCI – Debt instruments | Other comprehensive income (FVOCI expected credit loss reserve) ² |
| Loan commitments | Provisions for liabilities and charges ³ |
| Financial guarantees | Provisions for liabilities and charges ³ |

1 Purchased or originated credit-impaired assets do not attract an expected credit loss provision on initial recognition. An expected credit loss provision will be recognised only if there is an increase in expected credit losses from that considered at initial recognition

2 Debt and treasury securities classified as fair value through other comprehensive income (FVOCI) are held at fair value on the face of the balance sheet. The expected credit loss attributed to these instruments is held as a separate reserve within other comprehensive income (OCI) and is recycled to the profit and loss account along with any fair value measurement gains or losses held within FVOCI when the applicable instruments are derecognised

3 Expected credit loss on loan commitments and financial guarantees is recognised as a liability provision. Where a financial instrument includes both a loan (i.e. financial asset component) and an undrawn commitment (i.e. loan commitment component), and it is not possible to separately identify the expected credit loss on these components, expected credit loss amounts on the loan commitment are recognised together with expected credit loss amounts on the financial asset. To the extent the combined expected credit loss exceeds the gross carrying amount of the financial asset, the expected credit loss is recognised as a liability provision

Recognition

12 months expected credit losses (stage 1)

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

8. Credit impairment continued

Significant increase in credit risk (stage 2)

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or roll rate approach is applied to compute expected credit loss, significant increase in credit risk is primarily based on 30 days past due.

Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default (PD) since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent that these are correlated to changes in credit risk. We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk.

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

Credit-impaired (or defaulted) exposures (stage 3)

Financial assets that are credit-impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit-impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit-impaired.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or borrower
- Breach of contract such as default or a past due event
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions (page 170 to 171)
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligation/s
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses

Lending commitments to a credit-impaired obligor that have not yet been drawn down are included to the extent that the commitment cannot be withdrawn. Loss provisions against credit-impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the expected cash shortfalls, discounted at the instrument's original effective interest rate, and the gross carrying value (including contractual interest due but not paid) of the instrument prior to any credit impairment. The Group's definition of default is aligned with the regulatory definition of default as set out in European Capital Requirements Regulation (CRR178) and related guidelines.

8. Credit impairment continued

Expert credit judgement

For Corporate & Institutional, Commercial and Private Banking, borrowers are graded by credit risk management on a credit grading (CG) scale from CG1 to CG14. Once a borrower starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and, when it is classified as CG12, the credit assessment and oversight of the loan will normally be performed by Group Special Assets Management (GSAM).

Borrowers graded CG12 exhibit well-defined weaknesses in areas such as management and/or performance but there is no current expectation of a loss of principal or interest. Where the impairment assessment indicates that there will be a loss of principal on a loan, the borrower is graded a CG14 while borrowers of other credit-impaired loans are graded CG13. Instruments graded CG13 or CG14 are regarded as stage 3.

For individually significant financial assets within stage 3, GSAM will consider all 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/ modification options. 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.

Retail Banking clients are considered credit-impaired where they are more 90 days past due. Retail Banking products are also considered credit-impaired if the borrower files for bankruptcy or other forbearance programme, the borrower is deceased or the business is closed in the case of a small business, or if the borrower surrenders the collateral, or there is an identified fraud on the account. Additionally, if the account is unsecured and the borrower has other credit accounts with the Group that are considered credit-impaired, the account may be also be credit-impaired.

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgement is required to analyse the available information provided and select the appropriate model or combination of models to use.

Expert credit judgement is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models.

Modified financial instruments

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised (an instrument is derecognised when a modification results in a change in cash flows that the Group would consider substantial), the resulting modification loss is recognised within credit impairment in the income statement with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the bank would not otherwise consider, the instrument is considered to be credit-impaired and is considered forborne.

Expected credit loss for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed (by comparison to the origination date) to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur. In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in expected credit loss recognised within impairment.

Forborne loans

Forborne loans are those loans that have been modified in response to a customer's financial difficulties. 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 Group or a third party including government sponsored programmes or a conglomerate of credit institutions. Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest-only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants.

Forborne loans that have been modified (and not derecognised) 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 credit-impaired if there is a detrimental impact on cash flows. The modification loss (see Classification and measurement – Modifications) is recognised in the profit or loss within credit impairment and the gross carrying value of the loan reduced by the same amount. The modified loan is disclosed as 'Loans subject to forbearance – credit-impaired'.

Loans that have been subject to a forbearance modification, but which are not considered credit-impaired (not classified as CG13 or CG14), are disclosed as 'Forborne – not credit-impaired'. This may include amendments to covenants within the contractual terms.

8. Credit impairment continued

Write-offs of credit-impaired instruments and reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan provision. 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 credit impairment in the income statement. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

Loss provisions on purchased or originated credit-impaired instruments (POCI)

The Group measures expected credit loss on a lifetime basis for POCI instruments throughout the life of the instrument. However, expected credit loss is not recognised in a separate loss provision on initial recognition for POCI instruments as the lifetime expected credit loss is inherent within the gross carrying amount of the instruments. The Group recognises the change in lifetime expected credit losses arising subsequent to initial recognition in the income statement and the cumulative change as a loss provision. Where lifetime expected credit losses on POCI instruments are less than those at initial recognition, then the favourable differences are recognised as impairment gains in the income statement (and as impairment loss where the expected credit losses are greater).

Improvement in credit risk/curing

A period may elapse from the point at which instruments enter lifetime expected credit losses (stage 2 or stage 3) and are reclassified back to 12-month expected credit losses (stage 1). For financial assets that are credit-impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms. When a previously credit-impaired asset transfers to stage 2 or stage 1, recoveries of any residual contractual interest earned while the asset was in stage 3 are recognised within the credit impairment line in the income statement.

For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in credit risk.

Where significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to stage 1 when the original PD based transfer criteria are no longer met. Where instruments were transferred to stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to stage 1. This includes instances where management actions led to instruments being classified as stage 2, requiring that action to be resolved before loans are reclassified to stage 1.

A forborne loan can only be removed from being disclosed as forborne if the loan is performing (stage 1 or 2) 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 (except for ECL)

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.

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| Net credit impairment on loans and advances to banks and customers | 856 | 607 |
| Net credit impairment on debt securities | 9 | 7 |
| Net credit impairment relating to financial guarantees and loan commitments | 35 | 39 |
| Net credit impairment relating to other financial assets | 8 | – |
| Credit impairment¹ | 908 | 653 |

1 No material POCI assets

9. Other impairment

Accounting policy

Refer to the below referenced notes for the relevant accounting policy

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| Impairment of goodwill (Note 17) | 27 | – |
| Impairment of fixed assets (Note 18) | 122 | 150 |
| Impairment of other intangible assets (Note 17) | 12 | 46 |
| Other | 2 | (14) |
| Other impairment | 136 | 182 |
| | 163 | 182 |

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 the relevant 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:

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| The charge for taxation based upon the profit for the year comprises: | | |
| Current tax: | | |
| United Kingdom corporation tax at 19 per cent (2018: 19 per cent): | | |
| Current tax charge on income for the year | - | 1 |
| Adjustments in respect of prior years (including double tax relief) | (6) | 49 |
| Foreign tax: | | |
| Current tax charge on income for the year | 1,427 | 1,109 |
| Adjustments in respect of prior years | 1 | (105) |
| | 1,422 | 1,054 |
| Deferred tax: | | |
| Origination/reversal of temporary differences | 22 | 254 |
| Adjustments in respect of prior years | (71) | 131 |
| | (49) | 385 |
| Tax on profits on ordinary activities | 1,373 | 1,439 |
| Effective tax rate | 37.0% | 56.5% |

The tax charge for the year of \$1,373 million (31 December 2018: \$1,439 million) on a profit before tax of \$3,713 million (31 December 2018: \$2,548 million) reflects the impact of capital gains tax arising on internal restructuring to establish the Hong Kong hub, non-deductible expenses and the impact of countries with tax rates higher or lower than the UK, the most significant of which is India. The 2018 charge reflected the impact of non-deductible regulatory provisions and other non-deductible expenses, non-creditable withholding taxes and the impact of countries with tax rates higher or lower than the UK, the most significant of which is India.

Foreign tax includes current tax of \$206 million (31 December 2018: \$169 million) on the profits assessable in Hong Kong. Deferred tax includes origination or reversal of temporary differences of \$(1) million (31 December 2018: \$17 million) provided at a rate of 16.5 per cent (31 December 2018: 16.5 per cent) on the profits assessable in Hong Kong.

10. Taxation continued

Tax rate: The tax charge for the year is higher than the charge at the rate of corporation tax in the UK, 19 per cent. The differences are explained below:

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| Profit on ordinary activities before tax | 3,713 | 2,548 |
| Tax at 19 per cent (2018: 19 per cent) | 705 | 484 |
| Lower tax rates on overseas earnings | (89) | (66) |
| Higher tax rates on overseas earnings | 316 | 354 |
| Non-creditable withholding taxes | 144 | 158 |
| Tax-free income | (138) | (113) |
| Share of associates and joint ventures | (51) | (39) |
| Non-deductible expenses | 288 | 322 |
| Provision for regulatory matters | 27 | 164 |
| Bank levy | 66 | 62 |
| Non-taxable losses on investments | 9 | 79 |
| Payments on financial instruments in reserves | (67) | (68) |
| Capital gains tax on internal restructuring | 179 | – |
| Goodwill impairment | 5 | – |
| Deferred tax not recognised | 41 | 2 |
| Deferred tax assets written-off | 30 | – |
| Deferred tax rate changes | (6) | – |
| Adjustments to tax charge in respect of prior years | (76) | 75 |
| Other items | (10) | 25 |
| Tax on profit on ordinary activities | 1,373 | 1,439 |

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 assumptions or judgements made in assessing tax liabilities have a significant risk of resulting in a material adjustment within the next financial year.

| Tax recognised in other comprehensive income | 2019 | | | 2018 | | |
|---|--------------------------|---------------------------|--------------------|--------------------------|---------------------------|--------------------|
| | Current tax \$million | Deferred tax \$million | Total \$million | Current tax \$million | Deferred tax \$million | Total \$million |
| Items that will not be reclassified to income statement | 15 | 27 | 42 | 9 | (38) | (29) |
| Own credit adjustment | 17 | 35 | 52 | 9 | (45) | (36) |
| Equity instruments at fair value through other comprehensive income | 5 | (10) | (5) | – | 1 | 1 |
| Retirement benefit obligations | (7) | 2 | (5) | – | 6 | 6 |
| Items that may be reclassified subsequently to income statement | 2 | (50) | (48) | – | 14 | 14 |
| Debt instruments at fair value through other comprehensive income | 2 | (44) | (42) | – | 20 | 20 |
| Cash flow hedges | – | (6) | (6) | – | (6) | (6) |
| Total tax credit/(charge) recognised in equity | 17 | (23) | (6) | 9 | (24) | (15) |

10. Taxation continued

Current tax: The following are the movements in current tax during the year:

| Current tax comprises: | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| Current tax assets | 492 | 491 |
| Current tax liabilities | (676) | (376) |
| Net current tax opening balance before transition | (184) | 115 |
| IFRS 9 transition | – | 11 |
| Net current tax opening balance after transition | (184) | 126 |
| Movements in income statement | (1,422) | (1,054) |
| Movements in other comprehensive income | 17 | 9 |
| Taxes paid | 1,421 | 770 |
| Other movements | 4 | (35) |
| Net current tax balance as at 31 December | (164) | (184) |
| Current tax assets | 539 | 492 |
| Current tax liabilities | (703) | (676) |
| Total | (164) | (184) |

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 2019 \$million | Exchange & other adjustments \$million | (Charge)/credit to profit \$million | (Charge)/credit to equity \$million | At 31 December 2019 \$million |
|--|--------------------------------------|---|---|---|--|
| Deferred tax comprises: | | | | | |
| Accelerated tax depreciation | (494) | (5) | (27) | – | (526) |
| Impairment provisions on loans and advances | 961 | (13) | 9 | – | 957 |
| Tax losses carried forward | 266 | – | (3) | – | 263 |
| Fair value through other comprehensive income assets | 3 | 1 | 1 | (54) | (49) |
| Cash flow hedges | (7) | – | – | (6) | (13) |
| Own credit adjustment | (33) | – | – | 35 | 2 |
| Retirement benefit obligations | 40 | (3) | (8) | 2 | 31 |
| Share-based payments | 15 | – | 1 | – | 16 |
| Other temporary differences | (267) | 4 | 76 | – | (187) |
| Net deferred tax assets | 484 | (16) | 49 | (23) | 494 |
| | At 1 January 2018 \$million | Exchange & other adjustments \$million | (Charge)/credit to profit \$million | (Charge)/credit to equity \$million | At 31 December 2018 \$million |
| Deferred tax comprises: | | | | | |
| Accelerated tax depreciation | (413) | 4 | (85) | – | (494) |
| Impairment provisions on loans and advances | 1,206 | (99) | (146) | – | 961 |
| Tax losses carried forward | 290 | (4) | (20) | – | 266 |
| Fair value through other comprehensive income assets | (21) | 4 | (1) | 21 | 3 |
| Cash flow hedges | (2) | 1 | – | (6) | (7) |
| Own credit adjustment | 11 | 1 | – | (45) | (33) |
| Retirement benefit obligations | 38 | (2) | (2) | 6 | 40 |
| Share-based payments | 16 | – | (1) | – | 15 |
| Other temporary differences | (190) | 53 | (130) | – | (267) |
| Net deferred tax assets | 935 | (42) | (385) | (24) | 484 |

10. Taxation continued

Deferred tax comprises assets and liabilities as follows:

| | 2019 | | | 2018 | | |
|---|--------------------|--------------------|------------------------|--------------------|--------------------|------------------------|
| | Total \$million | Asset \$million | Liability \$million | Total \$million | Asset \$million | Liability \$million |
| Deferred tax comprises: | | | | | | |
| Accelerated tax depreciation | (526) | (9) | (517) | (494) | 7 | (501) |
| Impairment provisions on loans and advances | 957 | 956 | 1 | 961 | 938 | 23 |
| Tax losses carried forward | 263 | 137 | 126 | 266 | 126 | 140 |
| Fair value through other comprehensive income | (49) | (40) | (9) | 3 | (2) | 5 |
| Cash flow hedges | (13) | 6 | (19) | (7) | (12) | 5 |
| Own credit adjustment | 2 | 4 | (2) | (33) | (18) | (15) |
| Retirement benefit obligations | 31 | 20 | 11 | 40 | 40 | – |
| Share-based payments | 16 | 14 | 2 | 15 | 15 | – |
| Other temporary differences | (187) | 17 | (204) | (267) | (47) | (220) |
| | 494 | 1,105 | (611) | 484 | 1,047 | (563) |

At 31 December 2019, the Group has net deferred tax assets of \$494 million (31 December 2018: \$484 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, \$263 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.

- \$108 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
- \$52 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
- \$69 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 expire after 20 years

The remaining deferred tax assets of \$34 million relating to losses has arisen in other jurisdictions and is expected to be recovered in less than 10 years.

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| No account has been taken of the following potential deferred tax assets/(liabilities): | | |
| Withholding tax on unremitted earnings from overseas subsidiaries | (230) | (281) |
| Tax losses | 1,297 | 1,283 |
| Held over gains on incorporation of overseas branches | (410) | (413) |
| Other temporary differences | 83 | 79 |

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 prior to dividend declaration which includes 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.

At half year the Board decided to adopt a formulaic approach to setting the interim dividend for 2019, being one-third of the prior year full-year dividend per share.

Ordinary equity shares

| | 2019 | | 2018 ¹ | |
|--|-----------------|-----------|-------------------|-----------|
| | Cents per share | \$million | Cents per share | \$million |
| 2018/2017 final dividend declared and paid during the year | 15 | 495 | 11 | 363 |
| 2019/2018 interim dividend declared and paid during the year | 7 | 225 | 6 | 198 |

1 The amounts are gross of scrip adjustments

Dividends on ordinary equity shares are recorded in the period in which they are declared and, in respect of the final dividend, have been approved by the shareholders. Accordingly, the final ordinary equity share dividends set out above relate to the respective prior years. The 2018 final dividend of 15 cents per ordinary share (\$495 million) was paid to eligible shareholders on 16 May 2019 and the 2019 interim dividend of seven cents per ordinary share (\$225 million) was paid to eligible shareholders on 21 October 2019.

2019 recommended final ordinary equity share dividend

The 2019 ordinary equity share dividend recommended by the Board is 20 cents per share. The financial statements for the year ended 31 December 2019 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 2020.

The dividend will be paid in either pounds sterling, Hong Kong dollars or US dollars on 14 May 2020 to shareholders on the UK register of members at the close of business in the UK on 6 March 2020. The dividend will be paid in Indian rupees on 14 May 2020 to Indian Depository Receipt holders on the Indian register at the close of business in India on 6 March 2020.

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.

| | 2019 \$million | 2018 \$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 | 30 | 26 |
| | 83 | 79 |
| Additional Tier 1 securities: \$5 billion fixed rate resetting perpetual subordinated contingent convertible securities | 365 | 357 |
| | 448 | 436 |
| 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 | 9 | 9 |
| 8 1/4 per cent preference shares of £1 each | 11 | 10 |
| | 20 | 19 |

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.

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| Profit for the year attributable to equity holders | 2,340 | 1,109 |
| Non-controlling interests | (37) | (55) |
| Dividend payable on preference shares and AT1 classified as equity | (448) | (436) |
| Profit for the year attributable to ordinary shareholders | 1,855 | 618 |
| Items normalised: | | |
| Provision for regulatory matters | 226 | 900 |
| Restructuring | 254 | 478 |
| Profit from joint venture | (48) | – |
| Gains arising on repurchase of subordinated liabilities | – | (69) |
| Goodwill impairment (Note 9) | 27 | – |
| Tax on normalised items ¹ | 152 | 104 |
| Underlying profit | 2,466 | 2,031 |
| Basic – Weighted average number of shares (millions) | | |
| Basic – Weighted average number of shares (millions) | 3,256 | 3,306 |
| Diluted – Weighted average number of shares (millions) | 3,290 | 3,340 |
| Basic earnings per ordinary share (cents) | | |
| Basic earnings per ordinary share (cents) | 57.0 | 18.7 |
| Diluted earnings per ordinary share (cents) | | |
| Diluted earnings per ordinary share (cents) | 56.4 | 18.5 |
| Underlying basic earnings per ordinary share (cents) | | |
| Underlying basic earnings per ordinary share (cents) | 75.7 | 61.4 |
| Underlying diluted earnings per ordinary share (cents) | | |
| Underlying diluted earnings per ordinary share (cents) | 75.0 | 60.8 |

1 No tax is included in respect of the impairment of goodwill as no tax relief is available

13. Financial instruments

Classification and measurement

Accounting policy

The Group classifies its financial assets into the following measurement categories: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. Financial liabilities are classified as either amortised cost, or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

Financial assets held at amortised cost and fair value through other comprehensive income

Debt instruments held at amortised cost or held at fair value through other comprehensive income (FVOCI) have contractual terms that give rise to cash flows that are solely payments of principal and interest (SPPI characteristics). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows have SPPI characteristics, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows
- Leverage features
- Prepayment and extension terms
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements)
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates

Whether financial assets are held at amortised cost, FVTPL or at FVOCI depends on the objectives of the business models under which the assets are held. A business model refers to how the Group manages financial assets to generate cash flows.

The Group makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable, within business lines depending on the way the business is managed and information is provided to management. Factors considered include:

- How the performance of the product business line is evaluated and reported to the Group's management
- How managers of the business model are compensated, including whether management is compensated based on the fair value of assets or the contractual cash flows collected
- The risks that affect the performance of the business model and how those risks are managed
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity

The Group's business model assessment is as follows:

| Business model | Business objective | Characteristics | Businesses | Products |
|--|--|---|--|--|
| Hold to collect | Intent is to originate financial assets and hold them to maturity, collecting the contractual cash flows over the term of the instrument | <ul style="list-style-type: none"> → Providing financing and originating assets to earn interest income as primary income stream → Performing credit risk management activities → Costs include funding costs, transaction costs and impairment losses | <ul style="list-style-type: none"> → Corporate Lending → Corporate Finance → Transaction Banking → Retail Lending → Treasury Markets (Loans and Borrowings) → Financial Markets (selected) | <ul style="list-style-type: none"> → Loans and advances → Debt securities |
| Hold to collect and sell | Business objective met through both hold to collect and by selling financial assets | <ul style="list-style-type: none"> → Portfolios held for liquidity needs; or where a certain interest yield profile is maintained; or that are normally rebalanced to achieve matching of duration of assets and liabilities → Income streams come from interest income, fair value changes, and impairment losses | → Treasury Markets | → Debt securities |
| Fair value through profit or loss | All other business objectives, including trading and managing financial assets on a fair value basis | <ul style="list-style-type: none"> → Assets held for trading → Assets that are originated, purchased, and sold for profit taking or underwriting activity → Performance of the portfolio is evaluated on a fair value basis → Income streams are from fair value changes or trading gains or losses | → All other business lines | <ul style="list-style-type: none"> → Derivatives → Trading portfolios → Financial Markets reverse repos |

13. Financial instruments continued

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ('hold to collect') are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ('hold to collect and sell') are classified as held at FVOCI.

Both hold to collect business and a hold to collect and sell business models involve holding financial assets to collect the contractual cash flows. However, the business models are distinct by reference to the frequency and significance that asset sales play in meeting the objective under which a particular group of financial assets is managed. Hold to collect business models are characterised by asset sales that are incidental to meeting the objectives under which a group of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in the credit risk of financial assets but sales for other reasons should be infrequent or insignificant.

Cash flows from the sale of financial assets under a hold to collect and sell business model by contrast are integral to achieving the objectives under which a particular group of financial assets are managed. This may be the case where frequent sales of financial assets are required to manage the Group's daily liquidity requirements or to meet regulatory requirements to demonstrate liquidity of financial instruments. Sales of assets under hold to collect and sell business models are therefore both more frequent and more significant in value than those under the hold to collect model.

Equity instruments designated as held at FVOCI

Non-trading equity instruments acquired for strategic purposes rather than capital gain may be irrevocably designated at initial recognition as held at FVOCI on an instrument by instrument basis. Dividends received are recognised in profit or loss. Gains and losses arising from changes in the fair value of these instruments, including foreign exchange gains and losses, are recognised directly in equity and are never reclassified to profit or loss, even on derecognition.

Financial assets and liabilities held at fair value through profit or loss

Financial assets which are not held at amortised cost or that are not held at fair value through other comprehensive income are held at fair value through profit or loss. Financial assets and liabilities held at fair value through profit or loss are either mandatorily classified fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

Mandatorily classified at fair value through profit or loss

Financial assets and liabilities which are mandatorily held at fair value through profit or loss are split between two subcategories as follows:

Trading, including:

- Financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short-term; and
- Derivatives

Non-trading mandatorily at fair value through profit or loss, including:

- Instruments in a business which has a fair value business model (see the Group's business model assessment) which are not trading or derivatives
- Hybrid financial assets that contain one or more embedded derivatives
- Financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics
- Equity instruments that have not been designated as held at FVOCI
- Financial liabilities that constitute contingent consideration in a business combination

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 ('accounting mismatch').

Interest rate swaps have been acquired by the Group with the intention of significantly reducing interest rate risk on certain debt securities with fixed rates of interest. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these debt securities have been designated at fair value through profit or loss.

Similarly, to reduce accounting mismatches, the Group has designated certain financial liabilities at fair value through profit or loss where the liabilities either:

- Have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered with the intention of significantly reducing interest rate risk; or
- Are exposed to foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes; or
- Have been acquired to fund trading asset portfolios or assets

Financial liabilities may also be designated at fair value through profit or loss where they are managed on a fair value basis or have a embedded derivative where the Group is not able to bifurcate and separately value the embedded derivative component.

13. Financial instruments continued

Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Financial guarantee contracts and loan commitments

The Group issues financial guarantee contracts and loan commitments in return for fees. Under a financial guarantee contract, the Group undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. Loan commitments are firm commitments to provide credit under prespecified terms and conditions. Financial guarantee contracts and loan commitments issued at below market interest rates are initially recognised as liabilities at fair value, while financial guarantees and loan commitments issued at market rates are recorded off-balance sheet. Subsequently, these instruments are measured at the higher of the expected credit loss provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers. Refer to page 275 for expected credit loss on loan commitments and financial guarantees.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Group has access at the date. The fair value of a liability includes the risk that the bank will not be able to honour its obligations.

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 risk 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. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on the settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or 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 solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in the income statement but is amortised or released to the income statement as the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest method (see Interest income and expense). Foreign exchange gains and losses are recognised in the income statement.

Where a financial instrument carried at amortised cost is the hedged item in a qualifying fair value hedge relationship, its carrying value is adjusted by the fair value gain or loss attributable to the hedged risk.

Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in a separate component of equity. Interest income, impairment and foreign exchange gains and losses are recognised in profit or loss when they occur, with changes in expected credit losses accumulated in equity. On derecognition, the cumulative fair value gains or losses, net of the cumulative expected credit loss reserve, are transferred to the profit or loss.

Equity investments designated at FVOCI are subsequently carried at fair value with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. On derecognition, the cumulative reserve is transferred to retained earnings and is not recycled to profit or loss.

Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities mandatorily held at fair value through profit or loss and financial assets designated at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value, including contractual interest income or expense, recorded in the net trading income line in the profit or loss unless the instrument is part of a cash flow hedging relationship.

13. Financial instruments continued

Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss are held at fair value, with changes in fair value recognised in the net trading income line in the profit or loss, other than that attributable to changes in credit risk. Fair value changes attributable to credit risk are recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated at fair value through profit or loss is recognised in profit or loss.

Derecognition of financial instruments

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.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained, less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss except for equity instruments elected FVOCI (see above) and cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively. However, where a financial liability has been modified, it is derecognised if the difference between the modified cash flows and the original cash flows is more than 10 per cent, or if less than 10 per cent, the Group will perform a qualitative assessment to determine whether the terms of the two instruments are substantially different.

If the Group purchases its own debt, it is derecognised and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income' except for the cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income which are never recycled to the profit or loss.

Modified financial instruments

Financial assets and financial liabilities whose original contractual terms have been modified, including those loans subject to forbearance strategies, are considered to be modified instruments. Modifications may include changes to the tenor, cash flows and or interest rates, among other factors.

Where derecognition of financial assets is appropriate (see Derecognition), the newly recognised residual loans are assessed to determine whether the assets should be classified as purchased or originated credit-impaired assets (POCI).

Where derecognition is not appropriate, the gross carrying amount of the applicable instruments is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate (or credit adjusted effective interest rate for POCI financial assets). The difference between the recalculated values and the pre-modified gross carrying values of the instruments are recorded as a modification gain or loss in the profit or loss.

Gains and losses arising from modifications for credit reasons are recorded as part of 'Credit Impairment' (see Credit impairment policy). Modification gains and losses arising for non-credit reasons are recognised either as part of 'Credit impairment' or within income, depending on whether there has been a change in the credit risk on the financial asset subsequent to the modification. Modification gains and losses arising on financial liabilities are recognised within income. The movements in the applicable expected credit loss loan positions are disclosed in further detail in Risk review.

Reclassifications

Financial liabilities are not reclassified subsequent to initial recognition. Reclassifications of financial assets are made when, and only when, the business model for those assets changes. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

Financial assets are reclassified at their fair value on the date of reclassification and previously recognised gains and losses are not restated. Moreover, reclassifications of financial assets between financial assets held at amortised cost and financial assets held at fair value through other comprehensive income do not affect effective interest rate or expected credit loss computations.

Reclassified from amortised cost

Where financial assets held at amortised cost are reclassified to financial assets held at fair value through profit or loss, the difference between the fair value of the assets at the date of reclassification and the previously recognised amortised cost is recognised in profit or loss.

For financial assets held at amortised cost that are reclassified to fair value through other comprehensive income, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. Additionally, the related cumulative expected credit loss amounts relating to the reclassified financial assets are reclassified from loan loss provisions to a separate reserve in other comprehensive income at the date of reclassification.

13. Financial instruments continued

Reclassified from fair value through other comprehensive income

Where financial assets held at fair value through other comprehensive income are reclassified to financial assets held at fair value through profit or loss, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the profit or loss.

For financial assets held at fair value through other comprehensive income that are reclassified to financial assets held at amortised cost, the cumulative gain or loss previously recognised in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always been held at amortised cost. In addition, the related cumulative expected credit losses held within other comprehensive income are reversed against the gross carrying value of the reclassified assets at the date of reclassification.

Reclassified from fair value through profit or loss

Where financial assets held at fair value through profit or loss are reclassified to financial assets held at fair value through other comprehensive income or financial assets held at amortised cost, the fair value at the date of reclassification is used to determine the effective interest rate on the financial asset going forward. In addition, the date of reclassification is used as the date of initial recognition for the calculation of expected credit losses. Where financial assets held at fair value through profit or loss are reclassified to financial assets held at amortised cost, the fair value at the date of reclassification becomes the gross carrying value of the financial asset.

The Group's classification of its financial assets and liabilities is summarised in the following tables.

| Assets | Notes | Assets at fair value | | | | | | Total financial assets at fair value \$million | Assets held at amortised cost \$million | Total \$million |
|---|-------|----------------------|--|--|---|---|---------|--|---|-----------------|
| | | Trading \$million | Derivatives held for hedging \$million | Non-trading mandatorily at fair value through profit or loss \$million | Designated at fair value through profit or loss \$million | Fair value through other comprehensive income \$million | | | | |
| Cash and balances at central banks | | - | - | - | - | - | - | - | 52,728 | 52,728 |
| Financial assets held at fair value through profit or loss | | | | | | | | | | |
| Loans and advances to banks ¹ | | 198 | - | 3,330 | - | - | 3,528 | - | 3,528 | |
| Loans and advances to customers ¹ | | 2,886 | - | 4,010 | - | - | 6,896 | - | 6,896 | |
| Reverse repurchase agreements and other similar secured lending | 16 | - | - | 57,604 | - | - | 57,604 | - | 57,604 | |
| Debt securities, alternative tier one and other eligible bills | | 21,877 | - | 166 | 278 | - | 22,321 | - | 22,321 | |
| Equity shares | | 2,208 | - | 152 | 109 | - | 2,469 | - | 2,469 | |
| | | 27,169 | - | 65,262 | 387 | - | 92,818 | - | 92,818 | |
| Derivative financial instruments | 14 | 46,424 | 788 | - | - | - | 47,212 | - | 47,212 | |
| Loans and advances to banks ¹ | 15 | - | - | - | - | - | - | 53,549 | 53,549 | |
| Of which: reverse repurchase agreements and other similar secured lending | 16 | - | - | - | - | - | - | 1,341 | 1,341 | |
| Loans and advances to customers ¹ | 15 | - | - | - | - | - | - | 268,523 | 268,523 | |
| Of which: reverse repurchase agreements and other similar secured lending | 16 | - | - | - | - | - | - | 1,469 | 1,469 | |
| Investment securities | | | | | | | | | | |
| Debt securities, alternative tier one and other eligible bills | | - | - | - | - | - | 129,471 | 129,471 | 13,969 | 143,440 |
| Equity shares | | - | - | - | - | - | 291 | 291 | - | 291 |
| | | - | - | - | - | - | 129,762 | 129,762 | 13,969 | 143,731 |
| Other assets | 20 | - | - | - | - | - | - | - | 36,161 | 36,161 |
| Assets held for sale | 21 | - | - | 87 | 243 | - | 330 | 90 | 420 | |
| Total as at 31 December 2019 | | 73,593 | 788 | 65,349 | 630 | 129,762 | 270,122 | 425,020 | 695,142 | |

¹ Further analysed in Risk review and Capital review (pages 152 to 241)

13. Financial instruments continued

| Assets | Notes | Trading \$million | Assets at fair value | | | | | | |
|---|-------|----------------------|---|---|---|---|---|--|--------------------|
| | | | Derivatives held for hedging \$million | Non-trading mandatorily at fair value through profit or loss \$million | Designated at fair value through profit or loss \$million | Fair value through other comprehensive income \$million | Total financial assets at fair value \$million | Assets held at amortised cost \$million | Total \$million |
| Cash and balances at central banks | | — | — | — | — | — | — | 57,511 | 57,511 |
| Financial assets held at fair value through profit or loss | | | | | | | | | |
| Loans and advances to banks ¹ | | 146 | — | 3,622 | — | — | 3,768 | — | 3,768 |
| Loans and advances to customers ¹ | | 1,074 | — | 3,854 | — | — | 4,928 | — | 4,928 |
| Reverse repurchase agreements and other similar secured lending | 16 | — | — | 54,769 | — | — | 54,769 | — | 54,769 |
| Debt securities, alternative tier one and other eligible bills | | 21,246 | — | 393 | 337 | — | 21,976 | — | 21,976 |
| Equity shares | | 1,347 | — | 233 | 111 | — | 1,691 | — | 1,691 |
| | | 23,813 | — | 62,871 | 448 | — | 87,132 | — | 87,132 |
| Derivative financial instruments | 14 | 45,108 | 513 | — | — | — | 45,621 | — | 45,621 |
| Loans and advances to banks ¹ | 15 | — | — | — | — | — | — | 61,414 | 61,414 |
| Of which: reverse repurchase agreements and other similar secured lending | 16 | — | — | — | — | — | — | 3,815 | 3,815 |
| Loans and advances to customers ¹ | 15 | — | — | — | — | — | — | 256,557 | 256,557 |
| Of which: reverse repurchase agreements and other similar secured lending | 16 | — | — | — | — | — | — | 3,151 | 3,151 |
| Investment securities | | | | | | | | | |
| Debt securities, alternative tier one and other eligible bills | | — | — | — | — | 116,335 | 116,335 | 9,303 | 125,638 |
| Equity shares | | — | — | — | — | 263 | 263 | — | 263 |
| | | — | — | — | — | 116,598 | 116,598 | 9,303 | 125,901 |
| Other assets | 20 | — | — | — | — | — | — | 32,678 | 32,678 |
| Assets held for sale | 21 | 78 | — | 358 | 451 | — | 887 | 135 | 1,022 |
| Total as at 31 December 2018 | | 68,999 | 513 | 63,229 | 899 | 116,598 | 250,238 | 417,598 | 667,836 |

1 Further analysed in Risk review and Capital review (pages 152 to 241)

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 |
| Financial liabilities held at fair value through profit or loss | | | | | | |
| Deposits by banks | | – | – | 1,081 | 1,081 | – 1,081 |
| Customer accounts | | – | – | 6,947 | 6,947 | – 6,947 |
| Repurchase agreements and other similar secured borrowing | 16 | – | – | 46,283 | 46,283 | – 46,283 |
| Debt securities in issue | 22 | – | – | 8,510 | 8,510 | – 8,510 |
| Short positions | | 4,153 | – | – | 4,153 | – 4,153 |
| | | 4,153 | – | 62,821 | 66,974 | – 66,974 |
| Derivative financial instruments | 14 | 46,906 | 1,578 | – | 48,484 | – 48,484 |
| Deposits by banks | | – | – | – | – | 28,562 28,562 |
| Customer accounts | | – | – | – | – | 405,357 405,357 |
| Repurchase agreements and other similar secured borrowing | 16 | – | – | – | – | 1,935 1,935 |
| Debt securities in issue | 22 | – | – | – | – | 53,025 53,025 |
| Other liabilities | 23 | – | – | – | – | 41,149 41,149 |
| Subordinated liabilities and other borrowed funds | 27 | – | – | – | – | 16,207 16,207 |
| Total as at 31 December 2019 | | 51,059 | 1,578 | 62,821 | 115,458 | 546,235 661,693 |

| 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 |
| Financial liabilities held at fair value through profit or loss | | | | | | |
| Deposits by banks | | – | – | 318 | 318 | – 318 |
| Customer accounts | | – | – | 6,751 | 6,751 | – 6,751 |
| Repurchase agreements and other similar secured borrowing | 16 | – | – | 43,000 | 43,000 | – 43,000 |
| Debt securities in issue | 22 | – | – | 7,405 | 7,405 | – 7,405 |
| Short positions | | 3,226 | – | – | 3,226 | – 3,226 |
| | | 3,226 | – | 57,474 | 60,700 | – 60,700 |
| Derivative financial instruments | 14 | 45,580 | 1,629 | – | 47,209 | – 47,209 |
| Deposits by banks | | – | – | – | – | 29,715 29,715 |
| Customer accounts | | – | – | – | – | 391,013 391,013 |
| Repurchase agreements and other similar secured borrowing | 16 | – | – | – | – | 1,401 1,401 |
| Debt securities in issue | 22 | – | – | – | – | 46,454 46,454 |
| Other liabilities | 23 | – | – | – | – | 37,945 37,945 |
| Subordinated liabilities and other borrowed funds | 27 | – | – | – | – | 15,001 15,001 |
| Liabilities included in disposal groups held for sale | 21 | 198 | – | – | 198 | – 198 |
| Total as at 31 December 2018 | | 49,004 | 1,629 | 57,474 | 108,107 | 521,529 629,636 |

13. Financial instruments continued

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.

| | 2019 | | | | | |
|---|---|---|---|--|--------------------------------|----------------------|
| | 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 | 63,854 | (16,642) | 47,212 | (28,659) | (7,824) | 10,729 |
| Reverse repurchase agreements and other similar secured lending | 63,535 | (3,121) | 60,414 | – | (60,414) | – |
| As at 31 December 2019 | 127,389 | (19,763) | 107,626 | (28,659) | (68,238) | 10,729 |
| Liabilities | | | | | | |
| Derivative financial instruments | 65,126 | (16,642) | 48,484 | (28,659) | (9,169) | 10,656 |
| Repurchase agreements and other similar secured borrowing | 51,339 | (3,121) | 48,218 | – | (48,218) | – |
| As at 31 December 2019 | 116,465 | (19,763) | 96,702 | (28,659) | (57,387) | 10,656 |

| | 2018 | | | | | |
|---|---|---|---|--|--------------------------------|----------------------|
| | 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 | 55,274 | (9,653) | 45,621 | (32,283) | (9,259) | 4,079 |
| Reverse repurchase agreements and other similar secured lending | 65,191 | (3,456) | 61,735 | – | (61,735) | – |
| As at 31 December 2018 | 120,465 | (13,109) | 107,356 | (32,283) | (70,994) | 4,079 |
| Liabilities | | | | | | |
| Derivative financial instruments | 56,862 | (9,653) | 47,209 | (32,283) | (10,323) | 4,603 |
| Repurchase agreements and other similar secured borrowing | 47,857 | (3,456) | 44,401 | – | (44,401) | – |
| As at 31 December 2018 | 104,719 | (13,109) | 91,610 | (32,283) | (54,724) | 4,603 |

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 instruments where we may not have sought or been able to obtain a legal opinion evidencing enforceability of the right of offset
- 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

13. Financial instruments continued

Financial liabilities designated at fair value through profit or loss (restated)

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| Carrying balance aggregate fair value | 62,821 | 57,474 |
| Amount contractually obliged to repay at maturity | 62,505 | 57,974 |
| Difference between aggregate fair value and contractually obliged to repay at maturity | 316 | (500) |
| Cumulative change in fair value accredited to Credit Risk difference | 17 | 476 |

The net fair value loss on financial liabilities designated at fair value through profit or loss was \$1,602 million for the year (31 December 2018: net loss of \$864 million). Further details of the Group's own credit adjustment (OCA) valuation technique is described later in this Note.

The net fair value loss on financial liabilities designated at fair value through profit or loss now includes contractual interests, refer to Note 1 Accounting policies.

Valuation of financial instruments

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 appropriate 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 that 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.

The Valuation and Benchmarks Committee (VBC) is the valuation governance forum consisting of representatives from Group Market Risk, Product Control, Valuation Control and the business, which meets monthly to discuss and approve the independent valuations of the inventory. For Principal Finance, the Investment Committee meeting is held on a quarterly basis to review investments and valuations.

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 is determined using valuation techniques and estimates (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 estimates valuation adjustments in determining the fair value (page 294)
- 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 296)
- Where the estimated 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

13. Financial instruments continued

Valuation techniques

Refer to the fair value hierarchy explanation – Level 1, 2 and 3 (page 296)

→ Financial instruments held at fair value

- **Debt securities – asset-backed securities:** Asset-backed securities are valued 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
- **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, valuations 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
- **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
- **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, alternative 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 judgements ranging from determining comparable companies to discount rates where the discounted cash flow method is applied
- **Loans and advances:** These primarily include loans in the global syndications business which were not syndicated as of the balance sheet date and other financing transactions within Financial Markets and loans and advances including reverse repurchase agreements that do not have SPPI cash flows or are managed on a fair value basis. These loans are generally bilateral in nature and, where available, their valuation is based on observable clean sales transactions prices or market observable 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
- **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

13. Financial instruments continued

→ Financial instruments held at amortised cost

The following sets out the Group's basis for 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
- **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
- **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
- **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 input proxies from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or input 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
- **Loans and advances to banks and customers:** For loans and advances to banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar Credit Risk and remaining maturity. The Group's loans and advances to customers' portfolio is well diversified by geography and industry. Approximately a quarter of the portfolio 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. 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
- **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

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:

| | 01.01.19 \$million | Movement during the year \$million | 31.12.19 \$million | 01.01.18 \$million | Movement during the year \$million | 31.12.18 \$million |
|--------------------------------|-----------------------|--|-----------------------|-----------------------|--|-----------------------|
| Bid-offer valuation adjustment | 67 | 12 | 79 | 82 | (15) | 67 |
| Credit valuation adjustment | 196 | (60) | 136 | 229 | (33) | 196 |
| Debit valuation adjustment | (143) | 100 | (43) | (66) | (77) | (143) |
| Model valuation adjustment | 6 | 1 | 7 | 6 | – | 6 |
| Funding valuation adjustment | 60 | (34) | 26 | 79 | (19) | 60 |
| Other fair value adjustments | 59 | (14) | 45 | 65 | (6) | 59 |
| Total | 245 | 5 | 250 | 395 | (150) | 245 |
| | | | | | | |
| Income deferrals | | | | | | |
| Day 1 and other deferrals | 100 | 3 | 103 | 83 | 17 | 100 |
| Total | 100 | 3 | 103 | 83 | 17 | 100 |

Note: Bracket represents an asset and credit to the income statement

13. Financial instruments continued

Fair value adjustments continued

- **Bid-offer valuation adjustment:** Generally, market parameters are marked on a mid-market basis in the revaluation systems, and 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 accounts for CVA 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 using estimates of future positive exposure, market-implied probability of default (PD) and recovery rates. Where market-implied data is not readily available, we use market-based proxies to estimate the PD. Wrong-way risk occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty, and the Group has implemented a model to capture this impact for key wrong-way exposures. The Group also captures the uncertainties associated with wrong-way risk in the Group's Prudential Valuation Adjustments framework
- **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. 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 bond and CDS spreads associated with the Group's issuances and market standard recovery levels. The expected exposure is modelled based on the simulation of the underlying risk factors over the expected life of the deal. This simulation methodology incorporates the collateral posted by the Group and the effects of master netting agreements
- **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 or benefits 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 uncollateralised (including partially collateralised) derivatives incorporates the estimated present value of the market funding cost or benefit associated with funding these transactions
- **Other fair value adjustments:** The Group calculates the fair value on the interest rate callable products by calibrating to a set of market prices with differing maturity, expiry and strike of the trades
- **Day one and other deferrals:** 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. Other deferrals primarily represent adjustments taken to reflect the specific terms and conditions of certain derivative contracts which affect the termination value at the measurement date

In addition, the Group calculates 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 reserve will increase if its credit standing worsens and conversely, decrease if its credit standing improves. The Group's OCA reserve 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 unsecured credit spreads. The OCA as at 31 December 2019 is \$17 million, other comprehensive income loss \$462 million (31 December 2018: \$476 million, other comprehensive income gain \$394 million).

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 inputs which could have a significant effect on the instrument's valuation are not based on observable market data

13. Financial instruments continued

Fair value hierarchy – financial instruments held at fair value continued

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 | – | 3,163 | 365 | 3,528 |
| Loans and advances to customers | – | 6,453 | 443 | 6,896 |
| Reverse repurchase agreements and other similar secured lending | – | 57,604 | – | 57,604 |
| Debt securities, alternative tier one and other eligible bills | 5,963 | 16,158 | 200 | 22,321 |
| Of which: | | | | |
| Government bonds and treasury bills | 5,656 | 7,898 | – | 13,554 |
| Issued by corporates other than financial institutions ¹ | 7 | 5,090 | 200 | 5,297 |
| Issued by financial institutions ¹ | 300 | 3,170 | – | 3,470 |
| Equity shares | 2,241 | – | 228 | 2,469 |
| Derivative financial instruments | 466 | 46,729 | 17 | 47,212 |
| Of which: | | | | |
| Foreign exchange | 69 | 25,929 | 8 | 26,006 |
| Interest rate | 28 | 19,342 | 4 | 19,374 |
| Credit | – | 1,231 | 1 | 1,232 |
| Equity and stock index options | – | 23 | 4 | 27 |
| Commodity | 369 | 204 | – | 573 |
| Investment securities | | | | |
| Debt securities, alternative tier one and other eligible bills | 73,699 | 55,734 | 38 | 129,471 |
| Of which: | | | | |
| Government bonds and treasury bills | 54,637 | 19,664 | 33 | 74,334 |
| Issued by corporates other than financial institutions ¹ | 11,667 | 14,505 | 5 | 26,177 |
| Issued by financial institutions ¹ | 7,395 | 21,565 | – | 28,960 |
| Equity shares | 30 | 4 | 257 | 291 |
| Total financial instruments as at 31 December 2019 ² | 82,399 | 185,845 | 1,548 | 269,792 |
| Liabilities | | | | |
| Financial instruments held at fair value through profit or loss | | | | |
| Deposits by banks | – | 1,025 | 56 | 1,081 |
| Customer accounts | – | 6,907 | 40 | 6,947 |
| Repurchase agreements and other similar secured borrowing | – | 46,283 | – | 46,283 |
| Debt securities in issue | – | 8,100 | 410 | 8,510 |
| Short positions | 2,499 | 1,654 | – | 4,153 |
| Derivative financial instruments | 515 | 47,912 | 57 | 48,484 |
| Of which: | | | | |
| Foreign exchange | 97 | 26,824 | 5 | 26,926 |
| Interest rate | 31 | 18,891 | 9 | 18,931 |
| Credit | – | 1,892 | 23 | 1,915 |
| Equity and stock index options | – | 76 | 20 | 96 |
| Commodity | 387 | 229 | – | 616 |
| Total financial instruments as at 31 December 2019 ² | 3,014 | 111,881 | 563 | 115,458 |

1 Includes covered bonds of \$3,499 million, securities issued by Multilateral Development Banks/International Organisations of \$11,894 million and State-owned agencies and development banks of \$17,936 million

2 The above table does not include held for sale assets of \$330 million and liabilities of \$nil. These are reported in Note 21 together with their fair value hierarchy

There were no significant changes to valuation or levelling approaches in 2019.

There were 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

| | Level 1 \$million | restated Level 2 \$million | restated Level 3 \$million | Total \$million |
|--|----------------------|----------------------------------|----------------------------------|--------------------|
| Assets | | | | |
| Financial instruments held at fair value through profit or loss | | | | |
| Loans and advances to banks | – | 3,136 ³ | 632 ³ | 3,768 |
| Loans and advances to customers | – | 4,436 | 492 | 4,928 |
| Reverse repurchase agreements and other similar secured lending | – | 54,769 | – | 54,769 |
| Debt securities, alternative tier one and other eligible bills | 8,097 | 13,562 | 317 | 21,976 |
| Of which: | | | | |
| Government bonds and treasury bills | 6,699 | 6,851 | – | 13,550 |
| Issued by corporates other than financial institutions ¹ | 178 | 3,241 | 317 | 3,736 |
| Issued by financial institutions ¹ | 1,220 | 3,470 | – | 4,690 |
| Equity shares | 1,364 | – | 327 | 1,691 |
| Derivative financial instruments | 907 | 44,702 | 12 | 45,621 |
| Of which: | | | | |
| Foreign exchange | 149 | 31,242 | 7 | 31,398 |
| Interest rate | 4 | 12,237 | 5 | 12,246 |
| Credit | – | 252 | – | 252 |
| Equity and stock index options | – | 89 | – | 89 |
| Commodity | 754 | 882 | – | 1,636 |
| Investment securities | | | | |
| Debt securities, alternative tier one and other eligible bills | 67,624 | 48,299 | 412 | 116,335 |
| Of which: | | | | |
| Government bonds and treasury bills | 52,329 | 17,928 | 412 | 70,669 |
| Issued by corporates other than financial institutions ¹ | 8,366 | 9,839 | – | 18,205 |
| Issued by financial institutions ¹ | 6,929 | 20,532 | – | 27,461 |
| Equity shares | 29 | 4 | 230 | 263 |
| Total financial instruments as at 31 December 2018 ² | 78,021 | 168,908 | 2,422 | 249,351 |
| Liabilities | | | | |
| Financial instruments held at fair value through profit or loss | | | | |
| Deposits by banks | – | 314 | 4 | 318 |
| Customer accounts | – | 6,751 | – | 6,751 |
| Repurchase agreements and other similar secured borrowing | – | 43,000 | – | 43,000 |
| Debt securities in issue | – | 6,966 | 439 | 7,405 |
| Short positions | 1,999 | 1,227 | – | 3,226 |
| Derivative financial instruments | 809 | 46,335 ³ | 65 ³ | 47,209 |
| Of which: | | | | |
| Foreign exchange | 137 | 32,655 | 7 | 32,799 |
| Interest rate | 15 | 12,923 ³ | 15 ³ | 12,953 |
| Credit | – | 273 | 8 | 281 |
| Equity and stock index options | – | 32 | 35 | 67 |
| Commodity | 657 | 452 | – | 1,109 |
| Total financial instruments as at 31 December 2018 ² | 2,808 | 104,593 | 508 | 107,909 |

¹ Includes covered bonds of \$5,466 million, securities issued by Multilateral Development Banks/International Organisations of \$7,432 million and State-owned agencies and development banks of \$7,549 million. The above table does not include held for sale assets of \$887 million and liabilities of \$198 million

² The above table does not include held for sale assets of \$887 million and liabilities of \$198 million. These are reported in Note 21 together with their fair value hierarchy

³ Prior year balances have been restated due to review of observability parameters. The impact was to reclassify \$632 million from Level 2 loans and advances to banks to Level 3 and \$340 million from Level 3 interest rate derivative financial instruments liabilities to Level 2

There were 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 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 | 52,728 | – | 52,728 | – | 52,728 |
| Loans and advances to banks | 53,549 | – | 53,431 | – | 53,431 |
| Of which – reverse repurchase agreements and other similar secured lending | 1,341 | – | 1,356 | – | 1,356 |
| Loans and advances to customers | 268,523 | – | 22,829 | 246,632 | 269,461 |
| Of which – reverse repurchase agreements and other similar secured lending | 1,469 | – | 1,341 | 130 | 1,471 |
| Investment securities ² | 13,969 | – | 13,107 | 20 | 13,127 |
| Other assets ¹ | 36,161 | – | 36,161 | – | 36,161 |
| Assets held for sale | 90 | – | 70 | 20 | 90 |
| As at 31 December 2019 | 425,020 | – | 178,326 | 246,672 | 424,998 |
| Liabilities | | | | | |
| Deposits by banks | 28,562 | – | 28,577 | – | 28,577 |
| Customer accounts | 405,357 | – | 405,361 | – | 405,361 |
| Repurchase agreements and other similar secured borrowing | 1,935 | – | 1,935 | – | 1,935 |
| Debt securities in issue | 53,025 | 20,031 | 33,269 | – | 53,300 |
| Subordinated liabilities and other borrowed funds | 16,207 | 15,986 | 803 | – | 16,789 |
| Other liabilities ¹ | 41,149 | – | 41,149 | – | 41,149 |
| As at 31 December 2019 | 546,235 | 36,017 | 511,094 | – | 547,111 |

| | Fair value | | | | |
|--|-----------------------------|----------------------|----------------------|----------------------|--------------------|
| | Carrying value \$million | Level 1 \$million | Level 2 \$million | Level 3 \$million | Total \$million |
| Assets | | | | | |
| Cash and balances at central banks ¹ | 57,511 | – | 57,511 | – | 57,511 |
| Loans and advances to banks | 61,414 | – | 61,357 | – | 61,357 |
| Of which – reverse repurchase agreements and other similar secured lending | 3,815 | – | 3,842 | – | 3,842 |
| Loans and advances to customers | 256,557 | – | 18,514 | 238,797 | 257,311 |
| Of which – reverse repurchase agreements and other similar secured lending | 3,151 | – | 2,409 | 744 | 3,153 |
| Investment securities ² | 9,303 | – | 8,953 | 8 | 8,961 |
| Other assets ¹ | 32,678 | – | 32,673 | – | 32,673 |
| Assets held for sale | 135 | – | 135 | – | 135 |
| As at 31 December 2018 | 417,598 | – | 179,143 | 238,805 | 417,948 |
| Liabilities | | | | | |
| Deposits by banks | 29,715 | – | 29,715 | – | 29,715 |
| Customer accounts | 391,013 | – | 391,018 | – | 391,018 |
| Repurchase agreements and other similar secured borrowing | 1,401 | – | 1,401 | – | 1,401 |
| Debt securities in issue | 46,454 | 17,009 | 29,195 | – | 46,204 |
| Subordinated liabilities and other borrowed funds | 15,001 | 14,505 | 23 | – | 14,528 |
| Other liabilities ¹ | 37,945 | – | 37,945 | – | 37,945 |
| As at 31 December 2018 | 521,529 | 31,514 | 489,297 | – | 520,811 |

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

2 Includes Government bonds and Treasury bills of \$5,973 million as at 31 December 2019 and \$4,716 million as at 31 December 2018

13. Financial instruments continued

Loans and advances to customers by client segment¹

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| | 2019 | | | | | |
|-----------------------------------|----------------------|-------------------------------------|--------------------|----------------------|-------------------------------------|--------------------|
| | Carrying value | | | Fair value | | |
| | Stage 3 \$million | Stage 1 and stage 2 \$million | Total \$million | Stage 3 \$million | Stage 1 and stage 2 \$million | Total \$million |
| Corporate & Institutional Banking | 1,193 | 110,006 | 111,199 | 1,244 | 109,996 | 111,240 |
| Retail Banking | 472 | 105,896 | 106,368 | 482 | 106,939 | 107,421 |
| Commercial Banking | 510 | 25,607 | 26,117 | 541 | 25,463 | 26,004 |
| Private Banking | 219 | 14,522 | 14,741 | 219 | 14,471 | 14,690 |
| Central & other items | – | 10,098 | 10,098 | – | 10,106 | 10,106 |
| As at 31 December 2019 | 2,394 | 266,129 | 268,523 | 2,486 | 266,975 | 269,461 |

| | 2018 | | | | | |
|-----------------------------------|----------------------|-------------------------------------|--------------------|----------------------|-------------------------------------|--------------------|
| | Carrying value | | | Fair value | | |
| | Stage 3 \$million | Stage 1 and stage 2 \$million | Total \$million | Stage 3 \$million | Stage 1 and stage 2 \$million | Total \$million |
| Corporate & Institutional Banking | 1,758 | 102,919 | 104,677 | 1,818 | 102,791 | 104,609 |
| Retail Banking | 436 | 100,799 | 101,235 | 447 | 101,810 | 102,257 |
| Commercial Banking | 539 | 26,220 | 26,759 | 652 | 25,989 | 26,641 |
| Private Banking | 135 | 13,481 | 13,616 | 134 | 13,442 | 13,576 |
| Central & other items | – | 10,270 | 10,270 | – | 10,228 | 10,228 |
| As at 31 December 2018 | 2,868 | 253,689 | 256,557 | 3,051 | 254,260 | 257,311 |

1 Loans and advances includes reverse repurchase agreements and other similar secured lending: carrying value \$1,469 million and fair value \$1,471 million (31 December 2018: \$3,151 million and \$3,153 million respectively)

13. Financial instruments continued

Fair value of financial instruments

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:

| Instrument | Value as at 31 December 2019 | | Principal valuation technique | Significant unobservable inputs | Range ¹ | Weighted average ² |
|---|---------------------------------|--------------------------|----------------------------------|--|--------------------|----------------------------------|
| | Assets \$million | Liabilities \$million | | | | |
| Loans and advances to banks | 365 | - | Discounted cash flows | Price/yield | 1.0 – 15.6% | 10.8% |
| Loans and advances to customers | 443 | - | Discounted cash flows | Price/yield | 0.5% – 6.9% | 4.2% |
| | | | | Recovery rates | 18.9% – 100% | 92.1% |
| Debt securities, alternative tier one and other eligible securities | 184 | - | Discounted cash flows | Price/Yield | 3.8% – 18.7% | 11.6% |
| Government bonds and treasury bills | 33 | - | Discounted cash flows | Price/Yield | 2.9% – 5.5% | 3.7% |
| Asset-backed securities | 21 | - | Discounted cash flows | Price/Yield | 1.4% – 3.2% | 2.7% |
| Equity shares (includes private equity investments) ³ | 485 | - | Comparable pricing/yield | EV/EBITDA multiples | 3.5x – 7.3x | 4.6x |
| | | | | P/E multiples | | 17.4x |
| | | | | P/B multiples | 0.6x – 1.0x | 0.9x |
| | | | | P/S multiples | | N/A |
| | | | | Liquidity discount | 10.0% – 20.0% | 15.9% |
| | | | Discounted cash flows | Discount rates | 8.4% – 16.2% | 9.5% |
| Derivative financial instruments of which: | | | | | | |
| Foreign exchange | 8 | 5 | Option Pricing Model | Foreign Exchange Option Implied Volatility | 4.4% – 18.9% | 16.7% |
| | | | Discounted cash flows | Foreign Exchange Curves | 7.8% – 8.0% | 7.9% |
| Interest rate | 4 | 9 | Discounted cash flows | Interest rate curves | 5.3% – 19.6% | 8.6% |
| | | | Option Pricing Model | Bond Option Implied Volatility | 17.0% – 28.0% | 24.0% |
| Credit | 1 | 23 | Discounted cash flows | Credit spreads | 1.0% – 7.9% | 1.1% |
| Equity and stock index | 4 | 20 | Internal pricing model | Equity Correlation | 1.0% – 90.0% | 58.0% |
| | | | | Equity-FX Correlation | (80.0%) – 70.0% | (29.0%) |
| Deposits by banks | - | 56 | Discounted cash flows | Credit Spreads | 1.0% – 1.8% | 1.4% |
| Customer accounts | - | 40 | Discounted cash flows | Credit Spreads | 1.0% – 5.8% | 2.7% |
| Debt securities in issue | - | 410 | Discounted cash flows | Credit Spreads | 0.1% – 1.4% | 0.9% |
| | | | Internal Pricing Model | Equity Correlation | 1.0% – 90.0% | 58.0% |
| | | | | Equity-FX Correlation | (80.0%) – 70.0% | (29.0%) |
| Total | 1,548 | 563 | | | | |

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 2019. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments.

2 Weighted average for non-derivative financial instruments has been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator.

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.

13. Financial instruments continued

Level 3 Summary and significant unobservable inputs continued

| Instrument | Value as at 31 December 2018 | | Principal valuation technique | Significant unobservable inputs | restated Range ¹ | restated Weighted average ² |
|---|---------------------------------|--------------------------|-------------------------------|--|--------------------------------|--|
| | Assets \$million | Liabilities \$million | | | | |
| Loans and advances to banks | 632 | – | Comparable pricing/yield | Price/yield | 1.0% – 28.5% ⁴ | 17.7% ⁴ |
| Loans and advances to customers | 492 | – | Comparable pricing/yield | Price/yield | N/A | N/A |
| | | – | Discounted cash flows | Recovery rates | 25.5% – 100% | 94.7% |
| Debt securities, alternative tier one and other eligible securities | 73 | – | Comparable pricing/yield | Price/yield | 5.4% – 6.3% | 5.6% |
| Government bonds and treasury bills | 412 | – | Discounted cash flows | Price/yield | 2.9% – 38.1% | 11.2% |
| Asset-backed securities | 244 | – | Discounted cash flows | Price/yield | 1.0% – 11.0% | 3.4% |
| Equity shares (includes private equity investments) ³ | 557 | – | Comparable pricing/yield | EV/EBITDA multiples | 5.2x – 9.1x | 8.5x |
| | | – | – | P/E multiples | 14.5x | 14.5x |
| | | – | – | P/B multiples | 0.6x – 1.0x | 1.0x |
| | | – | – | P/S multiples | N/A | N/A |
| | | – | – | Liquidity discount | 10.0% – 20.0% | 14.8% |
| | | – | Discounted cash flows | Discount rates | 7.3% – 13.2% | 9.6% |
| Derivative financial instruments of which: | | | | | | |
| Foreign exchange | 7 | 7 | Option pricing model | Foreign exchange option implied volatility | 5.2% – 5.4% | 5.4% |
| | | – | Discounted cash flows | Foreign exchange curves | (0.4)% – 3.7% | 0.4% |
| Interest rate | 5 | 15 | Discounted cash flows | Interest rate curves | 6.4% – 16.8% | 8.3% |
| Credit | – | 8 | Discounted cash flows | Credit spreads | 0.4% – 2.8% ⁴ | 0.8% ⁴ |
| Equity and stock index | – | 35 | Internal pricing model | Equity correlation | 4.5% – 89.5% | N/A |
| | | | – | Equity-FX correlation | (80.0)% – 80.0% | N/A |
| Deposits by banks | – | 4 | Discounted cash flows | Credit spreads | 1.0% – 1.0% | 1.0% |
| Debt securities in issue | 439 | – | Discounted cash flows | Credit spreads | 0.4% – 4.0% | 1.4% |
| | | – | – | Internal pricing model | Equity correlation | 4.5% – 89.5% |
| | | – | – | – | Equity FX correlation | (80.0)% – 80.0% |
| Total | 2,422 | 508 | | | | |

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 2018. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments.

2 Weighted average for non-derivative financial instruments has been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator.

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.

4 Prior year input ranges and weighted averages have been recalculated due to the prior year restatement of fair value hierarchy balances.

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:

- **Comparable price/yield** is a valuation methodology in which the 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
- **Equity-FX correlation** is the correlation between equity instrument and foreign exchange instrument
- **EV/EBITDA ratio multiples** 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
- **Foreign exchange curves** is the term structure for forward rates and swap rates between currency pairs over a specified period
- **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** 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-Earnings (P/E) multiples** 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-Book (P/B) multiple** 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-Sales (P/S) multiple** 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.

| Assets | Held at fair value through profit or loss | | | | | | Investment securities | | |
|---|---|---|--|--|--|-------------------------|--|---------|-------------------------|
| | | | Debt securities, alternative tier one and other eligible bills \$million | | Derivative financial instruments \$million | | Debt securities, alternative tier one and other eligible bills \$million | | Equity shares \$million |
| | Loans and advances to banks \$million | Loans and advances to customers \$million | Equity shares \$million | Derivative financial instruments \$million | Debt securities, alternative tier one and other eligible bills \$million | Equity shares \$million | Total \$million | | |
| As at 1 January 2019 | 632 | 492 | 317 | 327 | 12 | 412 | 230 | 2,422 | |
| Total (losses)/gains recognised in income statement | (25) | (31) | (14) | (26) | (15) | 2 | – | (109) | |
| Net trading income | (25) | (31) | (14) | (26) | (15) | – | – | (111) | |
| Other operating income | – | – | – | – | – | 2 | – | 2 | |
| Total (losses)/gains recognised in other comprehensive income (OCI) | – | – | – | – | – | (341) | 5 | (336) | |
| Fair value through OCI reserve | – | – | – | – | – | (4) | 12 | 8 | |
| Exchange difference | – | – | – | – | – | (337) | (7) | (344) | |
| Purchases | 826 | 133 | 106 | 139 | 109 | 156 | 26 | 1,495 | |
| Sales | – | (8) | (248) | (153) | (26) | (1) | (7) | (443) | |
| Settlements | (1,068) | (253) | (3) | – | (5) | (34) | – | (1,363) | |
| Transfers out ¹ | – | (6) | (86) | (134) | (75) | (161) | – | (462) | |
| Transfers in ² | – | 116 | 128 | 75 | 17 | 5 | 3 | 344 | |
| As at 31 December 2019 | 365 | 443 | 200 | 228 | 17 | 38 | 257 | 1,548 | |
| Total unrealised losses recognised in the income statement, within net trading income, relating to change in fair value of assets held as at 31 December 2019 | – | – | (1) | – | (1) | – | – | (2) | |

1 Transfers out include debt securities, alternative tier one and other eligible bills, equity shares, derivative financial instruments and loans and advances where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2. Transfers out further relates to \$74 million equity shares held for sale

2 Transfers in primarily relate to debt securities, alternative tier one and other eligible bills, loans and advances, equity shares and derivative financial instruments where the valuation parameters become unobservable during the year

13. Financial instruments continued

Level 3 movement tables – financial assets continued

The table below analyses movements in Level 3 financial assets carried at fair value.

| Assets | Held at fair value through profit or loss | | | | | | Investment securities | | |
|---|--|--|--|--|-------------------------------|---|--|-------------------------------|--------------------------------|
| | restated Loans and advances to banks \$million | Loans and advances to customers \$million | Reverse repurchase agreements and other similar secured lending \$million | Debt securities, alternative tier one and other eligible bills \$million | Equity shares \$million | Derivative financial instruments \$million | Debt securities, alternative tier one and other eligible bills \$million | Equity shares \$million | restated Total \$million |
| As at 1 January 2018 | 71 | 717 | – | 431 | 1,100 | 40 | 318 | 150 | 2,827 |
| Total gains/(losses) recognised in income statement | 1 ³ | 13 | – | (44) | (10) | (3) | 22 | – | (21) |
| Net trading income | 1 | 13 | – | (44) | (10) | (3) | – | – | (43) |
| Other operating income | – | – | – | – | – | – | 22 | – | 22 |
| Total (losses)/gains recognised in other comprehensive income (OCI) | – | – | – | – | – | – | (2) | 40 | 38 |
| Fair value through OCI reserve | – | – | – | – | – | – | – | 41 | 41 |
| Exchange difference | – | – | – | – | – | – | (2) | (1) | (3) |
| Purchases | 532 ³ | 328 | 55 | 120 | 143 | 70 | 445 | 38 | 1,731 |
| Sales | – | (254) | – | (215) | (176) | (40) | – | (5) | (690) |
| Settlements | (71) | (261) | – | (6) | – | (14) | (210) | – | (562) |
| Transfers out ¹ | – ³ | (112) | (55) | (8) | (743) | (43) | (161) | (1) | (1,123) |
| Transfers in ² | 99 | 61 | – | 39 | 13 | 2 | – | 8 | 222 |
| As at 31 December 2018 | 632 | 492 | – | 317 | 327 | 12 | 412 | 230 | 2,422 |
| Total unrealised (losses)/gains recognised in the income statement, within net trading income, relating to change in fair value of assets held as at 31 December 2018 | – | (2) | – | – | 22 | (3) | – | – | 17 |

1 Transfers out include equity shares, debt securities, alternative tier one and other eligible bills, loans and advances, reverse repurchase agreements, 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 relates to \$743 million equity shares held for sale

2 Transfers in primarily relate to loans and advances, debt securities, alternative tier one and other eligible bills, equity shares and derivative financial instruments where the valuation parameters become unobservable during the year

3 Prior year movements have been restated due to the prior year restatement of fair value hierarchy balances

13. Financial instruments continued

Level 3 movement tables – financial liabilities

| | 2019 | | | | |
|--|-----------------------------|------------------------------------|---|--|-----------------|
| | Deposits by banks \$million | Customer accounts \$million | Debt securities in issue \$million | Derivative financial instruments \$million | Total \$million |
| As at 1 January 2019 | 4 | – | 439 | 65 | 508 |
| Total (gains)/losses recognised in income statement – net trading income | (1) | (2) | 22 | 45 | 64 |
| Issues | 53 | 41 | 592 | 436 | 1,122 |
| Settlements | – | – | (522) | (561) | (1,083) |
| Transfers out ¹ | – | – | (121) | (13) | (134) |
| Transfers in ² | – | 1 | – | 85 | 86 |
| As at 31 December 2019 | 56 | 40 | 410 | 57 | 563 |
| Total unrealised (gains)/losses recognised in the income statement, within net trading income, relating to change in fair value of liabilities held as at 31 December 2019 | – | (2) | 16 | 2 | 16 |
| | 2018 | | | | |
| | Deposits by banks \$million | Debt securities in issue \$million | restated Derivative financial instruments \$million | restated Total \$million | |
| As at 1 January 2018 | 69 | 442 | 25 | 536 | |
| Total losses/(gains) recognised in income statement – net trading income | 1 | (22) | 8 ³ | (13) | |
| Issues | 4 | 167 | 21 ³ | 192 | |
| Settlements | (70) | (148) | (3) ³ | (221) | |
| Transfers out ¹ | – | – | (2) | (2) | |
| Transfers in ² | – | – | 16 | 16 | |
| As at 31 December 2018 | 4 | 439 | 65 | 508 | |
| Total unrealised (gains)/losses recognised in the income statement, within net trading income, relating to change in fair value of liabilities held as at 31 December 2018 | – | (5) | 8 | 3 | |

1 Transfers out during the year primarily relate to debt securities in issue 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 derivative financial instruments and customer accounts where the valuation parameters become unobservable during the year

3 Prior year movements have been restated due to the prior year restatement of fair value hierarchy balances

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 analysis performed on a set of reference prices based on the composition of the Group's Level 3 inventory as the measurement date. Favourable and unfavourable changes (which show the balance adjusted for input change) are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. The 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 | | | Fair value through other comprehensive income | | |
|--|---|------------------------------------|--------------------------------------|---|------------------------------------|--------------------------------------|
| | Net exposure \$million | Favourable changes \$million | Unfavourable changes \$million | Net exposure \$million | Favourable changes \$million | Unfavourable changes \$million |
| Financial instruments held at fair value | | | | | | |
| Loans and advances | 808 | 820 | 787 | – | – | – |
| Asset backed securities | 21 | 21 | 21 | – | – | – |
| Debt securities, alternative tier one and other eligible bills | 179 | 189 | 170 | 38 | 38 | 38 |
| Equity shares | 228 | 255 | 201 | 257 | 283 | 231 |
| Derivative financial instruments | (40) | (34) | (46) | – | – | – |
| Customer accounts | (40) | (40) | (40) | – | – | – |
| Deposits by banks | (56) | (56) | (56) | – | – | – |
| Debt securities in issue | (410) | (379) | (441) | – | – | – |
| As at 31 December 2019 | 690 | 776 | 596 | 295 | 321 | 269 |

Financial instruments held at fair value

| | | | | | | |
|--|--------------------|--------------------|--------------------|-----|-----|-----|
| Loans and advances | 1,124 ¹ | 1,149 ¹ | 1,095 ¹ | – | – | – |
| Asset backed securities ² | 244 | 246 | 242 | – | – | – |
| Debt securities, alternative tier one and other eligible bills | 73 | 78 | 68 | 412 | 415 | 409 |
| Equity shares | 327 | 360 | 294 | 230 | 253 | 207 |
| Derivative financial instruments | (53) ¹ | (40) ¹ | (66) ¹ | – | – | – |
| Deposits by banks | (4) | (4) | (4) | – | – | – |
| Debt securities in issue | (439) | (417) | (461) | – | – | – |
| As at 31 December 2018 | 1,272 | 1,372 | 1,168 | 642 | 668 | 616 |

1 Prior year sensitivities have been recalculated due to the prior year restatement of fair value hierarchy balances

2 Asset backed securities are now presented separately. In the prior year these were included in debt securities and other eligible bills

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 fair value through other comprehensive income by the amounts disclosed below.

| Financial instruments | Fair value changes | 2019 | |
|---|--------------------|-----------|-------------------|
| | | \$million | 2018 \$million |
| Held at fair value through profit or loss | Possible increase | 86 | 100 |
| | Possible decrease | (94) | (104) |
| Fair value through other comprehensive income | Possible increase | 26 | 26 |
| | Possible decrease | (26) | (26) |

14. Derivative financial instruments

Accounting policy

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 or 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.

Hedge accounting

Under certain conditions, the Group may designate a recognised asset or liability, a firm commitment, highly probable forecast transaction or net investment of a foreign operation into a formal hedge accounting relationship with a derivative that has been entered to manage interest rate and/or foreign exchange risks present in the hedged item. The Group continues to apply the hedge accounting requirements of IAS 39 Financial Instruments: Recognition and Measurement, and has early adopted the amendments to IAS 39 in respect of interest rate benchmark reform. There are three categories of hedge relationships:

- **Fair value hedge:** to manage the fair value of interest rate and/or foreign currency risks of recognised assets or liabilities or firm commitments
- **Cash flow hedge:** to manage interest rate or foreign exchange risk of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction
- **Net investment hedge:** to manage the structural foreign exchange risk of an investment in a foreign operation

The Group formally 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 hedge transactions. This is described in more detail in the categories of hedges below.

The Group assesses, both at hedge inception and on a quarterly basis, whether the derivatives designated in hedge relationships are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedges are considered to be highly effective if all the following criteria are met:

- At inception of the hedge and throughout its life, the hedge is prospectively expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk
- Actual results of the hedge are within a range of 80–125 per cent. This is tested using regression analysis
- The regression co-efficient (R squared), which measures the correlation between the variables in the regression, is at least 80 per cent
- In the case of the hedge of a forecast transaction, the transaction must have a high probability of occurring and must present an exposure to variations in cash flows that are expected to affect reported profit or loss. The Group assumes that any interest rate benchmarks on which hedged item cash flows are based are not altered by IBOR reform

The Group discontinues hedge accounting in any of the following circumstances:

- The hedging instrument is not, or has ceased to be, highly effective as a hedge
- The hedging instrument has expired, is sold, terminated or exercised
- The hedged item matures, is sold or repaid
- The forecast transaction is no longer deemed highly probable
- The Group elects to discontinue hedge accounting voluntarily

For interest rate benchmarks deemed in scope of IBOR reform, if the actual result of a hedge is outside the 80–125 per cent range, but it can be demonstrated that this is caused by interest rate benchmark uncertainty and the hedge passes the prospective assessment, then the Group will not de-designate the hedge relationship.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in net trading income, 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 remaining term to maturity of the hedged item. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement. For financial assets classified as fair value through other comprehensive income, the hedge accounting adjustment is included in other comprehensive income.

14. Derivative financial instruments continued

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments are initially recognised in other comprehensive income, accumulating in the cash flow hedge reserve within equity. These amounts are subsequently recycled to the income statement in the periods when the hedged item affects profit or loss. Both the derivative fair value movement and any recycled amount are recorded in the 'Cashflow hedges' line item in other comprehensive income.

The Group assesses hedge effectiveness using the hypothetical derivative method, which creates a derivative instrument to serve as a proxy for the hedged transaction. The terms of the hypothetical derivative match the critical terms of the hedged item and it has a fair value of zero at inception. The hypothetical derivative and the actual derivative are regressed to establish the statistical significance of the hedge relationship. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the net trading income immediately.

For interest rate benchmarks deemed in scope of IBOR reform, the Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges, even though there is uncertainty arising from these reforms with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider that the hedged future cash flows are no longer expected to occur due to reasons other than IBOR reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

Net investment hedge

Hedges of net investments are accounted for in a similar manner to cash flow hedges, with gains and losses arising on the effective portion of the hedges recorded in the line 'Exchange differences on translation of foreign operations' in other comprehensive income, accumulating in the translation reserve within equity. These amounts remain in equity until the net investment is disposed of. The ineffective portion of the hedges is recognised in the net trading income immediately.

The tables below analyse the notional principal amounts and the positive and negative fair values of derivative financial instruments. Notional principal amounts are the amounts of principal underlying the contract at the reporting date.

Derivatives

| | 2019 | | 2018 | | | |
|---|--------------------------------------|------------------|-----------------------|--------------------------------------|------------------|-----------------------|
| | Notional principal amounts \$million | Assets \$million | Liabilities \$million | Notional principal amounts \$million | Assets \$million | Liabilities \$million |
| Foreign exchange derivative contracts: | | | | | | |
| Forward foreign exchange contracts | 2,290,781 | 16,281 | 16,396 | 2,080,513 | 16,457 | 17,264 |
| Currency swaps and options | 806,226 | 9,725 | 10,530 | 856,660 | 14,941 | 15,535 |
| | 3,097,007 | 26,006 | 26,926 | 2,937,173 | 31,398 | 32,799 |
| Interest rate derivative contracts: | | | | | | |
| Swaps | 4,046,209 | 34,011 | 33,351 | 3,693,897 | 20,378 | 20,909 |
| Forward rate agreements and options | 284,973 | 1,826 | 2,061 | 489,943 | 1,400 | 1,586 |
| Exchange traded futures and options | 359,031 | 179 | 161 | 775,518 | 121 | 111 |
| | 4,690,213 | 36,016 | 35,573 | 4,959,358 | 21,899 | 22,606 |
| Credit derivative contracts | 80,972 | 1,232 | 1,915 | 39,343 | 252 | 281 |
| Equity and stock index options | 3,412 | 27 | 96 | 2,960 | 89 | 67 |
| Commodity derivative contracts | 79,458 | 573 | 616 | 69,601 | 1,636 | 1,109 |
| Gross total derivatives | 7,951,062 | 63,854 | 65,126 | 8,008,435 | 55,274 | 56,862 |
| Offset | - | (16,642) | (16,642) | - | (9,653) | (9,653) |
| Total derivatives | 7,951,062 | 47,212 | 48,484 | 8,008,435 | 45,621 | 47,209 |

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.

The Group may enter into economic hedges that do not qualify for IAS 39 hedge accounting treatment, including derivative such as interest rate swaps, interest rate futures and cross currency swaps to manage interest rate and currency risks of the Group. These derivatives are measured at fair value, with fair value changes recognised in net trading income: refer to Market Risk (page 191).

The Derivatives and Hedging sections of the Risk review and Capital review (page 177) explain the Group's risk management of derivative contracts and application of hedging.

14. Derivative financial instruments continued

Derivatives held for hedging

The Group enters into derivative contracts for the purpose of hedging interest rate, currency and structural foreign exchange risks inherent in assets, liabilities and forecast transactions. The table below summarises the notional principal amounts and carrying values of derivatives designated in hedge accounting relationships at the reporting date.

| | 2019 | | | 2018 | | |
|---|--------------------------------------|------------------|-----------------------|--------------------------------------|------------------|-----------------------|
| | 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 | 69,121 | 617 | 589 | 63,675 | 306 | 573 |
| Currency swaps | 8,405 | 47 | 774 | 8,963 | 30 | 942 |
| | 77,526 | 664 | 1,363 | 72,638 | 336 | 1,515 |
| Derivatives designated as cash flow hedges: | | | | | | |
| Interest rate swaps | 9,277 | 53 | 74 | 10,733 | 59 | 67 |
| Forward foreign exchange contracts | 289 | 6 | 20 | 184 | – | 18 |
| Currency swaps | 5,254 | 34 | 51 | 2,701 | 57 | 22 |
| | 14,820 | 93 | 145 | 13,618 | 116 | 107 |
| Derivatives designated as net investment hedges: | | | | | | |
| Forward foreign exchange contracts | 5,103 | 31 | 70 | 5,200 | 61 | 7 |
| Total derivatives held for hedging | 97,449 | 788 | 1,578 | 91,456 | 513 | 1,629 |

Fair value hedges

The Group issues various long-term fixed rate debt issuances that are measured at amortised cost, including some denominated in foreign currency, such as unsecured senior and subordinated debt (see Notes 22 and 27). The Group also holds various fixed rate debt securities such as government and corporate bonds, including some denominated in foreign currency (see Note 13). These assets and liabilities held are exposed to changes in fair value due to movements in market interest and foreign currency rates.

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. The Group further uses cross currency swaps to match the currency of the issued debt or held asset with that of the entity's functional currency.

Hedge ineffectiveness from fair value hedges is driven by cross currency basis risk. The amortisation of fair value hedge adjustments for hedged items no longer designated is recognised in net trading income. In future periods hedge relationships linked to an interest rate benchmark deemed in scope of benchmark reform may experience ineffectiveness due to market participants' expectations for when the change from the existing IBOR benchmark to an alternative risk-free rate will occur, since the transition may occur at different times for the hedged item and hedging instrument.

As at 31 December 2019 the Group held the following interest rate and cross currency swaps as hedging instruments in fair value hedges of interest and currency risk.

Hedging instruments and ineffectiveness

| | 2019 | | | Change in fair value used to calculate hedge ineffectiveness \$million | Ineffectiveness gain/(loss) recognised in net trading income \$million |
|---|--------------------|-----------------|-----------------|--|--|
| | Notional \$million | Carrying amount | Asset \$million | Liability \$million | |
| Interest rate and currency risk¹ | | | | | |
| Interest rate swaps – issued notes | 22,029 | 559 | 44 | 511 | – |
| Cross currency swaps – subordinated notes issued | 5,451 | 17 | 751 | 32 | 6 |
| Interest rate swaps – loans and advances | 1,410 | 1 | 24 | (22) | (1) |
| Interest rate swaps – debt securities and other eligible bills | 45,682 | 57 | 521 | (589) | 12 |
| Cross currency swaps – debt securities and other eligible bills | 2,954 | 30 | 23 | (18) | 1 |
| Total as at 31 December 2019 | 77,526 | 664 | 1,363 | (86) | 18 |

1 Interest rate swaps are designated in hedges of the fair value of interest rate risk attributable to the hedged item. Cross currency swaps are used to hedge both interest rate and currency risks. All of the hedging instruments are derivatives, with changes in fair value, including hedge ineffectiveness recorded within net trading income

14. Derivative financial instruments continued

Fair value hedges continued

| Interest rate and currency risk ¹ | 2018 | | | | |
|---|--------------------|-----------------|---------------------|--|--|
| | Notional \$million | Carrying amount | | Change in fair value used to calculate hedge ineffectiveness \$million | Ineffectiveness gain/(loss) recognised in net trading income \$million |
| | | Asset \$million | Liability \$million | | |
| Interest rate swaps – issued notes | 19,112 | 270 | 310 | (73) | – |
| Cross currency swaps – subordinated notes issued | 7,349 | – | 938 | (622) | (93) |
| Interest rate swaps – loans and advances | 1,757 | 4 | 7 | (6) | – |
| Interest rate swaps – debt securities and other eligible bills | 42,806 | 32 | 256 | (164) | (3) |
| Cross currency swaps – debt securities and other eligible bills | 1,614 | 30 | 4 | 14 | 1 |
| Total as at 31 December 2018 | 72,638 | 336 | 1,515 | (851) | (95) |

1 Interest rate swaps are designated in hedges of the fair value of interest rate risk attributable to the hedged item. Cross currency swaps are used to hedge both interest rate and currency risks. All of the hedging instruments are derivatives, with changes in fair value, including hedge ineffectiveness recorded within net trading income

Hedged items in fair value hedges

| | 2019 | | | | | Cumulative balance of fair value adjustments from de-designated hedge relationships ¹ \$million |
|--|-----------------|---------------------|--|---------------------|---|--|
| | Carrying amount | | Accumulated amount of fair value hedge adjustments included in the carrying amount | | Change in fair value used for calculating hedge ineffectiveness \$million | |
| | Asset \$million | Liability \$million | Asset \$million | Liability \$million | | |
| Issued notes | – | 27,921 | – | 271 | (537) | 611 |
| Debt securities and other eligible bills | 49,190 | – | 373 | – | 620 | (120) |
| Loans and advances to customers | 1,431 | – | 22 | – | 21 | – |
| Total as at 31 December 2019 | 50,621 | 27,921 | 395 | 271 | 104 | 491 |

| | 2018 | | | | | Cumulative balance of fair value adjustments from de-designated hedge relationships ¹ \$million |
|--|-----------------|---------------------|--|---------------------|---|--|
| | Carrying amount | | Accumulated amount of fair value hedge adjustments included in the carrying amount | | Change in fair value used for calculating hedge ineffectiveness \$million | |
| | Asset \$million | Liability \$million | Asset \$million | Liability \$million | | |
| Issued notes | – | 26,646 | – | 982 | 602 | 443 |
| Debt securities and other eligible bills | 44,885 | – | 129 | – | 155 | 37 |
| Loans and advances to customers | 1,147 | – | 5 | – | 1 | 7 |
| Total as at 31 December 2018 | 46,032 | 26,646 | 134 | 982 | 758 | 487 |

1 This represents a credit/(debit) to the balance sheet value

Income statement impact of fair value hedges

| | 2019 Income/(expense) \$million | 2018 Income/(expense) \$million |
|---|---------------------------------------|---------------------------------------|
| Change in fair value of hedging instruments | (86) | (851) |
| Change in fair value of hedged risks attributable to hedged items | 104 | 758 |
| Net ineffectiveness gain/(loss) to net trading income | 18 | (93) |
| Amortisation (loss)/gain to net interest income | (5) | 27 |

14. Derivative financial instruments continued

Cash flow hedges

The Group has exposure to market movements in future interest cash flows on portfolios of customer accounts, debt securities and loans and advances to customers. The amounts and timing of future cash flows, representing both principal and interest flows, are projected on the basis of contractual terms and other relevant factors, including estimates of prepayments and defaults.

The hedging strategy of the Group involves using 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. This is done on both a micro basis whereby a single interest rate or cross currency swap is designated in a separate relationship with a single hedged item (such as a floating rate loan to a customer), and on a portfolio basis whereby each hedging instrument is designated against a group of hedged items that share the same risk (such as a group of customer accounts).

The hedged risk is determined as the variability of future cash flows arising from changes in the designated benchmark interest rate, e.g. one-month or three-month LIBOR.

Hedging instruments and ineffectiveness

| | 2019 | | | | | | |
|------------------------------------|--------------------|-----------------|---------------------|--|-------------------------------|--|---|
| | Carrying amount | | | Change in fair value used to calculate hedge ineffectiveness | Gain/(loss) recognised in OCI | Ineffectiveness gain/(loss) recognised in net trading income | Amount reclassified from reserves to income |
| | Notional \$million | Asset \$million | Liability \$million | \$million | \$million | \$million | \$million |
| Interest rate risk | | | | | | | |
| Interest rate swaps | 9,277 | 53 | 74 | (87) | (87) | – | – |
| Currency risk | | | | | | | |
| Forward foreign exchange contracts | 289 | 6 | 20 | 6 | 6 | – | – |
| Cross currency swaps | 5,254 | 34 | 51 | (5) | (5) | – | (2) |
| Total as at 31 December 2019 | 14,820 | 93 | 145 | (86) | (86) | – | (2) |
| | 2018 | | | | | | |
| | Carrying amount | | | Change in fair value used to calculate hedge ineffectiveness | Gain/(loss) recognised in OCI | Ineffectiveness gain/(loss) recognised in net trading income | Amount reclassified from reserves to income |
| | Notional \$million | Asset \$million | Liability \$million | \$million | \$million | \$million | \$million |
| Interest rate risk | | | | | | | |
| Interest rate swaps | 10,733 | 59 | 67 | 17 | 17 | – | (1) |
| Currency risk | | | | | | | |
| Forward foreign exchange contracts | 184 | – | 18 | 9 | 9 | – | – |
| Cross currency swaps | 2,701 | 57 | 22 | 57 | 57 | – | 8 |
| Total as at 31 December 2018 | 13,618 | 116 | 107 | 83 | 83 | – | 7 |

14. Derivative financial instruments continued

Hedged items in cash flow hedges

| | 2019 | | |
|--|---|-----------------------------------|--|
| | Change in fair value used for calculating hedge ineffectiveness \$million | Cash flow hedge reserve \$million | Cumulative balance in the cash flow hedge reserve from de-designated hedge relationships \$million |
| Customer accounts | 86 | (58) | (4) |
| Debt securities and other eligible bills | (3) | 1 | – |
| Loans and advances to customers | (28) | (10) | (4) |
| Forecast cashflow currency hedge | 40 | – | – |
| Intragroup lending currency hedge | (9) | (6) | – |
| Total as at 31 December 2019 | 86 | (73) | (8) |

| | 2018 | | |
|--|---|-----------------------------------|--|
| | Change in fair value used for calculating hedge ineffectiveness \$million | Cash flow hedge reserve \$million | Cumulative balance in the cash flow hedge reserve from de-designated hedge relationships \$million |
| Customer accounts | (66) | 18 | 33 |
| Debt securities and other eligible bills | (9) | (3) | (1) |
| Loans and advances to customers | (9) | (39) | (12) |
| Total as at 31 December 2018 | (84) | (24) | 20 |

Impact of cash flow hedges on profit and loss and other comprehensive income

| | 2019 Income/(expense) \$million | 2018 Income/(expense) \$million |
|---|---------------------------------------|---------------------------------------|
| Cash flow hedge reserve balance as at 1 January | (10) | (45) |
| (Loss)/gain recognised in other comprehensive income on effective portion of changes in fair value of hedging instruments | (64) | 34 |
| Gain transferred to net trading income on hedging instruments no longer in a hedging relationship | 10 | 8 |
| Gain/(loss) reclassified to income statement when hedged item affected net profit | 11 | (1) |
| Taxation charge relating to cash flow hedges | (6) | (6) |
| Cash flow hedge reserve balance as at 31 December | (59) | (10) |

14. Derivative financial instruments continued

Net investment hedges

Foreign currency exposures arise from investments in subsidiaries that have a different functional currency from that of the presentation currency of the Group. This risk arises from the fluctuation in spot exchange rates between the functional currency of the subsidiaries and the Group's presentation currency, which causes the value of the investment to vary.

The Group's policy is to hedge these exposures only when not doing so would be expected to have a significant impact on the regulatory ratios of the Group and its banking subsidiaries. The Group uses foreign exchange forwards to manage the effect of exchange rates on its net investments in foreign subsidiaries.

Hedging instruments and ineffectiveness

| | 2019 | | | | | | |
|---|--------------------|-----------------|---------------------|--|----------------------------------|--|---|
| | Carrying amount | | | Change in fair value used to calculate hedge ineffectiveness \$million | Gain recognised in OCI \$million | Ineffectiveness gain/(loss) recognised in net trading income \$million | Amount reclassified from reserves to income \$million |
| | Notional \$million | Asset \$million | Liability \$million | | | | |
| Forward foreign exchange contracts ¹ | 5,103 | 31 | 70 | 98 | 98 | – | – |
| 2018 | | | | | | | |
| | Carrying amount | | | Change in fair value used to calculate hedge ineffectiveness \$million | Gain recognised in OCI \$million | Ineffectiveness gain/(loss) recognised in net trading income \$million | Amount reclassified from reserves to income \$million |
| | Notional \$million | Asset \$million | Liability \$million | | | | |
| Forward foreign exchange contracts ¹ | 5,200 | 61 | 7 | 54 | 54 | – | – |

1 These derivative forward currency contracts have a maturity of less than one year. The hedges are rolled on a periodic basis

Hedged items in net investment hedges

| | 2019 | | | |
|-----------------|---|-------------------------------|--|--|
| | Change in fair value used for calculating hedge ineffectiveness \$million | Translation reserve \$million | Balances remaining in the translation reserve from de-designated hedge relationships \$million | |
| Net investments | (98) | 98 | – | |
| 2018 | | | | |
| | Change in fair value used for calculating hedge ineffectiveness \$million | Translation reserve \$million | Balances remaining in the translation reserve from de-designated hedge relationships \$million | |
| Net investments | (54) | 54 | – | |

Impact of net investment hedges on other comprehensive income

| | 2019 Income/(expense) \$million | 2018 Income/(expense) \$million |
|--|---------------------------------------|---------------------------------------|
| Gains recognised in other comprehensive income | 191 | 282 |

14. Derivative financial instruments continued

Maturity of hedging instruments

| | | | 2019 | | |
|---|-----------------------|--|---------------------|--|----------------------|
| | | | Less than one month | More than one month and less than one year | One to five years |
| Fair value hedges | | | | | More than five years |
| Interest rate swap | | | | | |
| Notional | \$million | | 433 | 12,032 | 46,229 |
| Average fixed interest rate | USD | | 2.78% | 2.50% | 2.47% |
| | | | | | 4.05% |
| Cross currency swap | | | | | |
| Notional | \$million | | 92 | 4,267 | 3,379 |
| Average fixed interest rate (to USD) | EUR | | – | 4.00% | 2.61% |
| | GBP | | – | 5.38% | 4.71% |
| | JPY | | (0.16)% | (0.17)% | – |
| Average exchange rate | EUR/USD | | – | 0.74 | 0.77 |
| | GBP/USD | | – | 0.55 | 0.63 |
| | JPY/USD | | 107.90 | 109.90 | – |
| | | | | | – |
| Cash flow hedges | | | | | |
| Interest rate swap | | | | | |
| Notional | \$million | | 193 | 4,440 | 3,891 |
| Average fixed interest rate | HKD | | 1.91% | 1.95% | 1.80% |
| | USD | | – | 2.72% | 1.65% |
| | | | | | 2.46% |
| Cross currency swap | | | | | |
| Notional | \$million | | 403 | 4,121 | 730 |
| Average fixed interest rate | CNY ¹ | | 3.22% | 3.49% | 3.94% |
| | HKD | | – | 2.52% | – |
| | INR ¹ | | – | 4.32% | 3.85% |
| | KRW ¹ | | – | 1.25% | – |
| Average exchange rate | CNY ¹ /USD | | 6.86 | 6.93 | 7.08 |
| | HKD/USD | | – | 7.84 | – |
| | INR ¹ /USD | | – | 69.43 | 68.85 |
| | KRW ¹ /USD | | – | 1,201.23 | – |
| Forward foreign exchange contracts | | | | | |
| Notional | \$million | | 196 | 93 | – |
| Average exchange rate | INR ¹ /USD | | 81.20 | – | – |
| | INR/USD | | 81.01 | – | – |
| | GBP/USD | | 0.80 | 0.79 | – |
| | | | | | – |
| Net investment hedges | | | | | |
| Foreign exchange derivatives | | | | | |
| Notional | \$million | | 5,103 | – | – |
| Average exchange rate | CNY/USD | | 6.90 | – | – |
| | KRW/USD | | 1,188.90 | – | – |
| | TWD/USD | | 30.56 | – | – |

1 Offshore currency

14. Derivative financial instruments continued

Maturity of hedging instruments continued

| | | | | 2018 | | | |
|--------------------------------------|-----------|-----------------------|----------|---------------------|--|-------------------|----------------------|
| | | | | Less than one month | More than one month and less than one year | One to five years | More than five years |
| Fair value hedges | | | | | | | |
| Interest rate swap | | | | | | | |
| Notional | \$million | | 323 | 15,692 | 40,698 | 6,962 | |
| Average fixed interest rate | | EUR | — | — | 0.38% | 1.16% | |
| | | GBP | 0.71% | 0.97% | 1.67% | 1.50% | |
| | | USD | 2.00% | 2.53% | 3.09% | 4.37% | |
| Cross currency swap | | | | | | | |
| Notional | \$million | | 1,030 | 1,451 | 4,550 | 1,932 | |
| Average fixed interest rate (to USD) | | EUR | 4.13% | — | 3.10% | 3.13% | |
| | | GBP | — | — | 5.44% | 4.69% | |
| | | JPY | — | (0.10)% | — | — | |
| Average exchange rate | | EUR/USD | 0.79 | — | 0.75 | 0.80 | |
| | | JPY/USD | — | 110.54 | — | — | |
| | | GBP/USD | — | — | 0.57 | 0.61 | |
| Cash flow hedges | | | | | | | |
| Interest rate swap | | | | | | | |
| Notional | \$million | | — | 6,549 | 2,811 | 1,373 | |
| Average fixed interest rate | | HKD | — | 1.92% | 2.64% | — | |
| | | USD | — | 2.62% | 1.86% | 2.42% | |
| Cross currency swap | | | | | | | |
| Notional | \$million | | 400 | 2,220 | 81 | — | |
| Average fixed interest rate | | CNY ¹ | 4.01% | 3.87% | — | — | |
| | | TWD | — | (0.45)% | — | — | |
| | | KRW | 1.10% | 1.70% | 0.89% | — | |
| Average exchange rate | | CNY ¹ /USD | 6.45 | 6.62 | — | — | |
| | | KRW ¹ /USD | 1,064.68 | 1,151.14 | 1,165.30 | — | |
| | | TWD ¹ /USD | — | 30.72 | — | — | |
| Foreign exchange derivatives | | | | | | | |
| Notional | \$million | | — | — | 184 | — | |
| Average exchange rate | | INR ¹ /USD | — | — | 81.20 | — | |
| | | INR/USD | — | — | 81.03 | — | |
| Net investment hedges | | | | | | | |
| Foreign exchange derivatives | | | | | | | |
| Notional | \$million | | 5,200 | — | — | — | |
| Average exchange rate | | CNY/USD | 6.72 | — | — | — | |
| | | INR/USD | 70.26 | — | — | — | |
| | | KRW/USD | 1,111.10 | — | — | — | |
| | | TWD/USD | 30.14 | — | — | — | |

¹ Offshore currency

14. Derivative financial instruments continued

Interest rate benchmark reform

As explained in Note 1 on page 262, the Group has early adopted the 'Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7' which allow the Group to assume that the interest rate benchmark on which cash flows for the hedged item and/or hedging instrument are based is altered as a result of IBOR reform for the following activities:

- Prospective hedge assessment
- Determining whether a cash flow or forecast transaction for a cash flow hedge is highly probable. However, the Group otherwise assesses whether the cash flows are considered highly probable
- Determining when cumulative balances in the cash flow hedge reserve from de-designated hedges should be recycled to the income statement

For retrospective hedge assessment, the Group will not de-designate a hedge relationship if the actual result is outside the required 80-125% range, but it can be demonstrated that this is solely caused by interest rate benchmark uncertainty and the hedge passes the prospective assessment. Any hedge ineffectiveness continues to be recorded in net trading income.

For hedges of non-contractually specified benchmark portions of an interest rate (such as fair value hedges of interest rate risk on fixed rate debt instruments) the Group only assesses whether the designated benchmark is separately identifiable at hedge inception. The choice of designated benchmark is not revisited for existing hedge relationships.

In applying these amendments the Group has made the following key assumptions for the period end, to be reviewed on an ongoing basis:

- The interest rate benchmarks applicable to the Group that are in scope of the IFRS amendments are USD LIBOR, GBP LIBOR, JPY LIBOR and Singapore Swap Offer Rate (SGD SOR), which is dependent on USD LIBOR and expected to be replaced by the Singapore Overnight Rate Average (SORA) for derivative financial instruments
- EURIBOR is not in scope of the IFRS amendments because its revised methodology incorporates market transaction data, hence the benchmark is expected to continue to exist in future reporting periods
- The Group believes it is too early to reliably estimate when interest rate benchmark uncertainty will be resolved for all benchmarks assumed to be in scope of the amendments. It therefore assumes that the uncertainty arising from interest rate benchmark reform will be present until 31 December 2021, at which time the amendments to IFRS no longer apply

The Group has established an IBOR Transition Programme that is overseen by the Group's Chief Operating Officer, and updates a number of committees including the Board Risk Committee and Group Risk Committee regularly updated. The programme comprises a series of business and function workstreams, with oversight and coordination of the specific areas and risks provided by a central project team. The key objectives of these workstreams include identifying all contracts in scope of benchmark reform, upgrading internal systems to support business in the alternative RFR product suite, identifying and communicating to customers with whom repricing and/or re-papering IBOR-referenced contracts is required and executing the necessary change in contracts. Workstreams actively participate in industry-wide working groups to ensure they are kept informed of the latest developments and are consistent with the approaches of other market participants.

As at 31 December 2019, the following populations of derivative instruments designated in fair value or cash flow hedge accounting relationships were linked to IBOR reference rates:

| | Fair value hedges | | Cash flow hedges | | | Weighted average exposure years |
|--|--|---|--|---|-----------------|---------------------------------|
| | Notional designated up to 31 December 2021 \$million | Notional designated beyond 31 December 2021 \$million | Notional designated up to 31 December 2021 \$million | Notional designated beyond 31 December 2021 \$million | Total \$million | |
| Interest rate swaps | | | | | | |
| USD LIBOR | 26,159 | 25,622 | 950 | 2,559 | 55,290 | 2.7 |
| GBP LIBOR | 613 | 4,049 | – | – | 4,662 | 5.5 |
| JPY LIBOR | 1,429 | 569 | – | – | 1,998 | 2.4 |
| SGD SOR | 563 | 132 | – | – | 695 | 1.7 |
| | 28,764 | 30,372 | 950 | 2,559 | 62,645 | 2.9 |
| Cross currency swaps | | | | | | |
| USD LIBOR vs Fixed rate foreign currency | 6,216 | 2,189 | – | – | 8,405 | 2.7 |
| Total notional of hedging instruments in scope of IFRS amendments | 34,980 | 32,561 | 950 | 2,559 | 71,050 | 2.9 |

The Group's primary exposure is to USD LIBOR due to the extent of fixed rate debt security assets and issued notes denominated in USD that are designated in fair value hedge relationships. Where fixed rate instruments are in other currencies, cross currency swaps are used to achieve an equivalent floating USD exposure.

15. Loans and advances to banks and customers

Accounting policy

Refer to Note 13 Financial instruments for the relevant accounting policy.

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| Loans and advances to banks | 53,558 | 61,420 |
| Expected credit loss | (9) | (6) |
| | 53,549 | 61,414 |
| | | |
| Loans and advances to customers | 274,306 | 262,985 |
| Expected credit loss | (5,783) | (6,428) |
| | 268,523 | 256,557 |
| Total loans and advances to banks and customers | 322,072 | 317,971 |

The Group has outstanding residential mortgage loans to Korea residents of \$17.8 billion (31 December 2018: \$16.9 billion) and Hong Kong residents of \$29.9 billion (31 December 2018: \$27.8 billion).

Analysis of loans and advances to customers by geographic region and client segments and related impairment provisions is set out within the Risk review and Capital review (pages 162).

16. 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, they 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 managed on a fair value basis or designated at fair value through profit or loss. In the majority of cases through the contractual terms of a reverse repo arrangement, the Group as the transferee of the security collateral has the right to sell or repledge the asset concerned.

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 either mandatorily classified as fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

Financial assets are pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. The Group is obliged to return equivalent securities.

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

| | 2019 \$million | 2018 \$million |
|-----------------------------------|-------------------|-------------------|
| Banks | 19,610 | 20,698 |
| Customers | 40,804 | 41,037 |
| | 60,414 | 61,735 |
| Of which: | | |
| Fair value through profit or loss | 57,604 | 54,769 |
| Banks | 18,269 | 16,883 |
| Customers | 39,335 | 37,886 |
| Held at amortised cost | 2,810 | 6,966 |
| Banks | 1,341 | 3,815 |
| Customers | 1,469 | 3,151 |

16. Reverse repurchase and repurchase agreements including other similar secured lending and borrowing continued

Reverse repurchase agreements and other similar secured lending continued

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:

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| Securities and collateral received (at fair value) | 86,308 | 84,557 |
| Securities and collateral which can be repledged or sold (at fair value) | 85,415 | 82,534 |
| Amounts repledged/transferred to others for financing activities, to satisfy liabilities under sale and repurchase agreements (at fair value) | 44,530 | 40,552 |

Repurchase agreements and other similar secured borrowing

| | 2019 \$million | 2018 \$million |
|-----------|-------------------|-------------------|
| Banks | 7,789 | 4,984 |
| Customers | 40,429 | 39,417 |
| | 48,218 | 44,401 |

Of which:

| | | |
|-----------------------------------|---------------|--------|
| Fair value through profit or loss | 46,283 | 43,000 |
| Banks | 7,401 | 4,777 |
| Customers | 38,882 | 38,223 |
| Held at amortised cost | 1,935 | 1,401 |
| Banks | 388 | 207 |
| Customers | 1,547 | 1,194 |

The tables below set out the financial assets provided as collateral for repurchase and other secured borrowing transactions:

| | 2019 | | | |
|--|--|---|-----------------------------|-----------------------------------|
| | Fair value through profit or loss \$million | Fair value through other comprehensive income \$million | Amortised cost \$million | Off-balance sheet \$million |
| Collateral pledged against repurchase agreements | | | | |
| On-balance sheet | | | | |
| Debt securities, alternative tier one and other eligible bills | 1,036 | 2,137 | 1,023 | – |
| As at 31 December 2019 | 1,036 | 2,137 | 1,023 | 44,530 |
| | 4,196 | | | |
| Off-balance sheet | | | | |
| Repledged collateral received | – | – | – | 44,530 |
| As at 31 December 2019 | 1,036 | 2,137 | 1,023 | 44,530 |
| | 48,726 | | | |

| | 2018 | | | |
|--|--|---|-----------------------------|-----------------------------------|
| | Fair value through profit or loss \$million | Fair value through other comprehensive income \$million | Amortised cost \$million | Off-balance sheet \$million |
| Collateral pledged against repurchase agreements | | | | |
| On-balance sheet | | | | |
| Debt securities, alternative tier one and other eligible bills | 2,060 | 1,974 | 49 | – |
| As at 31 December 2018 | 2,060 | 1,974 | 49 | 40,552 |
| | 4,083 | | | |
| Off-balance sheet | | | | |
| Repledged collateral received | – | – | – | 40,552 |
| As at 31 December 2018 | 2,060 | 1,974 | 49 | 44,635 |

17. 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 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 322).

Significant accounting estimates and judgements

The carrying amount of goodwill is based on the application of judgements including the basis of goodwill impairment calculation assumptions. Judgement is also applied in determination of cash generating units.

Estimates include forecasts used for determining cash flows for CGUs and discount rates which factor in country risk-free rates and applicable risk premiums. 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 is 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 that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (4 to 16 years). At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Internally generated software represents substantially all of the total software capitalised. 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 to five year time period. On an annual basis, software assets' residual values and useful lives are reviewed, including assessing for indicators of impairment. Indicators of impairment include loss of business relevance, obsolescence of asset, exit of the business to which the software relates, technological changes, change in use of the asset, reduction in useful life, plans to reduce usage or scope.

For capitalised software, judgement is required to determine which costs relate to research (and are therefore expensed) and which costs relate to development (capitalised). Further judgement is required to determine the technical feasibility of completing the software such that it will be available for use. Estimates are used to determine how the software will generate probable future economic benefits. These estimates include: cost savings, income increases, balance sheet improvements, improved functionality or improved asset safeguarding.

17. Goodwill and intangible assets continued

| | 2019 | | | | 2018 | | | |
|-----------------------------------|-----------------------|--------------------------------------|-----------------------------------|--------------------|-----------------------|--------------------------------------|-----------------------------------|--------------------|
| | Goodwill \$million | Acquired intangibles \$million | Computer software \$million | Total \$million | Goodwill \$million | Acquired intangibles \$million | Computer software \$million | Total \$million |
| Cost | | | | | | | | |
| At 1 January | 3,116 | 510 | 2,835 | 6,461 | 3,252 | 578 | 2,529 | 6,359 |
| Exchange translation differences | (10) | (5) | 26 | 11 | (105) | (24) | (67) | (196) |
| Additions | – | 1 | 753 | 754 | – | 1 | 695 | 696 |
| Disposals | – | (1) | (3) | (4) | – | – | – | – |
| Impairment | (27) | – | – | (27) | – | – | – | – |
| Amounts written off | – | (44) | (372) | (416) | – | (5) | (322) | (327) |
| Classified as held for sale | – | – | – | – | (31) | (40) | – | (71) |
| At 31 December | 3,079 | 461 | 3,239 | 6,779 | 3,116 | 510 | 2,835 | 6,461 |
| Provision for amortisation | | | | | | | | |
| At 1 January | – | 458 | 947 | 1,405 | – | 470 | 876 | 1,346 |
| Exchange translation differences | – | (5) | 6 | 1 | – | (22) | (21) | (43) |
| Amortisation | – | 9 | 436 | 445 | – | 10 | 363 | 373 |
| Impairment charge | – | – | 12 | 12 | – | – | 46 | 46 |
| Disposals | – | (1) | – | (1) | – | – | – | – |
| Amounts written off | – | (30) | (343) | (373) | – | – | (317) | (317) |
| At 31 December | – | 431 | 1,058 | 1,489 | – | 458 | 947 | 1,405 |
| Net book value | 3,079 | 30 | 2,181 | 5,290 | 3,116 | 52 | 1,888 | 5,056 |

At 31 December 2019, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to \$2,828 million (31 December 2018: \$2,801 million), of which \$27 million was recognised in 2019 (31 December 2018: nil).

Goodwill

CGU structure

During the year, the Group reviewed its CGU structure. In determining the level at which management monitor goodwill and level at which independent cash flows are generated, the Group determined that CIB as a global business segment should be a single CGU and combined the prior period Corporate Finance and Transaction Banking product level CGUs. As a result of the change, CIB and Private Banking are considered global CGUs which are managed on a Global basis, while Retail Banking, Commercial Banking, Central, including Treasury Market activities are managed on a country basis.

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 2024. The perpetuity terminal value amount is calculated using year five cash flows using long-term GDP growth rates. All cash flows are discounted using discount rates which reflect market rates appropriate to the CGU.

17. Goodwill and intangible assets continued

Goodwill continued

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.

| Cash generating unit | 2019 | | | restated 2018 | | |
|---|--------------------|--------------------------------|--|--------------------|--------------------------------|--|
| | Goodwill \$million | Pre-tax discount rate per cent | Long-term forecast GDP growth rates per cent | Goodwill \$million | Pre-tax discount rate per cent | Long-term forecast GDP growth rates per cent |
| Country CGUs | | | | | | |
| Greater China & North Asia | 900 | | | 887 | | |
| Hong Kong | 358 | 10.6 | 2.4 | 357 | 13.2 | 3.0 |
| Taiwan | 542 | 13.2 | 2.0 | 530 | 13.0 | 2.1 |
| Africa & Middle East | 512 | | | 520 | | |
| Pakistan | 188 | 31.4 | 4.0 | 194 | 22.8 | 3.4 |
| UAE | 204 | 8.5 | 2.5 | 204 | 9.0 | 3.3 |
| Others (5) ¹ | 120 | 8.9–16.6 | 2.5–4.9 | 122 | 10.6–19.0 | 2.6–5.3 |
| ASEAN & South Asia | 706 | | | 734 | | |
| India | 259 | 23.2 | 7.3 | 262 | 19.9 | 7.7 |
| Singapore | 342 | 12.2 | 1.9 | 339 | 15.9 | 2.7 |
| Others (6) ² | 105 | 13.8–17.3 | 3.3–7.3 | 133 | 15.4–20.5 | 4.4–7.0 |
| Global CGUs | 961 | | | 975 | | |
| Global Private Banking | 84 | 11.4 | 3.5 | 84 | 10.3 | 3.6 |
| Global Corporate & Institutional Banking ³ | 877 | 11.9 | 3.5 | 891 | 10.3 | 3.6 |
| | 3,079 | | | 3,116 | | |

1 Bahrain, Ghana, Jordan, Oman and Qatar

2 Bangladesh, Brunei, Indonesia, Nepal, Sri Lanka and Vietnam

3 Global Corporate Finance and Global Transaction Banking CGUs are now combined into a single Global Corporate & Institutional Banking CGU

Three country CGUs; Sri Lanka, Nepal and Oman have had all of the goodwill allocated to them written off, totalling \$27 million. This was a result of insufficient cash flows in the ViU calculation such that the carrying amount of each CGU, which included goodwill, was greater than the recoverable amount.

The Group has performed sensitivity analysis on the key assumptions for each CGU's recoverable amount. The following CGUs are considered sensitive to the key variables and any individual movements on the estimates (cashflow, discount rate and GDP growth rate) up to the levels disclosed below would eliminate the current headroom.

| | 2019 | | | | |
|----------|--------------------|--------------------|------------------------------|---------------------------------|----------------------------------|
| | Goodwill \$million | Headroom \$million | Cash flow reduction per cent | Discount rate increase per cent | GDP growth rate decline per cent |
| Taiwan | 542 | 63 | 4 | 1 | 1 |
| India | 259 | 11 | 1 | 1 | 1 |
| Pakistan | 188 | 16 | 6 | 1 | 2 |

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:

| | 2019 \$million | 2018 \$million |
|---------------------------------------|-------------------|-------------------|
| Acquired intangibles comprise: | | |
| Aircraft maintenance | 10 | 24 |
| Core deposits | 1 | 2 |
| Customer relationships | 12 | 19 |
| Licences | 7 | 7 |
| Net book value | 30 | 52 |

18. 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 of a right-of-use asset, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in Other liabilities, in accordance with the Group's leased assets accounting policy in Note 19.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

| | 2019 | | | | | |
|---|-----------------------|------------------------|--|--|---|--------------------|
| | Premises \$million | Equipment \$million | Operating lease assets \$million | Leased premises assets ³ \$million | Leased equipment assets ³ \$million | Total \$million |
| Cost or valuation | | | | | | |
| At 1 January | 2,070 | 766 | 6,323 | 1,408 | 13 | 10,580 |
| Exchange translation differences | (31) | (17) | (5) | (35) | – | (88) |
| Additions | 96 ¹ | 123 ¹ | 299 | 128 | 10 | 656 |
| Disposals and fully depreciated assets written off | (62) ² | (72) ² | (694) | (8) | – | (836) |
| Transfers to assets held for sale | (15) | – | (1,462) | – | – | (1,477) |
| As at 31 December | 2,058 | 800 | 4,461 | 1,493 | 23 | 8,835 |
| Depreciation | | | | | | |
| Accumulated at 1 January | 706 | 494 | 1,469 | – | 1 | 2,670 |
| Exchange translation differences | (7) | (10) | (5) | 7 | – | (15) |
| Charge for the year | 77 | 106 | 263 | 283 | 6 | 735 |
| Impairment (release)/charge | 1 | – | 121 | – | – | 122 |
| Attributable to assets sold, transferred or written off | (35) ² | (72) ² | (155) | (4) | – | (266) |
| Transfers to assets held for sale | (5) | – | (626) | – | – | (631) |
| Accumulated at 31 December | 737 | 518 | 1,067 | 286 | 7 | 2,615 |
| Net book amount at 31 December | 1,321 | 282 | 3,394 | 1,207 | 16 | 6,220 |

1 Refer to the cash flow statement under cash flows from investing activities section for the purchase of property, plant and equipment during the year of \$219 million on page 258

2 Disposals for property, plant and equipment during the year of \$119 million in the cash flow statement would include the gains and losses incurred as part of other operating income (Note 6) on disposal of assets during the year and the net book value disposed

3 Leased premises assets and leased equipment assets were newly recognised on 1 January 2019 due to the adoption of IFRS 16 Leases (refer to Note 1). The Group applied the modified retrospective transition approach, such that the right-of-use asset recognised equals the lease liability, adjusted for prepayments and accruals recognised under IAS 17 as of 31 December 2018

18. Property, plant and equipment continued

| | 2018 | | | |
|---|-----------------------|------------------------|--|--------------------|
| | Premises \$million | Equipment \$million | Operating lease assets \$million | Total \$million |
| Cost or valuation | | | | |
| At 1 January | 2,216 | 767 | 7,000 | 9,983 |
| Exchange translation differences | (80) | (38) | (8) | (126) |
| Additions | 46 ¹ | 125 ¹ | 866 | 1,037 |
| Disposals and fully depreciated assets written off | (92) ² | (87) ² | (1,244) | (1,423) |
| Transfers to assets held for sale | (20) | (1) | (291) | (312) |
| As at 31 December | 2,070 | 766 | 6,323 | 9,159 |
| Depreciation | | | | |
| Accumulated at 1 January | 753 | 513 | 1,506 | 2,772 |
| Exchange translation differences | (25) | (26) | (9) | (60) |
| Charge for the year | 86 | 94 | 304 | 484 |
| Impairment (release)/charge | (5) | — | 155 | 150 |
| Attributable to assets sold, transferred or written off | (91) ² | (86) ² | (358) | (535) |
| Transfers to assets held for sale | (12) | (1) | (129) | (142) |
| Accumulated at 31 December | 706 | 494 | 1,469 | 2,669 |
| Net book amount at 31 December | 1,364 | 272 | 4,854 | 6,490 |

1 Refer to the cash flow statement under cash flows from investing activities section for the purchase of property, plant and equipment during the year of \$171 million on page 258

2 Disposals for property, plant and equipment during the year of \$85 million in the cash flow statement would include the gains and losses incurred as part of other operating income (Note 6) on disposal of assets during the year and the net book value disposed

Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft which is included within property, plant and equipment. The leases are classified as operating leases as they do not transfer substantially all the risks and rewards incidental to the ownership of the assets, and rental income from operating lease assets is disclosed in Note 6. At 31 December 2019, these assets had a net book value of \$3,394 million (31 December 2018: \$4,854 million).

| | 2019 | 2018 |
|---------------------|---|---|
| | Minimum lease receivables under operating leases falling due: \$million | Minimum lease receivables under operating leases falling due: \$million |
| Within one year | 473 | 527 |
| One to two years | 451 | 499 |
| Two to three years | 403 | 467 |
| Three to four years | 337 | 405 |
| Four to five years | 82 | 341 |
| After five years | 789 | 997 |
| | 2,535 | 3,236 |

19. Leased assets

Accounting policy

The Group assesses whether a contract is a lease in scope of this policy by determining whether the contract gives it the right to use a specified underlying physical asset for a lease term greater than 12 months, unless the underlying asset is of low value.

Where the Group is a lessee and the lease is deemed in scope, it recognises a liability equal to the present value of lease payments over the lease term, discounted using the incremental borrowing rate applicable in the economic environment of the lease. The liability is recognised in 'Other liabilities'. A corresponding right-of-use asset equal to the liability, adjusted for any lease payments made at or before the commencement date, is recognised in 'Property, plant and equipment'. The lease term includes any extension options contained in the contract that the Group is reasonably certain it will exercise.

The Group subsequently depreciates the right-of-use asset using the straight-line method over the lease term and measures the lease liability using the effective interest method. Depreciation on the asset is recognised in 'Depreciation and amortisation', and interest on the lease liability is recognised in 'Interest expense'.

The judgements in determining lease balances are the determination of whether the Group is reasonably certain that it will exercise extension options present in lease contracts. On initial recognition, the Group considers a range of characteristics such as premises function, regional trends and the term remaining on the lease to determine whether it is reasonably certain that a contractual right to extend a lease will be exercised. Where a change in assumption is confirmed by the local property management team, a remeasurement is performed in the Group-managed vendor system.

The estimates were the determination of incremental borrowing rates in the respective economic environments. The Group uses third party broker quotes to estimate its USD cost of senior unsecured borrowing, then uses cross currency swap pricing information to determine the equivalent cost of borrowing in other currencies. Quotes from different brokers are compared to ensure they are reflective of prevailing market conditions.

Prior period information is not restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations in which the Group as lessee recognised lease payments in operating expenses on a straight-line basis and disclosed future minimum lease payments. The difference between operating lease commitments of \$907 million disclosed in the Group's 2018 Annual Report and newly recognised lease liabilities of \$1,421 million on 1 January 2019 is driven by different requirements between the old and new standard on which expected cash flows to include. IFRS 16 requires the lease term used to measure lease liabilities to include "reasonably certain" renewal options, whereas previously IAS 17 required disclosure of "non-cancellable" lease commitments. The consequences of this are:

- Under IFRS 16, for some leases the Group includes lease renewal options which it is reasonably certain will be exercised in the measurement of lease liabilities. The cash flows associated with renewal options were not included in the previous operating lease commitment disclosures
- In certain jurisdictions, the Group has a unilateral right to cancel building leases with notice of fewer than three months without incurring a significant financial penalty. In previous disclosures, the Group would exclude cash flows beyond the non-cancellable period as permitted under IAS 17, but under IFRS 16 the Group would only exclude these cashflows from lease measurement if it was reasonably certain the termination clause would be exercised

Existing lease liabilities may change in future periods due to changes in assumptions or decisions to exercise lease renewal or termination options, changes in payments due to renegotiations of market rental rates as permitted by those contracts and changes to payments due to rent being contractually linked to an inflation index. In general the remeasurement of a lease liability under these circumstances leads to an equal change to the right-of-use asset balance, with no immediate effect on the income statement.

The total cash outflow during the year for premises and equipment leases was \$397 million.

The total expense during the year in respect of leases with a term less than or equal to 12 months was \$20 million.

The right-of-use asset balances and depreciation charges are disclosed in Note 18. The lease liability balances are disclosed in Note 23 and the interest expense on lease liabilities is disclosed in Note 3.

Maturity analysis

The maturity profile for lease liabilities associated with leased premises and equipment assets is as follows:

| | One year or less \$million | Between one year and two years \$million | Between two years and five years \$million | More than five years \$million | Total \$million |
|---------------------------------------|----------------------------------|---|---|--------------------------------------|--------------------|
| Other liabilities – lease liabilities | 24 | 53 | 326 | 892 | 1,295 |

20. Other assets

Accounting policy

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.

Other assets include:

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| Financial assets held at amortised cost (Note 13) | | |
| Hong Kong SAR Government certificates of indebtedness (Note 23) ¹ | 6,911 | 5,964 |
| Cash collateral | 9,169 | 10,323 |
| Acceptances and endorsements ² | 5,518 | 4,923 |
| Unsettled trades and other financial assets | 14,563 | 11,468 |
| | 36,161 | 32,678 |
| Non-financial assets: | | |
| Commodities ³ | 5,465 | 2,488 |
| Other assets | 396 | 235 |
| | 42,022 | 35,401 |

1 The Hong Kong SAR Government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued

2 Trade finance whereby the Group offers a guarantee of payment between trade counterparties for a fee

3 Commodities are carried at fair value and classified as Level 2

21. Assets held for sale and associated liabilities

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 IFRS 9 Financial Instruments. Refer to Note 13 Financial instruments for the relevant accounting policy.

Non-current assets 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 immediate 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 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 2020.

Following a decision by the Board of directors to exit the ship leasing business within CIB, the shipping portfolio has been moved to held for sale.

The financial assets reported below are classified under Level 1 \$70 million (31 December 2018: \$82 million), Level 2 nil (31 December 2018: \$14 million) and Level 3 \$260 million (31 December 2018: \$791 million).

21. Assets held for sale and associated liabilities continued

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| Assets held for sale | | |
| Debt securities | — | 14 |
| Equity shares | 330 | 873 |
| Financial assets held at fair value through profit or loss ¹ | 330 | 887 |
| | | |
| Loans and advances to banks | — | 112 |
| Loans and advances to customers | 32 | 23 |
| Debt securities held at amortised cost | 58 | — |
| Financial assets held at amortised cost | 90 | 135 |
| | | |
| Interests in joint venture | 800 | — |
| Goodwill and intangible assets | — | 71 |
| Property, plant and equipment ² | 833 | 170 |
| Others | — | 65 |
| | 2,053 | 1,328 |

1 Principal Finance assets of \$330 million (31 December 2018: \$887 million), classified as financial assets held at fair value through profit or loss is expected to be disposed of by the end of 2020

2 Aircraft classified as held for sale by Pembroke Air Leasing Finance \$50 million (31 December 2018: \$162 million) and vessels classified as held for sale \$769 million (31 December 2018: Nil) totalling to \$819 million is included within property, plant and equipment

Interests in joint venture

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| As at 1 January | 717 | 775 |
| Exchange translation difference | 32 | (49) |
| Expected credit loss, net ¹ | — | (33) |
| Share of profit | 48 | 26 |
| Share of FVOCI and other reserves | 3 | (2) |
| As at 31 December | 800 | 717 |

1 IFRS 9 transition impact from joint venture is reported here

The Group's principal joint venture is PT Bank Permata Tbk (Permata). The Group has a 44.56 per cent (31 December 2018: 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 consumer and commercial banking clients. The Group's share of profit of Permata amounts to \$48 million (31 December 2018: \$26 million) and the Group's share of net assets was \$800 million (31 December 2018: \$717 million). Permata is listed on the Indonesia Stock Exchange with a share price of IDR1265 as at 30 December 2019, resulting in a share capitalisation value of the Group's investment of \$1,140 million.

21. Assets held for sale and associated liabilities continued

Interests in joint venture continued

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:

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| Cash and balances at central banks | 749 | 766 |
| Loans and advances to banks | 1,281 | 929 |
| Loans and advances to customers | 7,621 | 6,862 |
| Other assets | 1,780 | 1,882 |
| Total Assets | 11,431 | 10,439 |
| Deposits by banks | 557 | 171 |
| Customer accounts | 8,886 | 8,171 |
| Other financial liabilities | 6 | 8 |
| Other liabilities | 436 | 648 |
| Total liabilities | 9,885 | 8,998 |
| Total Equity | 1,546 | 1,441 |
| Operating income | 550 | 517 |
| Of which: | | |
| Interest income | 830 | 779 |
| Interest expense | (426) | (399) |
| Expenses | (333) | (312) |
| Of which: | | |
| Depreciation and amortisation | (13) | (5) |
| Impairment | (72) | (117) |
| Operating profit | 145 | 88 |
| Taxation | (37) | (23) |
| Profit after tax | 108 | 65 |
| The financial statements of PT Bank Permata Tbk includes the following: | | |
| Other comprehensive profit/(loss) for the year | 6 | (8) |
| Total comprehensive income for the year | 114 | 57 |

Dividends received from PT Bank Permata Tbk were nil (2018: nil).

Reconciliation of the net assets above to the carrying amount of the investments in PT Bank Permata Tbk recognised in the consolidated financial statements:

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| Net assets of PT Bank Permata Tbk | 1,546 | 1,441 |
| Proportion of the Group's ownership interest in joint ventures | 688 | 642 |
| Notional goodwill | 112 | 108 |
| Other adjustments ¹ | – | (33) |
| Carrying amount of the Group's interest in PT Bank Permata Tbk | 800 | 717 |

1 Relates to IFRS 9 transition adjustments

In December 2019 the Group signed a conditional share purchase agreement to sell their 44.56 per cent equity interest in Permata, subject to regulatory and purchaser shareholder approvals. The purchase price will be 1.77 times Permata's Book Value based on the most recent financial results published prior to completion. The estimated consideration payable to SCB in cash is approximately \$1.3 billion. Upon completion of the transaction, SCB will cease to have any equity interest in Permata. The Group has classified its interest in the joint venture as held for sale.

21. Assets held for sale and associated liabilities continued

Liabilities held for sale

As at 31 December 2019, there were no held for sale financial liabilities associated with the Principal Finance business (31 December 2018: \$198 million).

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| Derivative financial instruments | — | 198 ¹ |
| Financial liabilities held at fair value through profit or loss | — | 198 |
| Other liabilities | 9 | 48 |
| Provisions for liabilities and charges | — | 1 |
| | 9 | 247 |

1 The derivative liability was a fixed price forward sale contract to sell the Principal Finance assets, which settled during 2019

22. Debt securities in issue

Accounting policy

Refer to Note 13 Financial instruments for the relevant accounting policy.

| | 2019 | | | 2018 | | |
|---|---|---|--------------------|---|---|--------------------|
| | 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 | 22,242 | 30,783 | 53,025 | 20,949 | 25,505 | 46,454 |
| Debt securities in issue included within: | | | | | | |
| Financial liabilities held at fair value through profit or loss (Note 13) | — | 8,510 | 8,510 | — | 7,405 | 7,405 |
| Total debt securities in issue | 22,242 | 39,293 | 61,535 | 20,949 | 32,910 | 53,859 |

In 2019, the Company issued a total of \$6.1 billion senior notes for general business purposes of the Group as shown below:

| Securities | \$million |
|--|--------------|
| \$1,500 million callable floating rate senior notes due 2022 (callable 2021) | 1,500 |
| \$1,250 million callable fixed rate senior notes due 2022 (callable 2021) | 1,250 |
| \$1,000 million callable fixed rate senior notes due 2025 (callable 2024) | 1,000 |
| \$1,000 million callable fixed rate senior notes due 2030 (callable 2029) | 1,000 |
| EUR 500 million callable fixed rate senior notes due 2027 (callable 2026) | 567 |
| AUD 600 million callable fixed rate senior notes due 2025 (callable 2024) | 417 |
| AUD 400 million callable fixed rate senior notes due 2025 (callable 2024) | 278 |
| \$100 million zero coupon callable bond due 2049 (callable 2024) | 100 |
| Total senior notes issued | 6,112 |

In 2018, the Company issued a total of \$4.6 billion senior notes for general business purposes of the Group as shown below:

| Securities | \$million |
|--|--------------|
| \$1,400 million callable fixed rate senior notes due 2023 (callable 2022) | 1,400 |
| \$1,250 million callable fixed rate senior notes due 2024 (callable 2023) | 1,250 |
| JPY 111 billion callable fixed rate senior notes due 2024 (callable 2023) | 1,011 |
| \$600 million callable floating rate senior notes due 2024 (callable 2023) | 600 |
| JPY 18.9 billion fixed rate senior notes due 2025 | 172 |
| \$28 million fixed rate senior notes due 2026 | 28 |
| JPY 10 billion callable fixed rate senior notes due 2029 (callable 2028) | 91 |
| Total senior notes issued | 4,552 |

Where a debt instrument is callable, the issuer has the right to call.

23. Other liabilities

Accounting policy

Refer to Note 13 Financial instruments for the relevant accounting policy for financial liabilities, Note 19 Leased assets for the accounting policy for leases and Note 31 Share-based payments for the accounting policy for cash-settled share-based payments.

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| Financial liabilities held at amortised cost (Note 13) | | |
| Notes in circulation ¹ | 6,911 | 5,964 |
| Acceptances and endorsements ² | 5,518 | 4,923 |
| Cash collateral | 7,824 | 9,259 |
| Property leases ³ | 1,275 | – |
| Equipment leases ³ | 20 | – |
| Unsettled trades and other financial liabilities | 19,601 | 17,799 |
| | 41,149 | 37,945 |
| Non-financial liabilities | | |
| Cash-settled share-based payments | 50 | 32 |
| Other liabilities | 384 | 332 |
| | 41,583 | 38,309 |

1 Hong Kong currency notes in circulation of \$6,911 million (31 December 2018: \$5,964 million) that are secured by the Government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (Note 20)

2 Trade finance whereby the Group offers a guarantee of payment between trade counterparties for a fee

3 Other financial liabilities now include the present value of lease liabilities, as required by IFRS 16 from 1 January 2019, refer to Note 19

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.

Estimates include the best estimate of the probability of outflow of economic resources, cost of settling a provision and timing of settlement. Judgements are required for inherently uncertain areas such as legal decisions (including external advice obtained), and outcome of regulator reviews.

| | 2019 | | | 2018 | | |
|----------------------------------|---|----------------------------------|--------------------|---|----------------------------------|--------------------|
| | Provision for credit commitments \$million | Other provisions \$million | Total \$million | Provision for credit commitments \$million | Other provisions \$million | Total \$million |
| At 1 January | 281 | 1,049 | 1,330 | 259 | 100 | 359 |
| Exchange translation differences | 5 | 4 | 9 | (9) | (1) | (10) |
| Transfer | – | – | – | – | 39 | 39 |
| Charge against profit | 35 | 239 | 274 | 39 | 956 | 995 |
| Provisions utilised | (4) | (1,160) | (1,164) | (8) | (45) | (53) |
| At 31 December | 317 | 132 | 449 | 281 | 1,049 | 1,330 |

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 consist mainly of provisions for regulatory settlements and legal claims, the nature of which are described in Note 26 (page 332).

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. Commitments and contingent liabilities are generally considered on demand as the Group may have to honour them, or client may draw down at any time.

Capital commitments are contractual commitments the Group has entered into to purchase non-financial assets.

The table below shows the contract or underlying principal 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.

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| Contingent liabilities | | |
| Guarantees and irrevocable letters of credit | 37,007 | 36,511 |
| Other contingent liabilities | 5,425 | 5,441 |
| | 42,432 | 41,952 |
| Commitments | | |
| Documentary credits and short-term trade-related transactions | 4,282 | 3,982 |
| Undrawn formal standby facilities, credit lines and other commitments to lend | | |
| One year and over | 64,450 | 71,467 |
| Less than one year | 34,925 | 37,041 |
| Unconditionally cancellable | 41,819 | 39,220 |
| | 145,476 | 151,710 |
| Capital commitments | | |
| Contracted capital expenditure approved by the directors but not provided for in these accounts ¹ | 419 | 450 |

1 Of which the Group has commitments totalling \$400 million to purchase aircraft for delivery in 2020 (31 December 2018: \$439 million). No pre-delivery payments have been made in respect of these commitments (2018: \$5 million)

The Group's share of contingent liabilities and commitments relating to joint ventures is \$251 million (31 December 2018: \$205 million). 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. These uncertainties also mean that it is not possible to give an aggregate estimate of contingent liabilities arising from such legal and regulatory matters.

Claims and other proceedings

The Group receives legal claims against it in a number of jurisdictions and is subject to regulatory and enforcement investigations and proceedings from time to time.

Apart from the matters described below, the Group currently considers none of these claims, investigations or proceedings to be material. However, in light of the uncertainties involved in such matters there can be no assurance that the outcome of a particular matter or matters currently not considered to be material may not ultimately be material to the Group's results in a particular reporting period depending on, among other things, the amount of the loss resulting from the matter(s) and the results otherwise reported for such period.

Investigations into, and resolutions with respect to, historical sanctions and financial crime control issues

In April 2019, the Group announced that it had resolved the previously disclosed investigations by (i) the New York Department of Financial Services (NYDFS), the Board of Governors of the Federal Reserve System, the Department of Justice (DOJ), the New York County District Attorney's Office (DANY) and the Office of Foreign Assets Control (together the 'US Authorities') concerning historical violations of US sanctions laws and regulations from 2007 through to 2014 and (ii) the Financial Conduct Authority (FCA) concerning the effectiveness and governance of historical financial crime controls in the Group's UK correspondent banking business and in its UAE branches (the 2019 Resolutions). Under the terms of the 2019 Resolutions, the Group agreed to pay a total of \$947 million in monetary penalties to the US Authorities and £102 million to the FCA. As part of the 2019 Resolutions, the Group's Deferred Prosecution Agreements, which were originally entered into with the DOJ and DANY (and subsequently extended) as part of settlements in 2012 with the US Authorities relating to US sanctions compliance, were further extended to 9 April 2021. The monitorship previously imposed by the DOJ expired on 31 March 2019. As of 31 December 2019, the term of the independent consultant appointed by the NYDFS terminated and the business restrictions previously imposed by the NYDFS are no longer in effect.

Other proceedings

Since November 2014, a number of lawsuits have been filed in the United States District Courts for the Southern and Eastern Districts of New York against a number of banks (including Standard Chartered Bank) on behalf of plaintiffs who are, or are relatives of, victims of various terrorist attacks in Iraq. Five of the lawsuits were filed in late December 2018. The plaintiffs allege that the defendant banks aided and abetted the unlawful conduct of US sanctioned parties in breach of the US Anti-Terrorism Act. In March and September 2019, the New York District Courts ruled in favour of the banks' motion to dismiss two lawsuits. Following those rulings, in one lawsuit the plaintiffs are seeking to amend their complaint, and in the other the plaintiffs have filed an appeal against the dismissal. Two other lawsuits will likely join in that appeal and the remaining lawsuits are still at an early procedural stage. Based on the facts currently known, it is not possible for the Group to predict the outcome of these lawsuits.

In January 2020, a shareholder derivative complaint was filed by the City of Philadelphia in the New York State Court against 45 current and former directors and senior officers of the Group. The complaint purports to be brought on behalf of all shareholders of Standard Chartered PLC (SC PLC). It is alleged that the individuals breached their duties to the Group and caused a waste of corporate assets by permitting the conduct that gave rise to the costs and losses to the Group of the 2019 Resolutions. SC PLC, Standard Chartered Holdings Limited and Standard Chartered Bank are each named as "nominal defendants" in the complaint. The case is at a very early stage, as the complaint is yet to be served.

In February 2019, the Kenyan Director of Public Prosecutions (DPP) and related agencies in Kenya commenced an investigation into five banks, including Standard Chartered Bank Kenya Limited (SCBK), in connection with the alleged theft of funds from Kenya's National Youth Service. This investigation followed fines imposed on the banks, including SCKB, by the Central Bank of Kenya regarding adequacy of controls related to the processing of the allegedly stolen funds. Following the investigation, the DPP announced that it had received recommendations from the Kenyan Directorate of Criminal Investigations that charges should be brought against the five banks, plus bank officials and other individuals. In December 2019, SCKB agreed a settlement of this matter with the DPP. Under the terms of SCKB's settlement, the DPP agreed to defer prosecution against both SCKB and any persons affiliated with SCKB and the DPP imposed a penalty of KES100 million (\$964,000) on SCKB.

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. Where a debt instrument is callable, the issuer has the right to call.

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| Subordinated loan capital – issued by subsidiary undertakings | | |
| £675 million 5.375 per cent undated step up subordinated notes (callable 2020) ¹ | 298 | 296 |
| £200 million 7.75 per cent subordinated notes (callable 2022) ¹ | 53 | 53 |
| \$750 million 5.875 per cent subordinated notes due 2020 ² | 754 | 754 |
| \$700 million 8.0 per cent subordinated notes due 2031 ¹ | 429 | 405 |
| BWP 127.26 million 8.2 per cent subordinated notes 2022 ³ | – | 12 |
| BWP 70 million floating rate subordinated notes 2021 ³ | – | 7 |
| BWP 50 million floating rate notes 2022 ³ | – | 5 |
| | 1,534 | 1,532 |
| Subordinated loan capital – issued by the Company⁴ | | |
| Primary capital floating rate notes: | | |
| \$400 million floating rate undated subordinated notes | 16 | 16 |
| \$300 million floating rate undated subordinated notes (Series 2) | 69 | 69 |
| \$400 million floating rate undated subordinated notes (Series 3) | 50 | 50 |
| \$200 million floating rate undated subordinated notes (Series 4) | 26 | 26 |
| £150 million floating rate undated subordinated notes | 16 | 15 |
| £900 million 5.125 per cent subordinated notes due 2034 | 855 | 797 |
| \$2 billion 5.7 per cent subordinated notes due 2044 | 2,379 | 2,387 |
| \$2 billion 3.95 per cent subordinated notes due 2023 | 2,009 | 1,941 |
| \$1 billion 5.7 per cent subordinated notes due 2022 | 1,002 | 1,003 |
| \$1 billion 5.2 per cent subordinated notes due 2024 | 1,069 | 1,001 |
| \$750 million 5.3 per cent subordinated notes due 2043 | 786 | 787 |
| €1.25 billion 4 per cent subordinated notes due 2025 (callable 2020) | 1,421 | 1,472 |
| €750 million 3.625 per cent subordinated notes due 2022 | 884 | 907 |
| €500 million 3.125 per cent subordinated notes due 2024 | 585 | 587 |
| SGD 700 million 4.4 per cent subordinated notes due 2026 (callable 2021) | 525 | 516 |
| \$1.25 billion 4.3 per cent subordinated notes due 2027 | 1,214 | 1,129 |
| \$1 billion 3.516 per cent subordinated notes due 2030 (callable 2025) | 996 | – |
| \$500 million 4.886 per cent subordinated notes due 2033 (callable 2028) | 499 | 498 |
| Other subordinated borrowings – issued by Company ⁵ | 272 | 268 |
| | 14,673 | 13,469 |
| Total | 16,207 | 15,001 |

1 Issued by Standard Chartered Bank

2 Issued by Standard Chartered Bank (Hong Kong) Limited

3 Issued by Standard Chartered Bank Botswana Limited

4 In the balance sheet of the Company, the amount recognised is \$14,588 million (2018: \$13,436 million), with the difference being the effect of hedge accounting achieved on a Group basis

5 Other subordinated borrowings includes irredeemable preference shares which are classified as debt

27. Subordinated liabilities and other borrowed funds continued

| | 2019 | | | | |
|---------------------------------|------------------|------------------|------------------|---------------------|--------------------|
| | USD \$million | GBP \$million | EUR \$million | Others \$million | Total \$million |
| Fixed rate subordinated debt | 11,137 | 1,478 | 2,890 | 525 | 16,030 |
| Floating rate subordinated debt | 161 | 16 | — | — | 177 |
| Total | 11,298 | 1,494 | 2,890 | 525 | 16,207 |

| | 2018 | | | | |
|---------------------------------|------------------|------------------|------------------|---------------------|--------------------|
| | USD \$million | GBP \$million | EUR \$million | Others \$million | Total \$million |
| Fixed rate subordinated debt | 9,905 | 1,414 | 2,966 | 528 | 14,813 |
| Floating rate subordinated debt | 161 | 15 | — | 12 | 188 |
| Total | 10,066 | 1,429 | 2,966 | 540 | 15,001 |

Redemptions and repurchases during the year

On 27 June 2019, Standard Chartered Bank Botswana Limited exercised its right to redeem BWP 127.26 million 8.2 per cent subordinated notes 2022 (callable 2017).

On 27 March 2019, Standard Chartered Bank Botswana Limited exercised its right to redeem BWP 50 million floating rate notes 2022 (callable 2017).

On 12 February 2019, Standard Chartered Bank Botswana Limited exercised its right to redeem BWP 70 million floating rate subordinated notes 2021 (callable 2016).

Issuance during the year

On 12 November 2019, Standard Chartered PLC issued \$1 billion 3.516 per cent subordinated debt 2030 (callable 2025).

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.

| | Number of ordinary shares millions | Ordinary share capital ¹ \$million | Ordinary share premium \$million | Preference share premium ² \$million | Total share capital and share premium \$million | Other equity instruments \$million |
|---|------------------------------------|---|----------------------------------|---|---|------------------------------------|
| At 1 January 2018 | 3,296 | 1,648 | 3,955 | 1,494 | 7,097 | 4,961 |
| Capitalised on scrip dividend | 2 | 1 | (1) | — | — | — |
| Shares issued | 10 | 5 | 9 | — | 14 | — |
| At 31 December 2018 | 3,308 | 1,654 | 3,963 | 1,494 | 7,111 | 4,961 |
| Shares issued | 4 | 2 | 23 | — | 25 | 552 |
| Cancellation of shares including share buy-back | (116) | (58) | — | — | (58) | — |
| At 31 December 2019 | 3,196 | 1,598 | 3,986 | 1,494 | 7,078 | 5,513 |

1 Issued and fully paid ordinary shares of 50 cents each

2 Includes preference share capital of \$75,000

28. Share capital, other equity instruments and reserves continued

Share buy-back

On 1 May 2019, the Group commenced a share buy-back of its ordinary shares of \$0.50 each up to a maximum consideration of \$1 billion. This was completed on 25 September 2019.

The buy-back reduced the number of outstanding ordinary shares and was debited against the Group's retained earnings. Further, the nominal value of the shares was transferred from the share capital to the Capital Redemption Reserve account within equity. The Group repurchased 116,103,483 ordinary shares for an aggregate consideration of approximately \$1 billion at a volume-weighted average price of 686.3p per ordinary share. The nominal value of ordinary shares purchased during the buy-back was \$58 million. The shares were subsequently cancelled, reducing the total issued share capital by 3.5 per cent.

| Month | Number of ordinary shares | Highest price paid per share £ | Lowest price paid per share £ | Average price paid per share £ | Average GBP USD FX rate per share | Aggregate price paid \$ |
|------------------------|---------------------------|--------------------------------|-------------------------------|--------------------------------|-----------------------------------|--------------------------|
| Share buy-back of 2019 | | | | | | |
| May – 2019 | 27,546,739 | 7.1740 | 6.6160 | 6.8586 | 1.2821 | 242,225,052 |
| Jun – 2019 | 27,338,417 | 7.1580 | 6.6960 | 6.9581 | 1.2678 | 241,168,240 |
| Jul – 2019 | 32,126,639 | 7.4260 | 6.8200 | 7.1412 | 1.2474 | 286,175,164 |
| Aug – 2019 | 18,022,387 | 7.0980 | 5.9840 | 6.3264 | 1.2151 | 138,541,855 |
| Sep – 2019 | 11,069,301 | 7.0400 | 6.2320 | 6.7076 | 1.2375 | 91,881,038 |
| | 116,103,483 | | | | | 999,991,349 ¹ |

¹ The aggregate price paid in pounds sterling was GBP 796,844,949

The above excludes \$6m transaction costs which were taken against equity

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 period 3,368,576 shares were issued under employee share plans at prices between nil and 620 pence.

Preference share capital

At 31 December 2019, 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 payable (on approval of the board) 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 \$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 \$1,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising \$992 million after issue costs. On 3 July 2019, Standard Chartered PLC issued SGD 750 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising \$552 million after issue costs. All issuances are 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 up to (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

28. Share capital, other equity instruments and reserves continued

Other equity instruments continued

- The interest rate in respect of the securities issued on 3 July 2019 for the period from (and including) the issue date to (but excluding) 3 October 2024 is a fixed rate of 5.375 per cent per annum. The first reset date for the interest rate is 3 October 2024 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest on each of the USD securities will be payable semi-annually in arrears on 2 April and 2 October in each year, accounted for as a dividend. The interest on the SGD security will be payable semi-annually in arrears on 3 April and 3 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 predetermined price detailed in the table below, should the fully loaded Common Equity Tier 1 ratio of the Group fall below 7.0 per cent. Approximately 641 million ordinary shares would be required to satisfy the conversion of all the securities mentioned above

| Issuance date | Nominal value | Conversion price per ordinary share |
|-----------------|-------------------|-------------------------------------|
| 2 April 2015 | USD 2,000 million | USD 10.865 |
| 18 August 2016 | USD 2,000 million | USD 7.732 |
| 18 January 2017 | USD 1,000 million | USD 7.732 |
| 3 July 2019 | SGD 750 million | SGD 10.909 |

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, primarily for capital maintenance requirements and for the shares issued in 2009 by way of an accelerated book build, the proceeds of which were used in the ordinary course of business of the Group. The funding raised by the 2008, 2010 and 2015 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. 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
- Fair value through other comprehensive income (FVOCI) debt reserve represents the unrealised fair value gains and losses in respect of financial assets classified as FVOCI, net of expected credit losses and 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. FVOCI equity reserve represents unrealised fair value gains and losses in respect of financial assets classified as FVOCI, net of taxation. Gains and losses are recorded in this reserve and never recycled to the income statement
- 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, own shares held (treasury shares) and share buy-backs

A substantial part of the Group's reserves is 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 2019, the distributable reserves of Standard Chartered PLC (the Company) were \$14.3 billion (31 December 2018: \$15.1 billion). These comprised retained earnings and \$12.5 billion of the merger reserve account. Distribution of reserves is subject to maintaining minimum capital requirements.

28. Share capital, other equity instruments and reserves continued

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.

| Number of shares | 1995 Trust | | 2004 Trust | | Total | |
|---|----------------|-----------|-------------------|--------|-------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Shares purchased during the year | 646,283 | 1,017,941 | 24,065,354 | – | 24,711,637 | 1,017,941 |
| Market price of shares purchased (\$million) | 5 | 8 | 201 | – | 206 | 8 |
| Shares held at the end of the year | – | 2,354,820 | 5,113,455 | 16,755 | 5,113,455 | 2,371,575 |
| Maximum number of shares held during the year | | | | | 15,070,923 | 3,787,015 |

Changes in share capital and other equity instruments of Standard Chartered PLC subsidiaries

The table below details the transactions in equity instruments (including convertible and hybrid instruments) of the Group's subsidiaries, including issuances, conversions, redemptions, purchase or cancellation. This is required under the Hong Kong Listing requirements, appendix 16 paragraph 10.

Subsidiary Undertakings

| Name and registered address | Country of incorporation | Description of shares | Issued/(redeemed) capital | Issued/(redeemed) shares | Proportion of shares held (%) |
|---|--------------------------|-----------------------------|---------------------------|--------------------------|-------------------------------|
| <i>The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom</i> | | | | | |
| FinVentures UK Limited | United Kingdom | \$1.00 Ordinary shares | \$140,000,000 | 140,000,000 | 100 |
| SCMB Overseas Limited | United Kingdom | £0.10 Ordinary shares | £22,400,000 | 224,000,000 | 100 |
| Standard Chartered Bank | United Kingdom | \$1.00 Ordinary shares | (\$7,500,000,000) | (7,500,000,000) | 100 |
| Standard Chartered Holdings Limited | United Kingdom | \$2.00 Ordinary shares | (\$2,600,000,000) | (1,300,000,000) | 100 |
| Standard Chartered I H Limited | United Kingdom | \$1.00 Ordinary shares | \$141,000,000 | 141,000,000 | 100 |
| Standard Chartered NEA Limited | United Kingdom | \$1.00 Ordinary shares | \$1,593,884,872 | 1,593,884,872 | 100 |
| Standard Chartered UK Holdings Limited | United Kingdom | £10.00 Ordinary shares | £21,692,310 | 2,169,231 | 100 |
| <i>The following company has the address of 8th Floor, 20 Farringdon Street, London, EC4A 4AB, United Kingdom</i> | | | | | |
| SC Ventures G.P. Limited | United Kingdom | £1.00 Ordinary shares | £1.00 | 1 | 100 |
| <i>The following company has the address of Rua Gamal Abdel Nasser, Edificio Tres Torres, Exo Vario, Distrito Urbano da Ingombota, Municipio de Luanda, Provincia de Luanda, Angola</i> | | | | | |
| Standard Chartered Bank Angola S.A. | Angola | AOK8,742.05 Ordinary shares | AOK8,742,050,000 | 1,000,000 | 60 |
| | | AOK6,475.62 Ordinary shares | (AOK6,475,620,000) | (1,000,000) | 60 |
| <i>The following company has the address of Av. Brigadeiro Faria Lima, 3600 – 7º andar, conj 72 04538-132, São Paulo, Brazil.</i> | | | | | |
| Standard Chartered Representação Ltda | Brazil | BRL1.00 Ordinary shares | BRL3,800,000 | 3,800,000 | 100 |
| <i>The following company has the address of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road George Town, Grand Cayman KY1-9008, Cayman Islands</i> | | | | | |
| Standard Chartered Principal Finance (Cayman) Limited | Cayman Islands | \$0.0001 Ordinary shares | \$500 | 5,000,000 | 100 |
| <i>The following company has the address of Taunusanlage 16, 60325, Frankfurt am Main, Germany</i> | | | | | |
| Standard Chartered Bank AG | Germany | € Ordinary shares | €175,000,001 | 175,000,001 | 100 |

28. Share capital, other equity instruments and reserves continued

Subsidiary Undertakings continued

| Name and registered address | Country of incorporation | Description of shares | Issued/(redeemed) capital | Issued/(redeemed) shares | Proportion of shares held (%) |
|--|--------------------------|--|------------------------------------|------------------------------|-------------------------------|
| <i>The following company has the address of 14th Floor, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong</i> | | | | | |
| Standard Chartered PF Real Estate (Hong Kong) Limited | Hong Kong | \$1.00 Ordinary shares HKD10.00 Ordinary shares | \$39,000,001 (HKD10.00) | 39,000,001 (1) | 100 100 |
| <i>The following company has the address of 25/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong</i> | | | | | |
| SC Digital Solutions Limited | Hong Kong | HKD10.00 Ordinary shares | HKD1,610,920,000 | 161,092,000 | 65.1 |
| <i>The following company has the address of 3/F Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong</i> | | | | | |
| Standard Chartered Private Equity Limited | Hong Kong | \$1.00 Ordinary shares | \$185,000,000 | 185,000,000 | 100 |
| <i>The following company has the address of 32/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong</i> | | | | | |
| Standard Chartered Bank (Hong Kong) Limited | Hong Kong | \$ D Ordinary shares \$ C Ordinary shares | \$3,010,485,610 \$2,698,156,122 | 3,010,485,610 341,971,625 | 100 100 |
| <i>The following company has the address of Second Floor, Indique Edge, Khata No. 571/630/6/4, Sy.No.6/4, Ambalipura Village, Varthur Hobli, Marathahalli Sub-Division, Ward No. 150, Bengaluru, 560102, India</i> | | | | | |
| Standard Chartered Research and Technology India Private Limited | India | INR10.00 Ordinary shares | INR350,000,000 | 35,000,000 | 100 |
| <i>The following company has the address of 1st Floor, Goldie House, 1-4 Goldie Terrace, Upper Church Street, Douglas, IM1 1EB, Isle of Man</i> | | | | | |
| Standard Chartered Insurance Limited | Isle of Man | \$1.00 Ordinary shares | (\$4,180,300) | (4,180,300) | 100 |
| <i>The following company has the address of 17/F, 100, Gongpyeong-dong, Jongno-gu, Seoul, Korea, Republic of</i> | | | | | |
| Ascenta II | Korea, Republic of | KRW1,000,000.00 Partnership interest | (KRW100,000,000) | (100) | 100 |
| <i>The following company has the address of SGG Corporate Services (Mauritius) Ltd, 33, Edith Cavell St, Port Louis, 11324, Mauritius</i> | | | | | |
| Actis Asia Real Estate (Mauritius) Limited | Mauritius | Class A \$1.00 Ordinary shares Class B \$1.00 Ordinary shares | (\$9,757,406) (\$9,757,406) | (9,757,406) (9,757,406) | 100 100 |
| <i>The following companies have the address of c/o Abax Corporate Services Ltd, 6/F, Tower A, 1 CYBERCITY, Ebene, Mauritius</i> | | | | | |
| Standard Chartered Financial Holdings | Mauritius | \$1.00 Ordinary shares | \$6,000,000 | 6,000,000 | 100 |
| Standard Chartered Private Equity (Mauritius) II Limited | Mauritius | \$1.00 Ordinary shares | \$17,000,000 | 17,000,000 | 100 |
| Standard Chartered Private Equity (Mauritius) III Limited | Mauritius | \$1.00 Ordinary shares | \$168,000,000 | 168,000,000 | 100 |

28. Share capital, other equity instruments and reserves continued

Subsidiary Undertakings continued

| Name and registered address | Country of incorporation | Description of shares | Issued/(redeemed) capital | Issued/(redeemed) shares | Proportion of shares held (%) |
|--|--------------------------|-------------------------|---------------------------|--------------------------|-------------------------------|
| <i>The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom</i> | | | | | |
| Standard Chartered Holdings (International) B.V. | Netherlands | €4.50 Ordinary shares | EUR45,000 | 10,000 | 100 |
| Standard Chartered MB Holdings B.V. | Netherlands | €4.50 Ordinary shares | EUR45,000 | 10,000 | 100 |
| <i>The following company has the address of 142 Ahmadu Bello Way, Victoria Island, Lagos, Nigeria</i> | | | | | |
| Cherroots Nigeria Limited | Nigeria | NGN1.00 Ordinary Shares | (NGN12,500) | (12,500) | 100 |
| <i>The following company has the address of 8 Marina Boulevard, Level 23, Marina Bay Financial Centre, Tower 1, 018981, Singapore</i> | | | | | |
| Standard Chartered Private Equity (Singapore) Pte. Ltd | Singapore | \$ Ordinary shares | nil | 49,000,000 | 100 |
| <i>The following companies have the address of 8 Marina Boulevard, Level 27, Marina Bay Financial Centre, Tower 1, 018981, Singapore</i> | | | | | |
| Standard Chartered Bank (Singapore) Limited | Singapore | SGD Preference shares | SGD750,000,000 | 3,750 | 100 |
| | | \$ Ordinary shares | \$2,590,000,000 | 2,590,000,000 | 100 |
| | | \$ Preference shares | \$500,000,000 | 2,500 | 100 |
| Standard Chartered Holdings (Singapore) Private Limited | Singapore | \$ Ordinary shares | \$2,590,000,000 | 2,590,000,000 | 100 |
| <i>The following companies has the address of Abogado Pte Ltd, No. 8 Marina Boulevard, #05-02 MBFC Tower 1, 018981, Singapore</i> | | | | | |
| Standard Chartered PF Managers Pte. Limited | Singapore | \$1.00 Ordinary shares | \$8,312,499 | 8,312,499 | 100 |
| Standard Chartered Real Estate Investment Holdings (Singapore) Private Limited | Singapore | \$1.00 Ordinary shares | \$39,000,001 | 39,000,001 | 100 |
| | | SGD1.00 Ordinary shares | (SGD1) | (1) | 100 |
| <i>The following company has the address of Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, Virgin Islands, British</i> | | | | | |
| Sky Harmony Holdings Limited | Virgin Islands, British | \$1.00 Ordinary shares | \$1 | 1 | 100 |
| <i>The following company has the address of Deloitte LLP, Hill House, 1 Little New Street, London, EC4A 3TR, United Kingdom</i> | | | | | |
| Standard Chartered APR Limited | United Kingdom | \$1.00 Ordinary shares | (\$21,971,714) | (21,971,714) | 100 |

Please see Note 22 Debt securities in issue for issuances and redemptions of senior notes.

Please see Note 27 Subordinated liabilities and other borrowed funds for issuance and redemptions of subordinated liabilities and AT1 securities

Please see Note 40 Related undertakings of the Group for subsidiaries liquidated, dissolved or sold during the year.

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 2018 | 333 |
| Income in equity attributable to non-controlling interests | (21) |
| Profits attributable to non-controlling interests | 55 |
| Comprehensive income for the year | 34 |
| Distributions | (97) |
| Other increases ¹ | 3 |
| At 31 December 2018 | 273 |
| Income in equity attributable to non-controlling interests | (17) |
| Profits attributable to non-controlling interests | 37 |
| Comprehensive income for the year | 20 |
| Distributions | (35) |
| Other increases ² | 55 |
| At 31 December 2019 | 313 |

1 Mainly due to additional shares issued by Standard Chartered Bank Angola S.A.

2 Comprises \$72 million of non-controlling interest in SC Digital Solutions offset by \$17 million disposal of non-controlling interest of Phoon Huat Ltd, Sirat Holdings Limited and Ori Private Limited

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.

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 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 in the period in which they were incurred.

Accounting estimates and judgements

There are many factors that affect the measurement of the retirement benefit obligations of the UK Fund and Overseas Plans. This measurement requires the use of estimates, such as discount rates, inflation, pension increases, salary increases, and life expectancies which are inherently uncertain. Discount rates are determined by reference to market yields at the end of the reporting period on high quality corporate bonds (or, in countries where there is no deep market in such bonds, government bonds) of a currency and term consistent with the currency and term of the post-employment benefit obligations. This is the approach adopted across our geographies. Where there are inflation-linked bonds available (e.g. United Kingdom and the eurozone), the Group derives inflation based on the market on those bonds, with the market yield adjusted in respect of the United Kingdom to take account of the fact that liabilities are linked to Consumer Price Index inflation, whereas the reference bonds are linked to Retail Price Index inflation. Where no inflation-linked bonds exist, we determine inflation assumptions based on long-term forecasts. Salary growth assumptions reflect the Group's long-term expectations, taking into account future business plans and macroeconomic data (primarily expected future long-term inflation). Demographic assumptions, including mortality and turnover rates, are typically set based on the assumptions used in the most recent actuarial funding valuation, and will generally use industry standard tables, adjusted where appropriate to reflect recent historic experience and/or future expectations. The sensitivity of the liabilities to changes in these assumptions is shown on page 342.

30. Retirement benefit obligations continued

Retirement benefit obligations comprise:

| | 2019 \$million | 2018 \$million |
|---------------------------------------|-------------------|-------------------|
| Defined benefit plans obligation | 458 | 386 |
| Defined contribution plans obligation | 11 | 13 |
| Net obligation | 469 | 399 |

Retirement benefit charge comprises:

| | 2019 \$million | 2018 \$million |
|--------------------------------|-------------------|-------------------|
| Defined benefit plans | 73 | 81 |
| Defined contribution plans | 299 | 284 |
| Charge against profit (Note 7) | 372 | 365 |

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, as part of the Group's commitment to financial wellbeing for employees, 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 on page 343 partially hedge movements in the liabilities resulting from interest rate and inflation changes. Setting aside movements from other drivers such as currency fluctuation, the reductions in discount rates in most geographies over 2019 have led to higher liabilities. These have been somewhat offset by increases in the value of bonds held and good stock market performance. These movements are shown as actuarial losses versus gains respectively in the tables below. Contributions into a number of plans in excess of the amounts required to fund benefits accruing have also helped to reduce the net deficit 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 2019.

UK Fund

The Standard Chartered Pension Fund (the 'UK Fund') is the Group's largest pension plan, representing 60 per cent (31 December 2018: 58 per cent) of total pension liabilities. 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 UK Fund was closed to new entrants from 1 July 1998 and new employees were offered membership of a defined contribution plan. The UK Fund was closed to the accrual of new benefits from 1 April 2018: there was no accounting impact as a result of the closure as the liabilities represented by the benefits already accrued are not expected to be significantly altered by the closure.

The financial position of the UK Fund is regularly assessed by an independent qualified actuary. The funding valuation as at 31 December 2017 was completed in December 2018 by the Scheme Actuary, A Zegleman of Willis Towers Watson, using assumptions different from those on page 342, and agreed with the UK Fund trustee. It revealed a past service deficit of \$210 million (£159 million). To repair the deficit, four annual cash payments of \$43.5 million (£32.9 million) were agreed, with the first two of these having been paid in December 2018 and December 2019. The agreement allows that, if the funding position improves to being at or near a surplus in future years, the two payments from December 2020 will be reduced or eliminated. In addition, an escrow account of \$145 million (£110 million) exists to provide security for future contributions.

As at 31 December 2019, the weighted average duration of the UK Fund was 16 years (31 December 2018: 14 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.

30. Retirement benefit obligations continued

Overseas plans

The principal overseas defined benefit arrangements operated by the Group are in Germany, Hong Kong, India, Jersey, Korea, Taiwan, United Arab Emirates (UAE) and the United States of America (US).

Key assumptions

The principal financial assumptions used at 31 December 2019 were:

| | Funded plans | | | |
|-------------------|---------------|---------------|-----------------------------|---------------|
| | UK Fund | | Overseas Plans ¹ | |
| | 31.12.19 % | 31.12.18 % | 31.12.19 % | 31.12.18 % |
| Discount rate | 2.0 | 2.8 | 0.7 – 3.4 | 0.9 – 4.4 |
| Price inflation | 2.1 | 2.1 | 1.0 – 3.0 | 1.0 – 3.2 |
| Salary increases | n/a | n/a | 3.0 – 4.0 | 2.1 – 4.0 |
| Pension increases | 2.1 | 2.1 | 1.4 – 3.0 | 1.4 – 3.2 |

¹ The range of assumptions shown is for the main defined benefit overseas plans in Germany, Hong Kong, Jersey, Korea, Taiwan, UAE and the US. These comprise over 85 per cent of the total liabilities of overseas defined benefit plans

| | Unfunded plans | | | |
|------------------------------|--|--|--------------------|---------------|
| | US post-retirement medical | | Other ¹ | |
| | 31.12.19 % | 31.12.18 % | 31.12.19 % | 31.12.18 % |
| Discount rate | 3.4 | 4.4 | 1.5 – 7.0 | 2.7 – 7.6 |
| Price inflation | 2.5 | 2.5 | 2.0 – 4.0 | 2.0 – 5.0 |
| Salary increases | N/A | N/A | 3.5 – 7.0 | 3.5 – 7.0 |
| Pension increases | N/A | N/A | 0.0 – 2.1 | 0.0 – 2.1 |
| Post-retirement medical rate | 8% in 2019 reducing by 1% per annum to 5% in 2022 | 9% in 2018 reducing by 1% per annum to 5% in 2022 | N/A | N/A |

¹ The range of assumptions shown is for the main unfunded plans in India, Korea, Thailand, UAE and the UK. They comprise over 90 per cent of the total liabilities of other unfunded plans

The principal non-financial assumptions are those made for UK life expectancy. The assumptions for life expectancy for the UK Fund are that a male member currently aged 60 will live for 28 years (31 December 2018: 28 years) and a female member for 29 years (31 December 2018: 29 years) and a male member currently aged 40 will live for 31 years (31 December 2018: 30 years) and a female member for 30 years (31 December 2018: 30 years) after their 60th birthdays.

Both financial and non-financial assumptions can be expected to change in the future, which would 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 (31 December 2018: \$55 million) and \$35 million for the other plans (31 December 2018: \$30 million)
- If the rate of inflation increased by 25 basis points, the liability, allowing for the consequent impact on pension and salary increases, would increase by approximately \$45 million for the UK Fund (31 December 2018: \$40 million) and \$25 million for the other plans (31 December 2018: \$20 million)
- If the rate salaries increase compared with inflation increased by 25 basis points, the liability would increase by nil for the UK Fund (31 December 2018: nil) and approximately \$15 million for the other plans (31 December 2018: \$15 million)
- If longevity expectations increased by one year, the liability would increase by approximately \$60 million for the UK Fund (31 December 2018: \$45 million) and \$15 million for the other plans (31 December 2018: \$15 million)

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.

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:

| | 31.12.19 | | | | 31.12.18 | | | |
|---|-------------------|--------------------------|-----------------------------------|-----------------|-------------------|--------------------------|-----------------------------------|-----------------|
| | Funded plans | | Unfunded plans | | Funded plans | | Unfunded plans | |
| | UK Fund \$million | Overseas plans \$million | Post-retirement medical \$million | Other \$million | UK Fund \$million | Overseas plans \$million | Post-retirement medical \$million | Other \$million |
| At 31 December | | | | | | | | |
| Equities | 102 | 349 | N/A | N/A | 166 | 310 | N/A | N/A |
| Government bonds | 956 | 196 | N/A | N/A | 762 | 176 | N/A | N/A |
| Corporate bonds | 189 | 121 | N/A | N/A | 147 | 87 | N/A | N/A |
| Absolute Return Fund | 158 | – | N/A | N/A | 147 | – | N/A | N/A |
| Hedge funds ¹ | 100 | – | N/A | N/A | 110 | – | N/A | N/A |
| Insurance linked funds ¹ | 37 | – | N/A | N/A | 36 | – | N/A | N/A |
| Opportunistic credit ¹ | – | – | N/A | N/A | 15 | – | N/A | N/A |
| Property | 75 | 32 | N/A | N/A | 44 | 14 | N/A | N/A |
| Derivatives | 13 | 3 | N/A | N/A | (7) | 3 | N/A | N/A |
| Cash and equivalents | 77 | 163 | N/A | N/A | 136 | 221 | N/A | N/A |
| Others ¹ | 8 | 31 | N/A | N/A | 9 | 34 | N/A | N/A |
| Total fair value of assets ² | 1,715 | 895 | N/A | N/A | 1,565 | 845 | N/A | N/A |
| Present value of liabilities | (1,832) | (1,010) | (16) | (210) | (1,615) | (974) | (17) | (190) |
| Net pension plan obligation | (117) | (115) | (16) | (210) | (50) | (129) | (17) | (190) |

1 Unquoted assets

2 Self-investment is monitored closely and is less than \$1 million of Standard Chartered equities and bonds for 2019 (31 December 2018: less than \$1 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:

| 2019 | Funded plans | | Unfunded plans | | | Total \$million |
|--|-------------------|--------------------------|-----------------------------------|-----------------|-------|-----------------|
| | UK Fund \$million | Overseas plans \$million | Post-retirement medical \$million | Other \$million | | |
| Current service cost ¹ | – | 49 | – | 12 | 61 | |
| Past service cost and curtailments ² | – | 2 | – | (1) | 1 | |
| Settlement cost | – | – | – | – | – | |
| Interest income on pension plan assets | (43) | (26) | – | – | (69) | |
| Interest on pension plan liabilities | 44 | 29 | 1 | 6 | 80 | |
| Total charge to profit before deduction of tax | 1 | 54 | 1 | 17 | 73 | |
| Net gain on plan assets ³ | (86) | (88) | – | – | (174) | |
| Losses on liabilities | 196 | 77 | (2) | 27 | 298 | |
| Total losses/(gains) recognised directly in statement of comprehensive income before tax | 110 | (11) | (2) | 27 | 124 | |
| Deferred taxation | 5 | – | – | – | 5 | |
| Total losses/(gains) after tax | 115 | (11) | (2) | 27 | 129 | |

1 Includes administrative expenses paid out of plan assets of \$1 million (31 December 2018: \$2 million)

2 Past service costs arose primarily due to plan changes in Thailand and US, and were largely offset by past service credits due to plan changes in UAE

3 The actual return on the UK Fund assets was a gain of \$129 million and on overseas plan assets was a gain of \$114 million

30. Retirement benefit obligations continued

Key assumptions continued

The pension cost for defined benefit plans was:

| | Funded plans | | Unfunded plans | | |
|--|-------------------|--------------------------|-----------------------------------|-----------------|-----------------|
| | UK Fund \$million | Overseas plans \$million | Post-retirement medical \$million | Other \$million | Total \$million |
| 2018 | | | | | |
| Current service cost ¹ | 1 | 54 | – | 12 | 67 |
| Past service cost and curtailments ² | 2 | – | – | – | 2 |
| Settlement cost ³ | – | – | – | 1 | 1 |
| Interest income on pension plan assets | (41) | (27) | – | – | (68) |
| Interest on pension plan liabilities | 44 | 29 | 1 | 5 | 79 |
| Total charge to profit before deduction of tax | 6 | 56 | 1 | 18 | 81 |
| Losses on plan assets excluding interest income ⁴ | 67 | 46 | – | – | 113 |
| (Gains)/Losses on liabilities | (76) | (17) | (2) | 1 | (94) |
| Total (gains)/losses recognised directly in statement of comprehensive income before tax | (9) | 29 | (2) | 1 | 19 |
| Deferred taxation | 2 | (8) | – | – | (6) |
| Total losses/(gains) after tax | (7) | 21 | (2) | 1 | 13 |

1 Includes administrative expenses paid out of plan assets of \$2 million (31 December 2017: \$1 million)

2 The past service cost in the UK Fund is due to the impact of the Lloyds judgement on 26 October 2018 confirming the requirement for UK defined benefit pension schemes to equalise the impact of Guaranteed Minimum Pensions (GMPs) for males and females

3 The costs arise primarily from the settlement of benefits in Thailand

4 The actual return on the UK Fund assets was a loss of \$26 million and on overseas plan assets was a loss of \$19 million

Movement in the defined benefit pension plans and post-retirement medical deficit during the year comprise:

| | Funded plans | | Unfunded plans | | |
|---|-------------------|--------------------------|-----------------------------------|-----------------|-----------------|
| | UK Fund \$million | Overseas plans \$million | Post-retirement medical \$million | Other \$million | Total \$million |
| Deficit as at 1 January 2019 | (50) | (129) | (17) | (190) | (386) |
| Contributions | 44 | 73 | – | 20 | 137 |
| Current service cost ¹ | – | (49) | – | (12) | (61) |
| Past service cost and curtailments | – | (2) | – | 1 | (1) |
| Settlement costs and transfers impact | – | – | – | – | – |
| Net interest on the net defined benefit asset/liability | (1) | (3) | (1) | (6) | (11) |
| Actuarial (losses)/gains | (110) | 11 | 2 | (27) | (124) |
| Exchange rate adjustment | – | (16) | – | 4 | (12) |
| Deficit as at 31 December 2019 ² | (117) | (115) | (16) | (210) | (458) |

1 Includes administrative expenses paid out of plan assets of \$1 million (31 December 2018: \$2 million)

2 The deficit total of \$458 million is made up of plans in deficit of \$486 million (31 December 2018: \$421 million) net of plans in surplus with assets totalling \$28 million (31 December 2018: \$35 million)

Movement in the defined benefit pension plans and post-retirement medical deficit during the year comprise:

| | Funded plans | | Unfunded plans | | |
|---|-------------------|--------------------------|-----------------------------------|-----------------|-----------------|
| | UK Fund \$million | Overseas plans \$million | Post-retirement medical \$million | Other \$million | Total \$million |
| Deficit as at 1 January 2018 | (120) | (111) | (18) | (194) | (443) |
| Contributions | 62 | 64 | – | 17 | 143 |
| Current service cost ¹ | (1) | (54) | – | (12) | (67) |
| Past service cost and curtailments | (2) | – | – | – | (2) |
| Settlement costs and transfers impact | – | – | – | (1) | (1) |
| Net interest on the net defined benefit asset/liability | (3) | (2) | (1) | (5) | (11) |
| Actuarial (losses)/gains | 9 | (29) | 2 | (1) | (19) |
| Exchange rate adjustment | 5 | 3 | – | 6 | 14 |
| Deficit as at 31 December 2018 ² | (50) | (129) | (17) | (190) | (386) |

1 Includes administrative expenses paid out of plan assets of \$2 million (31 December 2017: \$1 million)

2 Deficit at 31 December 2018 of \$386 million is made up of plans in deficit of \$421 million (2017: \$483 million) net of plans in surplus with assets totalling \$35 million (2017: \$40 million)

30. Retirement benefit obligations continued

Key assumptions continued

The Group's expected contribution to its defined benefit pension plans in 2020 is \$112 million.

| | 2019 | | | 2018 | | |
|---|---------------------|--------------------------|--------------------|---------------------|--------------------------|--------------------|
| | Assets \$million | Obligations \$million | Total \$million | Assets \$million | Obligations \$million | Total \$million |
| As at 1 January | 2,410 | (2,796) | (386) | 2,592 | (3,035) | (443) |
| Contributions ¹ | 137 | – | 137 | 144 | (1) | 143 |
| Current service cost ² | – | (61) | (61) | – | (67) | (67) |
| Past service cost and curtailments | – | (1) | (1) | – | (2) | (2) |
| Settlement costs | (7) | 7 | – | – | (1) | (1) |
| Interest cost on pension plan liabilities | – | (80) | (80) | – | (79) | (79) |
| Interest income on pension plan assets | 69 | – | 69 | 68 | – | 68 |
| Benefits paid out ² | (165) | 165 | – | (168) | 168 | – |
| Actuarial (losses)/gains ³ | 174 | (298) | (124) | (113) | 94 | (19) |
| Exchange rate adjustment | (8) | (4) | (12) | (113) | 127 | 14 |
| As at 31 December | 2,610 | (3,068) | (458) | 2,410 | (2,796) | (386) |

1 Includes employee contributions of nil (31 December 2018: \$1 million)

2 Includes administrative expenses paid out of plan assets of \$1 million (31 December 2018: \$2 million)

3 Actuarial loss on obligation comprises \$267 million loss (31 December 2018: \$114 million gain) from financial assumption changes, \$4 million loss (31 December 2018: nil) from demographic assumption changes and \$18 million loss (31 December 2018: \$20 million loss) 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 (measured by the fair value of the options granted) received in exchange for the grant of the shares and 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 2020 in respect of 2019 performance, which vest in 2021-2023, is recognised as an expense over the period from 1 January 2019 to the vesting dates in 2021-2023. 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 shares and 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 shares and options that are expected to vest.

At each balance sheet date, the Group revises its estimates of the number of shares and 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 service conditions and 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 service conditions or market-based performance conditions, the cumulative charge incurred up to the date of forfeiture is credited to the income statement. 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.

| | 31.12.19 ¹ | | | 31.12.18 ¹ | | |
|----------------------------|-----------------------|---------------------|--------------------|-----------------------|---------------------|--------------------|
| | Cash \$million | Equity \$million | Total \$million | Cash \$million | Equity \$million | Total \$million |
| Deferred share awards | 13 | 88 | 101 | 3 | 89 | 92 |
| Other share awards | 12 | 53 | 65 | (3) | 77 | 74 |
| Total share-based payments | 25 | 141 | 166 | – | 166 | 166 |

1 No forfeiture assumed

31. Share-based payments continued

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) and return on tangible equity (RoTE) (in the case of both RoE and RoTE, 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 requirement 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

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 two years.

Valuation – LTIP awards

The vesting of awards granted in both 2018 and 2019 is subject to relative TSR performance measures and achievement of a strategic scorecard. The vesting of awards granted in 2018 is subject to the satisfaction of RoE, and the vesting of awards granted in 2019 is subject to the satisfaction of RoTE, in both cases subject to a capital CET1 underpin. 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.

No dividend equivalents accrue for the LTIP awards made in 2018 or 2019 and the fair value takes this into account, calculated by reference to market consensus dividend yield.

| | 31.12.19 | 31.12.18 |
|-------------------------------|-------------------|------------|
| Grant date | 11 March | 9 March |
| Share price at grant date (£) | 6.11 | 7.78 |
| Vesting period (years) | 3–7 | 3–7 |
| Expected divided yield (%) | 4.2 | 5.0 |
| Fair value (RoTE) (£) | 2.02, 2.02 | 2.59, 2.59 |
| Fair value (TSR) (£) | 0.97, 0.91 | 1.14, 1.11 |
| Fair value (Strategic) (£) | 2.02, 2.02 | 2.59, 2.59 |

Valuation – deferred shares and restricted shares

The fair value for deferred awards which are not granted to material risk takers 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. For awards granted to material risk takers in 2019, the fair value of awards takes into account the lack of dividend equivalents, calculated by reference to market consensus dividend yield.

Deferred share awards

| | 31.12.19 | |
|-------------------------------|-----------------------------|-----------------------------|
| Grant date | 24 June | 11 March |
| Share price at grant date (£) | 7.03 | 6.11 |
| | Expected dividend yield (%) | Expected dividend yield (%) |
| Vesting period (years) | Fair value (£) | Fair value (£) |
| 1–3 years | N/A, 4.2, 4.2 | 7.03, 6.47, 6.21 |
| 1–5 years | – | – |
| 3–7 years | – | – |

31. Share-based payments continued

| | 31.12.18 | | |
|-------------------------------|-----------------------------|------------------|-----------------------------|
| Grant date | 18 June | 9 March | |
| Share price at grant date (£) | 7.12 | 7.78 | |
| Vesting period (years) | Expected dividend yield (%) | Fair value (£) | Expected dividend yield (%) |
| 1-3 years | N/A, 5.0, 5.0 | 7.12, 6.45, 6.15 | N/A, 5.0, 5.0 |
| 1-5 years | 5.0 | 6.00 | 5.0, 5.0 |
| 3-7 years | — | — | 5.0, 5.0 |
| | | | 6.11, 5.82 |

Other restricted share awards

| Grant date | 31.12.19 | | | | | | | |
|-------------------------------|-----------------------------|----------------|-----------------------------|----------------|-----------------------------|----------------|-----------------------------|------------------|
| | 28 November | | 1 October | | 24 June | | 11 March | |
| Share price at grant date (£) | 7.04 | 6.84 | 7.03 | 6.11 | | | | |
| Vesting period (years) | Expected dividend yield (%) | Fair value (£) | Expected dividend yield (%) | Fair value (£) | Expected dividend yield (%) | Fair value (£) | Expected dividend yield (%) | Fair value (£) |
| 1 year | 4.2 | 6.75 | 4.2 | 6.57 | 4.2 | 6.74 | 4.2 | 5.86, 5.62, 5.74 |
| 2 years | 4.2 | 6.48 | 4.2 | 6.30 | 4.2 | 6.47 | 4.2 | 5.62, 5.40 |
| 2-3 years | — | — | — | — | — | — | — | — |
| 3 years | 4.2 | 6.22 | 4.2 | 6.05 | 4.2 | 6.21 | 4.2 | 5.40 |
| 4 years | — | — | 4.2 | 5.80 | 4.2 | 5.96 | 4.2 | 5.18 |
| 5 years | — | — | 4.2 | 5.57 | 4.2 | 5.72 | — | — |
| 31.12.18 | | | | | | | | |
| Grant date | 28 November | | 2 October | | 18 June | | 9 March | |
| Share price at grant date (£) | 6.11 | | 6.16 | | 7.12 | | 7.78 | |
| Vesting period (years) | Expected dividend yield (%) | Fair value (£) | Expected dividend yield (%) | Fair value (£) | Expected dividend yield (%) | Fair value (£) | Expected dividend yield (%) | Fair value (£) |
| 1 year | 5.0 | 5.82 | 5.0 | 5.86 | 5.0 | 6.78, 6.45 | 5.0 | 7.41 |
| 2 years | 5.0 | 5.54 | 5.0 | 5.58 | 5.0 | 6.45, 6.15 | 5.0 | 7.06 |
| 2-3 years | 5.0 | 5.41 | — | — | — | — | — | — |
| 3 years | 5.0 | 5.28 | 5.0 | 5.32 | 5.0 | 6.15, 5.85 | 5.0 | 6.72 |
| 4 years | — | — | 5.0 | 5.06 | 5.0 | 5.57 | 5.0 | 6.40 |
| 5 years | — | — | 5.0 | 4.82 | — | — | 5.0 | 6.10 |

2001 Performance Share Plan (2001 PSP) – closed

The Group's previous plan for delivering performance shares was the 2001 PSP. There are no outstanding vested awards under this plan. This plan is closed and no further awards will be granted under this plan.

All Employee Sharesave Plans

2013 Sharesave Plan

Under the 2013 Sharesave Plan, employees may open a savings contract. Within a maturity period of six months after the third anniversary, employees may save up to £250 per month over three years to 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 2013 Sharesave Plan 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, where possible, the Group offers an equivalent cash-based plan to its employees.

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 three years.

31. Share-based payments continued

All Employee Sharesave Plans continued

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:

All Employee Sharesave Plan (Sharesave)

| | 31.12.19 | 31.12.18 |
|-------------------------------|------------------|-----------|
| Grant date | 1 October | 2 October |
| Share price at grant date (£) | 6.84 | 6.16 |
| Exercise price (£) | 4.98 | 5.13 |
| Vesting period (years) | 3 | 3 |
| Expected volatility (%) | 25.3 | 33.8 |
| Expected option life (years) | 3.33 | 3.33 |
| Risk-free rate (%) | 0.26 | 0.87 |
| Expected dividend yield (%) | 4.2 | 5.0 |
| Fair value (£) | 1.62 | 1.39 |

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.

Limits

An award shall not be granted under the 2011 Plan in any calendar year if, at the time of its proposed grant, it would cause the number of Standard Chartered PLC ordinary shares allocated in the period of 10 calendar years ending with that calendar year under the 2011 Plan and under any other discretionary share plan operated by Standard Chartered PLC to exceed such number as represents 5 per cent of the ordinary share capital of Standard Chartered PLC in issue at that time.

An award shall not be granted under the 2011 Plan or 2013 Sharesave Plan in any calendar year if, at the time of its proposed grant, it would cause the number of Standard Chartered PLC ordinary shares allocated in the period of 10 calendar years ending with that calendar year under the 2011 Plan or 2013 Sharesave Plan and under any other employee share plan operated by Standard Chartered PLC to exceed such number as represents 10 per cent of the ordinary share capital of Standard Chartered PLC in issue at that time.

An award shall not be granted under the 2011 Plan or 2013 Sharesave Plan in any calendar year if, at the time of its proposed grant, it would cause the number of Standard Chartered PLC ordinary shares which may be issued or transferred pursuant to awards then outstanding under the 2011 Plan or 2013 Sharesave Plan as relevant to exceed such number as represents 10 per cent of the ordinary share capital of Standard Chartered PLC in issue at that time.

The number of Standard Chartered PLC ordinary shares which may be issued pursuant to awards granted under the 2011 Plan in any 12-month period must not exceed such number as represents 1 per cent of the ordinary share capital of Standard Chartered PLC in issue at that time. The number of Standard Chartered PLC ordinary shares which may be issued pursuant to awards granted under the 2013 Sharesave Plan in any 12-month period must not exceed such number as represents 1 per cent of the ordinary share capital of Standard Chartered PLC in issue at that time.

Issuances

| Reason for issuance | Number of shares issued | Aggregate nominal value (USD) ¹ | Option exercise price per share (GBP) | Total issuance price (USD) ¹ | Sum of funds raised (USD) ² |
|----------------------------------|-------------------------|--|---------------------------------------|---|--|
| 2015 Sharesave ³ | 2,192,633 | 1,096,317 | 5.58 | 15,599,018 | 15,599,018 |
| 2016 Sharesave ³ | 5,404 | 2,702 | 5.30 | 36,532 | 36,532 |
| 2017 Sharesave ³ | 393 | 197 | 6.20 | 3,108 | 3,108 |
| 2018 Sharesave ³ | 2,035 | 1,018 | 5.13 | 13,316 | 13,316 |
| Discretionary award ⁴ | 1,168,111 | 584,056 | N/A | 584,056 | 584,056 |
| Total | 3,368,576 | 1,684,290 | | 16,236,030 | 16,236,030 |

1 All issuances above are of Standard Chartered PLC ordinary shares, nominal value USD 0.50 per share ('Shares'), and took place between January and May 2019

2 Funds received from the payment of Sharesave option exercise prices were applied on behalf of the Sharesave participants in subscribing for Shares in accordance with the rules of the Standard Chartered 2013 Sharesave Plan. The subscription price of USD 0.50 per Share paid by trustees of the 2004 employee benefit trust was applied on behalf of participants in the 2011 Standard Chartered Plan in subscribing for Shares in accordance with the rules of the 2011 Standard Chartered Share Plan

3 Sharesave options were granted to employees under the Standard Chartered 2013 Sharesave Plan, which was approved by shareholders on 8 May 2013. The closing share price on 7 May 2013 was GBP 16.1806. Details of each grant are disclosed in the share-based payments note to the annual report for each year of grant

4 Discretionary awards were granted to employees under the 2011 Standard Chartered Share Plan, which was approved by shareholders on 5 May 2011. The closing share price on 4 May 2011 was GBP 15.2668. Details of each grant are disclosed in the share-based payments note to the annual report for each year of grant. The trustees of the 2004 employee benefit trust subscribed for Shares on behalf of participants who received Shares through the exercise of discretionary awards at a price of USD 0.50 per Share in accordance with the rules of the 2011 Standard Chartered Share Plan

31. Share-based payments continued

Reconciliation of share award movements for the year to 31 December 2019

| | 2011 Plan ¹ | | | Weighted average Sharesave exercise price (£) | |
|---|------------------------|-----------------------------------|------------------|---|------|
| | LTIP | Deferred/ Restricted shares | PSP ¹ | Sharesave | |
| Outstanding at 1 January 2019 | 27,003,333 | 26,612,980 | 4,270 | 13,724,361 | 5.48 |
| Granted ^{2,3} | 2,777,179 | 15,140,609 | – | 5,025,310 | – |
| Lapsed | (2,824,549) | (1,441,046) | – | (1,821,467) | 5.50 |
| Exercised | (6,043,284) | (12,077,082) | (4,270) | (4,325,362) | 5.49 |
| Outstanding at 31 December | 20,912,679 | 28,235,461 | – | 12,602,842 | 5.28 |
| Total number of securities available for issue under the plan | 20,912,679 | 28,235,461 | – | 12,602,842 | |
| Percentage of the issued shares this represents as at 31 December | 0.7% | 0.9% | – | 0.4% | |
| Exercisable as at 31 December | 53,986 | 2,539,752 | – | 1,231,333 | 5.30 |
| Range of exercise prices (£) ³ | – | – | – | 4.98 – 6.20 | |
| Intrinsic value of vested but not exercised options (\$ million) | 0.51 | 24.13 | – | 3.06 | |
| Weighted average contractual remaining life (years) | 6.85 | 8.25 | – | 2.44 | |
| Weighted average share price for awards exercised during the period (£) | 6.37 | 6.33 | 6.95 | 6.72 | |

1 Employees do not contribute towards the cost of these awards

2 14,346,920 (DRSA/RSA) granted on 11 March 2019, 186,955 (DRSA/RSA) granted as notional dividend on 08 March 2019, 2,530,325 (LTIP) granted on 11 March 2019, 232,895 (LTIP) granted as notional dividend on 08 March 2019, 278,813 (DRSA/RSA) granted on 24 June 2019, 74,125 (DRSA/RSA) granted as notional dividend on 09 August 2019, 13,959 (MLTIP/LTIP) granted as notional dividend on 09 August 2019, 151,751 (RSA) granted on 01 October 2019, 5,025,310 (Sharesave) granted on 01 October 2019 and 102,045 (RSA) granted on 28 November 2019

3 For Sharesave granted in 2019, the exercise price is £4.98 per share, which was a 20 per cent discount to the closing share price on 30 August 2019. The closing share price on 30 August 2019 was £6.22

Reconciliation of share award movements for the year to 31 December 2018

| | 2011 Plan ¹ | | | Weighted average Sharesave exercise price (£) | |
|---|------------------------|-----------------------------------|------------------|---|------------------------|
| | Performance shares | Deferred/ Restricted shares | PSP ¹ | RSS ¹ | SRSS ¹ |
| Outstanding at 1 January 2018 | 25,477,368 | 23,311,221 | 17,222 | 185,943 | 1,249 12,818,234 6.06 |
| Granted ^{2,3} | 2,481,485 | 13,649,191 | – | – | 4,769,917 5.13 |
| Lapsed | (935,037) | (1,375,715) | (553) | (50,484) | (2,995,333) 7.36 |
| Exercised | (20,483) | (8,971,717) | (12,399) | (135,459) | (1,249) (868,457) 5.57 |
| Outstanding at 31 December | 27,003,333 | 26,612,980 | 4,270 | – | – 13,724,361 5.48 |
| Exercisable as at 31 December | 43,241 | 3,657,278 | 4,270 | – | – 3,483,196 5.57 |
| Range of exercise prices (£) ³ | | | | | 5.13 – 6.20 |
| Intrinsic value of vested but not exercised options (\$ million) | 0.04 | 2.59 | 0.02 | – | – – |
| Weighted average contractual remaining life (years) | 7.43 | 8.18 | 0.48 | 0 | 0 2.04 |
| Weighted average share price for awards exercised during the period (£) | 7.18 | 7.17 | 6.76 | 7.84 | 7.85 6.20 |

1 Employees do not contribute towards the cost of these awards

2 12,508,120 (DRSA/RSA) granted on 9 March 2018, 39,945 (notional dividend) granted on 11 March 2018, 63,350 (notional dividend) granted on 13 March 2018, 37,774 (notional dividend) granted on 19 March 2018, 2,076,370 (LTIP) granted on 9 March 2018, 216,127 (notional dividend) granted on 11 March 2018, 22,317 (notional dividend) granted on 13 March 2018, 815 (notional dividend) granted on 19 March 2018, 246,367 (DRSA/RSA) granted on 18 June 2018, 165,856 (LTIP) and 75755 (DRSA/RSA) granted on 22 Aug 2018, and 423,038 (DRSA/RA) and 4,769,917 (Sharesave) granted on 2 October 2018, and 254,842 (DRSA/RSA) granted on 28 November 2018

3 For Sharesave granted in 2018, the exercise price is £5.13 per share, which was the average of the closing prices over the five days to the invitation date of 3 September. The closing share price on 31 August 2018 was £6.271

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, and 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. The Group does 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 of if 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. Further judgement is required when determining if the Group has de-facto control over an entity even though it may hold less than 50 per cent of the voting shares of that entity. Judgement is required to determine the relative size of the Group's shareholding when compared with the size and dispersion of other shareholders.

Impairment testing of investments in associates and joint ventures is performed if there is a possible indicator of impairment. Judgement is used to determine if there is objective evidence of impairment. Objective evidence may be observable data such as losses incurred on the investment when applying the equity method, the granting of concessions as a result of financial difficulty, or breaches of contracts/regulatory fines of the associate or joint venture. Further judgement is required when considering broader indicators of impairment such as losses of active markets or ratings downgrades across key markets in which the associate or joint venture operate.

Impairment testing is based on estimates, including forecasting the expected cash flows from the investments, growth rates, terminal values and the discount rate used in calculation 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.

32. Investments in subsidiary undertakings, joint ventures and associates continued

Accounting policy continued

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 17 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.

| | 2019 \$million | 2018 \$million |
|-------------------|---------------------|-------------------|
| As at 1 January | 34,853 | 34,853 |
| Additions | 23,184 ¹ | — |
| As at 31 December | 58,037 | 34,853 |

¹ Includes internal Additional Tier 1 issuances of \$900 million by Standard Chartered Bank (Hong Kong) Limited and \$500 million and SGD750 million by Standard Chartered Bank (Singapore) Limited

At 31 December 2019, the principal subsidiary undertakings, all indirectly held except for Standard Chartered Bank (Hong Kong) Limited, 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 interest in Standard Chartered Bank Kenya Limited. This contributes \$20 million (31 December 2018: \$21 million) of the profit attributable to non-controlling interests and \$111 million (31 December 2018: \$108 million) of the equity attributable to non-controlling interests.

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.

32. Investments in subsidiary undertakings, joint ventures and associates continued

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 2019, the total cash and balances with central banks was \$53 billion (31 December 2018: \$58 billion) of which \$10 billion (31 December 2018: \$8 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.

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 198).

Share of profit from investment in associates and joint ventures comprises:

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| Profit from investment in joint ventures | 48 | 29 |
| Profit from investment in associates | 252 | 212 |
| Total | 300 | 241 |

Interests in joint ventures

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| As at 1 January | 717 | 783 |
| Exchange translation difference | 32 | (49) |
| Expected credit loss, net ¹ | – | (33) |
| Share of profit | 48 | 29 |
| Disposals | – | (11) |
| Share of fair value through other comprehensive income/available-for-sale and Other reserves | 3 | (2) |
| Transfer to held for sale assets ² | (800) | – |
| As at 31 December | – | 717 |

1 Relates to IFRS 9 transition adjustments

2 Refer to Note 21 Assets held for sale and associated liabilities where our joint venture PT Bank Permata Tbk (Permata) is disclosed

Interests in associates

| | China Bohai Bank | | Other | | Total | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2019 \$million | 2018 \$million | 2019 \$million | 2018 \$million | 2019 \$million | 2018 \$million |
| As at 1 January | 1,551 | 1,489 | 39 | 35 | 1,590 | 1,524 |
| Exchange translation differences | (17) | (95) | – | – | (17) | (95) |
| Expected credit loss, net ¹ | – | (19) | – | – | – | (19) |
| Additions | – | – | 64 | – | 64 | – |
| Share of profits | 247 | 205 | 5 | 7 | 252 | 212 |
| Dividends received | – | (64) | (3) | (3) | (3) | (67) |
| Share of fair value through other comprehensive income/available-for-sale and Other reserves | 22 | 35 | – | – | 22 | 35 |
| As at 31 December | 1,803 | 1,551 | 105 | 39 | 1,908 | 1,590 |

1 IFRS 9 transition impact from associates is reported here

32. Investments in subsidiary undertakings, joint ventures and associates continued

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 | 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 2019 of this associate are within three months of the Group's reporting date.

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 2019 \$million | 30 Nov 2018 \$million |
| Cash and balances at central banks | 12,532 | 18,358 |
| Loans and advances to banks | 3,297 | 3,719 |
| Loans and advances to customers | 97,133 | 78,050 |
| Other assets | 43,467 | 47,632 |
| Total Assets | 156,429 | 147,759 |
| Deposits by banks | 14,502 | 18,674 |
| Customer accounts | 89,917 | 84,426 |
| Debt securities in issue | 4,913 | 1,912 |
| Other financial liabilities | 36,970 | 34,735 |
| Other liabilities | 1,105 | 252 |
| Total liabilities | 147,407 | 140,000 |
| Total equity | 9,022 | 7,759 |
| Operating income | 3,769 | 3,427 |
| Of which: | | |
| Interest income | 6,717 | 6,699 |
| Interest expense | (3,783) | (4,430) |
| Expenses | (2,394) | (2,244) |
| Of which: | | |
| Depreciation and amortisation | (5) | (5) |
| Impairment | (1,275) | (971) |
| Operating profit | 1,375 | 1,183 |
| Taxation | (212) | (160) |
| Profit after tax | 1,163 | 1,023 |
| The financial statements of China Bohai Bank include the following: | | |
| Other comprehensive profit for the year | (63) | 175 |
| Total comprehensive income for the year | 1,100 | 1,198 |

During the year, there were no indicators of impairment for the Group's investment in China Bohai Bank. The carrying value of the investment as of 31 December 2019 was \$1,803 million (31 December 2018: \$1,551 million).

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 the 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.

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.

The following table presents the Group's interests in consolidated structured entities.

| | 2019 \$million | 2018 \$million |
|--|-------------------|--------------------|
| Aircraft and ship leasing | 4,312 | 5,200 ¹ |
| Principal and other structured finance | 816 | 1,452 |
| Total | 5,128 | 6,652 |

¹ Re-presented to include total non-Group assets. Previously, only operating lease assets were disclosed

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 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.

| | 2019 | | | | | 2018 | | | | |
|---|--------------------------------------|---------------------------------|--------------------------------------|-------------------------------|--------------------|--------------------------------------|---------------------------------|--------------------------------------|-------------------------------|--------------------|
| | Asset-backed securities \$million | Structured finance \$million | Principal Finance funds \$million | Other activities \$million | Total \$million | Asset-backed securities \$million | Structured finance \$million | Principal Finance funds \$million | Other activities \$million | Total \$million |
| Group's interest – assets | | | | | | | | | | |
| Financial assets held at fair value through profit or loss | 1,055 | – | 105 | 181 | 1,341 | 1,094 | – | 72 | 247 | 1,413 |
| Loans and advances/Investment securities at amortised cost | 4,939 | 2,020 | 343 | 251 | 7,553 | 2,556 | 1,403 | 252 | 190 | 4,401 |
| Investment securities (fair value through other comprehensive income) | 3,158 | – | – | – | 3,158 | 3,812 | – | – | – | 3,812 |
| Other assets | – | – | 289 | – | 289 | – | – | 336 | – | 336 |
| Total assets | 9,152 | 2,020 | 737 | 432 | 12,341 | 7,462 | 1,403 | 660 | 437 | 9,962 |
| Off-balance sheet | 65 | 572 | 109 | – | 746 | 116 | 553 | 79 | – | 748 |
| Group's maximum exposure to loss | 9,217 | 2,592 | 846 | 432 | 13,087 | 7,578 | 1,956 | 739 | 437 | 10,710 |
| Total assets of structured entities | 153,948 | 6,594 | 3,028 | 7,976 | 171,546 | 205,837 | 2,785 | 3,395 | 11,872 | 223,889 |

33. Structured entities continued

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:

- **Asset-backed securities (ABS):** The Group also has investments in asset-backed securities issued by third-party sponsored and managed structured entities. For the purpose of market making and at the discretion of ABS trading desk, the Group may hold an immaterial amount of debt securities 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. This credit protection creates credit risk which the structured entity and subsequently the end investor absorbs. 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 derecognised from the Group's 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 making purposes. This is disclosed in the ABS section above. The proceeds of the notes' issuance are typically held as cash collateral in the 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
- **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 real estate financing and the provision of aircraft leasing and ship finance
- **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
- **Other activities:** Other activities include structured entities created to support margin financing transactions, the refinancing of existing credit and debt facilities, as well as setting up of bankruptcy remote structured entities

34. Cash flow statement

Adjustment for non-cash items and other adjustments included within income statement

| | Group | | Company | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2019 \$million | 2018 \$million | 2019 \$million | 2018 \$million |
| Amortisation of discounts and premiums of investment securities | (818) | (375) | — | — |
| Interest expense on subordinated liabilities | 756 | 767 | 688 | 673 |
| Interest expense on senior debt securities in issue | 677 | 606 | 606 | 503 |
| Other non-cash items | 792 | 796 | (75) | 91 |
| Pension costs for defined benefit schemes | 73 | 81 | — | — |
| Share-based payment costs | 166 | 166 | — | — |
| Impairment losses on loans and advances and other credit risk provisions | 908 | 653 | — | — |
| Dividend income from subsidiaries | — | — | (17,979) | (1,035) |
| Other impairment | 163 | 182 | — | — |
| Net gain on derecognition of investment in associate | — | — | — | — |
| Profit from associates and joint ventures | (300) | (241) | — | — |
| Total | 2,417 | 2,635 | (16,760) | 232 |

Change in operating assets

| | Group | | Company | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2019 \$million | 2018 \$million | 2019 \$million | 2018 \$million |
| Decrease in derivative financial instruments | (1,603) | 1,051 | (220) | 61 |
| (Increase)/decrease in debt securities, treasury bills and equity shares held at fair value through profit or loss | (5,579) | 4,171 | (4,502) | — |
| Increase in loans and advances to banks and customers | (19,108) | (16,883) | — | — |
| Net increase in prepayments and accrued income | (199) | (252) | — | — |
| Net increase in other assets | (8,796) | (924) | (751) | — |
| Total | (35,285) | (12,837) | (5,473) | 61 |

34. Cash flow statement continued

Change in operating liabilities

| | Group | | Company | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2019 \$million | 2018 \$million | 2019 \$million | 2018 \$million |
| Increase/(decrease) in derivative financial instruments | 1,290 | (493) | (390) | 636 |
| Net increase/(decrease) in deposits from banks, customer accounts, debt securities in issue, Hong Kong notes in circulation and short positions | 27,850 | 31,216 | 1,131 | (22) |
| (Decrease)/increase in accruals and deferred income | (15) | 3 | (18) | 6 |
| Net increase/(decrease) in other liabilities | 810 | 3,133 | (4,905) | (1,082) |
| Total | 29,935 | 33,859 | (4,182) | (462) |

Disclosures

| | Group | | Company | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2019 \$million | 2018 \$million | 2019 \$million | 2018 \$million |
| Subordinated debt (including accrued interest): | | | | |
| Opening balance | 15,227 | 17,550 | 13,648 | 14,109 |
| Proceeds from the issue | 1,000 | 500 | 1,000 | 500 |
| Interest paid | (603) | (602) | (547) | (507) |
| Repayment | (23) | (2,097) | — | (474) |
| Foreign exchange movements | (2) | (220) | (14) | (237) |
| Fair value changes | 227 | (373) | 147 | (248) |
| Other | 619 | 469 | 503 | 505 |
| Closing balance | 16,445 | 15,227 | 14,737 | 13,648 |
| Senior debt (including accrued interest): | | | | |
| Opening balance | 21,998 | 19,738 | 17,361 | 16,307 |
| Proceeds from the issue | 9,169 | 9,766 | 6,012 | 4,552 |
| Interest paid | (797) | (507) | (740) | (355) |
| Repayment | (7,692) | (7,030) | (3,780) | (3,141) |
| Foreign exchange movements | (1) | (347) | (1) | (199) |
| Fair value changes | 360 | (904) | 283 | (182) |
| Other | 852 | 1,282 | 714 | 379 |
| Closing balance | 23,889 | 21,998 | 19,849 | 17,361 |

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 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2019 \$million | 2018 \$million | 2019 \$million | 2018 \$million |
| Cash and balances at central banks | 52,728 | 57,511 | — | — |
| Less: restricted balances | (9,843) | (8,152) | — | — |
| Treasury bills and other eligible bills | 10,078 | 15,393 | — | — |
| Loans and advances to banks | 21,556 | 30,449 | — | — |
| Trading securities | 2,935 | 2,299 | — | — |
| Amounts owed by and due to subsidiary undertakings | — | — | 11,622 | 17,606 |
| Total | 77,454 | 97,500 | 11,622 | 17,606 |

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.

| | 31.12.19 \$million | 31.12.18 \$million |
|--|-----------------------|-----------------------|
| Salaries, allowances and benefits in kind ¹ | 37 | 33 |
| Share-based payments | 28 | 29 |
| Bonuses paid or receivable | 4 | 10 |
| Total | 69 | 72 |

1 Cash bonus for 2019 receivable within 12 months have been included as short-term employee benefits alongside salaries, allowances and benefits in kind in accordance with IAS 24

Transactions with directors and others

At 31 December 2019, 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:

| | 31.12.19 | | 31.12.18 | |
|-----------|----------|-----------|----------|-----------|
| | Number | \$million | Number | \$million |
| Directors | 3 | — | 1 | — |

The loan transactions provided to the directors of Standard Chartered PLC were 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 2019, Standard Chartered Bank had created a charge over \$86 million (31 December 2018: \$83 million) of cash assets in favour of the on-consolidated independent trustee of its employer financed retirement benefit scheme.

Other than as disclosed in the Annual Report, 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 \$1,006 million (31 December 2018: \$965 million) of net interest income from its subsidiaries. The Company issues debt externally and lends proceeds to Group companies.

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.

| | 31.12.2019 | | | 31.12.2018 | | |
|---|---|---|----------------------------------|---|---|----------------------------------|
| | Standard Chartered Bank \$million | Standard Chartered Bank (Hong Kong) Limited \$million | Others ¹ \$million | Standard Chartered Bank \$million | Standard Chartered Bank (Hong Kong) Limited \$million | Others ¹ \$million |
| Assets | | | | | | |
| Due from subsidiaries ² | 11,068 | 32 | 346 | 17,030 | — | 399 |
| Derivative financial instruments | 212 | 17 | — | 9 | — | — |
| Debt securities ² | 13,665 | 3,953 | 548 | 11,537 | — | — |
| Total assets | 24,945 | 4,002 | 894 | 28,576 | — | 399 |
| Liabilities | | | | | | |
| Due to subsidiaries | 26 | — | — | — | — | — |
| Derivative financial instruments ² | 738 | — | — | 1,126 | — | — |
| Total liabilities | 764 | — | — | 1,126 | — | — |

1 Prior year comparatives have been re-presented

2 Others include Standard Chartered Bank (Singapore) Limited, Standard Chartered Holdings Limited and Standard Chartered I H Limited

36. Related party transactions continued

Associate and joint ventures

The following transactions with related parties are on an arm's-length basis:

| | 2019 | | | | 2018 | | | |
|--|----------------------------|----------------------------|---------------------------|---|----------------------------|----------------------------|---------------------------|---|
| | China Bohai Bank \$million | Clifford Capital \$million | PT Bank Permata \$million | Seychelles International Mercantile Banking Corporation Limited \$million | China Bohai Bank \$million | Clifford Capital \$million | PT Bank Permata \$million | Seychelles International Mercantile Banking Corporation Limited \$million |
| Assets | | | | | | | | |
| Loans and advances ¹ | – | – | 2 | – | – | 22 | 2 | – |
| Debt securities ¹ | – | 21 | 58 | – | – | – | 56 | – |
| Derivative assets | – | – | – | – | 2 | – | – | – |
| Total assets | – | 21 | 60 | – | 2 | 22 | 58 | – |
| Liabilities | | | | | | | | |
| Deposits | 193 | – | 29 | 3 | 266 | – | 35 | 11 |
| Total liabilities | 193 | – | 29 | 3 | 266 | – | 35 | 11 |
| Loan commitments and other guarantees ² | – | 50 | 3 | – | – | – | – | – |
| Total net income | 2 | 2 | 5 | – | 6 | – | 6 | – |

1 Prior year comparatives have been re-presented

2 The maximum loan commitments and other guarantees during the year was \$53 million

37. Post balance sheet events

On 14 January 2020, Standard Chartered PLC issued \$2,000 million 2.8190 per cent senior debt due 2026 (callable 2025).

On 16 January 2020, Standard Chartered PLC issued €750 million 0.850 per cent senior debt due 2028 (callable 2027).

A final dividend for 2019 of 20 cents per ordinary share was declared by the directors after 31 December 2019.

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Group's IFRS9 estimates of expected credit loss provisions in 2020.

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.

| | 2019 \$million | 2018 \$million |
|--|-------------------|-------------------|
| Audit fees for the Group statutory audit | 10.0 | 9.2 |
| Fees payable to KPMG for other services provided to the Group: | | |
| Audit of Standard Chartered PLC subsidiaries | 8.4 | 8.3 |
| Total audit fees | 18.4 | 17.5 |
| Audit-related services | 7.6 | 7.0 |
| Other assurance services | 0.1 | 0.3 |
| Tax compliance and advisory services | – | 0.1 |
| Corporate finance services | 0.6 | 0.2 |
| Total fees payable | 26.7 | 25.1 |

The following is a description of the type of services included within the categories listed above:

- ➔ Audit fees for the Group statutory audit 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
- ➔ 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 authorised by those charged with governance
- ➔ Other assurance services include agreed-upon procedures 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
- ➔ Corporate finance services are fees payable to KPMG for issuing comfort letters
- ➔ Included within the Group statutory audit fees is \$0.4 million of fees related to the 2018 year-end audit and \$0.2 million related to the transition of the audit to EY

Expenses incurred during the provision of services and which have been reimbursed by the Group are not included within auditor's remuneration. Expenses incurred for 2019 were \$1.1 million (2018: \$0.6 million).

39. Standard Chartered PLC (Company)

Group reorganisation

The Board of the Group approved in 2018 an in-principle group reorganisation which would result in Standard Chartered Bank (SCB) transferring its ordinary shares in Standard Chartered Bank (Hong Kong) Limited (SCB HK), Standard Chartered Bank (China) Limited (SCB China), Standard Chartered NEA Limited (SC NEA) and Standard Chartered Bank (Taiwan) Limited (SCB TW) to other entities within the Standard Chartered PLC Group, subject to the receipt of appropriate regulatory approvals.

On 4 March 2019, SCB transferred via a dividend in specie its ordinary shares in SCB HK to Standard Chartered Holdings Limited (SCH). SCH in turn transferred via a dividend in specie 100 per cent of the ordinary shares of SCB HK to Standard Chartered PLC (SC PLC), the Group's ultimate parent.

On 1 June 2019, the Company transferred its shareholding in SCB China to SCB HK in exchange for ordinary shares in SCB HK. On 3 June 2019, the Company transferred via dividend in specie such SCB HK shares to SCH and in turn, SCH transferred via dividend in specie such SCB HK shares to SC PLC.

On 1 October 2019, the Company transferred its ordinary shares in SC NEA, the holding company of Standard Chartered Bank Korea Limited, to SCB HK, and on the same day, its ordinary shares in SCB TW to SC NEA.

All of the transfers were done on a fair value basis in the Standard Chartered PLC (Company) accounts. The result of these transfers was an increase in Investment in Subsidiaries and corresponding dividend income of \$20,989 million. This resulted in an increase to retained earnings but no change to distributable reserves.

In addition to the group reorganisation, Additional Tier 1 issuances of \$900 million by Standard Chartered Bank (Hong Kong) Limited and \$500 million and SGD750 million by Standard Chartered Bank (Singapore) Limited have increased Investments in Subsidiaries.

Classification and measurement of financial instruments

| | 2019 | | | | 2018 | | |
|---|--|--------------------------|--|-----------------|--|--------------------------|-----------------|
| | Derivatives held for hedging \$million | Amortised cost \$million | Non-trading mandatorily at fair value through profit or loss \$million | Total \$million | Derivatives held for hedging \$million | Amortised cost \$million | Total \$million |
| Financial assets | | | | | | | |
| Derivatives | 229 | – | – | 229 | 9 | – | 9 |
| Investment securities | – | 13,665 | 4,502¹ | 18,167 | – | 11,537 | 11,537 |
| Amounts owed by subsidiary undertakings | – | 11,622 | – | 11,622 | – | 17,606 | 17,606 |
| Total | 229 | 25,287 | 4,502 | 30,018 | 9 | 29,143 | 29,152 |

¹ Standard Chartered Bank (Hong Kong) Limited and Standard Chartered Bank (Singapore) Limited issued Loss Absorbing Capacity (LAC) eligible debt securities (2018: nil)

Instruments classified as amortised cost are recorded in stage 1.

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 \$13,665 million (31 December 2018: \$11,537 million).

In 2019 and 2018, amounts owed by subsidiary undertakings have a fair value equal to carrying value.

| | 2019 | | | | 2018 | | |
|---|--|--------------------------|---|-----------------|--|--------------------------|-----------------|
| | Derivatives held for hedging \$million | Amortised cost \$million | Designated at fair value through profit or loss \$million | Total \$million | Derivatives held for hedging \$million | Amortised cost \$million | Total \$million |
| Financial liabilities | | | | | | | |
| Derivatives | 738 | – | – | 738 | 1,128 | – | 1,128 |
| Debt securities in issue | – | 19,713 | 112 | 19,825 | – | 17,202 | 17,202 |
| Subordinated liabilities and other borrowed funds | – | 14,588 | – | 14,588 | – | 13,436 | 13,436 |
| Amounts owed to subsidiary undertakings | – | 26 | – | 26 | – | – | – |
| Total | 738 | 34,327 | 112 | 35,177 | 1,128 | 30,638 | 31,766 |

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 \$19,713 million (31 December 2018: \$17,202 million) and have fair value equal to carrying value.

The fair value of subordinated liabilities and other borrowed funds is \$15,238 million (31 December 2018: \$14,314 million).

39. Standard Chartered PLC (Company) continued

Derivative financial instruments

| | 2019 | | | 2018 | | |
|---|--------------------------------------|------------------|-----------------------|--------------------------------------|------------------|-----------------------|
| | Notional principal amounts \$million | Assets \$million | Liabilities \$million | Notional principal amounts \$million | Assets \$million | Liabilities \$million |
| Derivatives | | | | | | |
| Foreign exchange derivative contracts: | | | | | | |
| Forward foreign exchange | – | 17 | – | – | – | – |
| Currency swaps | 5,114 | – | 642 | 6,864 | – | 818 |
| Other foreign exchange (OTC) | 1,564 | 34 | – | – | – | – |
| Interest rate derivative contracts: | | | | | | |
| Swaps | 13,201 | 178 | 96 | 10,939 | 9 | 310 |
| Total | 19,879 | 229 | 738 | 17,803 | 9 | 1,128 |

Credit risk

Maximum exposure to credit risk

| | 2019 \$million | 2018 \$million |
|---|-------------------|-------------------|
| Derivative financial instruments | 229 | 9 |
| Debt securities | 18,167 | 11,537 |
| Amounts owed by subsidiary undertakings | 11,622 | 17,606 |
| Total | 30,018 | 29,152 |

In 2019 and 2018, amounts owed by subsidiary undertakings were neither past due nor impaired; the Company had no individually impaired loans.

In 2019 and 2018, 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.

There is no material expected credit loss on these instruments as they are stage 1 assets, short term in nature and of a high quality.

Liquidity risk

The following table analyses the residual contractual maturity of the assets and liabilities of the Company on a discounted basis:

| | 2019 | | | | | | | | Total \$million |
|---|-----------------------------|--|---|--|--|--|--|--|--------------------|
| | 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 | |
| Assets | | | | | | | | | |
| Derivative financial instruments | 34 | – | 1 | – | – | 8 | 52 | 134 | 229 |
| Investment securities | – | – | – | – | – | – | 7,024 | 11,143 | 18,167 |
| Amount owed by subsidiary undertakings | – | 5 | 2,104 | – | – | 1,025 | 5,249 | 3,239 | 11,622 |
| Investments in subsidiary undertakings | – | – | – | – | – | – | – | 58,037 | 58,037 |
| Other assets | – | – | – | – | – | – | – | 15 | 15 |
| Total assets | 34 | 5 | 2,105 | – | – | 1,033 | 12,325 | 72,568 | 88,070 |
| Liabilities | | | | | | | | | |
| Derivative financial instruments | – | – | 3 | – | 286 | 229 | 127 | 93 | 738 |
| Senior debt | – | – | 2,104 | – | – | 2,547 | 7,734 | 7,328 | 19,713 |
| Amount owed to subsidiary undertakings | – | – | – | – | – | – | – | 26 | 26 |
| Other liabilities | 298 | 86 | 68 | 7 | 20 | – | – | 36 | 515 |
| Subordinated liabilities and other borrowed funds | – | – | – | – | – | – | 5,478 | 9,110 | 14,588 |
| Total liabilities | 298 | 86 | 2,175 | 7 | 306 | 2,776 | 13,339 | 16,593 | 35,580 |
| Net liquidity gap | (264) | (81) | (70) | (7) | (306) | (1,743) | (1,014) | 55,975 | 52,490 |

39. Standard Chartered PLC (Company) continued

Liquidity risk continued

| | 2018 | | | | | | | | |
|--|-----------------------------|--|---|--|--|--|--|--|-----------------|
| | 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 | — | — | — | — | — | 3 | — | 6 | 9 |
| Investment securities | — | — | — | — | — | 1,698 | 3,960 | 5,879 | 11,537 |
| Amount owed by subsidiary undertakings | 1,318 | — | — | 2,759 | — | 2,093 | 7,070 | 4,366 | 17,606 |
| Investments in subsidiary undertakings | — | — | — | — | — | — | — | 34,853 | 34,853 |
| Other assets | — | — | — | — | — | — | — | — | — |
| Total assets | 1,318 | — | — | 2,759 | — | 3,794 | 11,030 | 45,104 | 64,005 |

| | 2018 | | | | | | | | |
|---|-----------------------------|--|---|--|--|--|--|--|-----------------|
| | One month or less \$million | Between one month and three months \$million | Between three months and six months \$million | Between six months and nine months \$million | Between nine months and one year \$million | Between one year and two years \$million | Between two years and five years \$million | More than five years and undated \$million | Total \$million |
| Liabilities | | | | | | | | | |
| Derivative financial instruments | 83 | — | — | 9 | — | 260 | 324 | 452 | 1,128 |
| Senior debt | 1,031 | — | — | 2,731 | — | 2,079 | 5,402 | 5,959 | 17,202 |
| Other liabilities | 201 | 91 | 59 | — | 21 | — | — | 19 | 391 |
| Subordinated liabilities and other borrowed funds | — | — | — | — | — | 1,472 | 4,368 | 7,596 | 13,436 |
| Total liabilities | 1,315 | 91 | 59 | 2,740 | 21 | 3,811 | 10,094 | 14,026 | 32,157 |
| Net liquidity gap | 3 | (91) | (59) | 19 | (21) | (17) | 936 | 31,078 | 31,848 |

Financial liabilities on an undiscounted basis

| | 2019 | | | | | | | | |
|---|-----------------------------|--|---|--|--|--|--|--|-----------------|
| | 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 | | | | | | | | | |
| Derivative financial instruments | — | — | — | — | — | — | — | — | — |
| Debt securities in issue | — | 18 | 2,331 | 18 | 250 | 3,030 | 8,879 | 8,145 | 22,671 |
| Subordinated liabilities and other borrowed funds | — | — | 221 | 26 | 361 | 618 | 7,002 | 14,166 | 22,394 |
| Other liabilities | 172 | 86 | 68 | 7 | 20 | — | — | 13 | 366 |
| Total liabilities | 172 | 104 | 2,620 | 51 | 631 | 3,648 | 15,881 | 22,324 | 45,431 |

| | 2018 | | | | | | | | |
|---|-----------------------------|--|---|--|--|--|--|--|-----------------|
| | 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 | | | | | | | | | |
| Derivative financial instruments | 83 | — | — | 9 | — | 260 | 324 | 452 | 1,128 |
| Debt securities in issue | 1,031 | 7 | 172 | 2,765 | 241 | 2,408 | 6,175 | 6,633 | 19,432 |
| Subordinated liabilities and other borrowed funds | — | — | 221 | — | 362 | 2,055 | 5,975 | 12,789 | 21,402 |
| Other liabilities | 201 | 91 | 59 | — | 21 | — | — | 20 | 392 |
| Total liabilities | 1,315 | 98 | 452 | 2,774 | 624 | 4,723 | 12,474 | 19,894 | 42,354 |

40. Related undertakings of the Group

As at 31 December 2019, the Group's interests in related undertakings are disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of the Group. Standard Chartered Bank (Hong Kong) Limited, Standard Chartered Funding (Jersey) Limited, Stanchart Nominees Limited, Standard Chartered Holdings Limited and Standard Chartered Nominees Limited are directly held subsidiaries, all other related undertakings are held indirectly. Unless otherwise stated, the principal country of operation of each subsidiary is the same as its country of incorporation. 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 (%) |
|--|--------------------------|--|-------------------------------|
| <i>The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom</i> | | | |
| 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 Transport Leasing 1 Limited | United Kingdom | £1.00 Ordinary shares | 100 |
| SC Transport Leasing 2 Limited | United Kingdom | £1.00 Ordinary shares | 100 |
| SC Ventures Innovation Investment L.P. | United Kingdom | Limited Partnership interest | 100 |
| SCMB Overseas Limited | United Kingdom | £0.10 Ordinary shares | 100 |
| Stanchart Nominees Limited | United Kingdom | £1.00 Ordinary shares | 100 |
| Standard Chartered Africa Limited | United Kingdom | £1.00 Ordinary shares | 100 |
| Standard Chartered Bank | United Kingdom | \$0.01 Non-Cumulative Irredeemable Preference shares \$5.00 Non-Cumulative Redeemable Preference shares \$1.00 Ordinary shares | 100 100 100 |
| Standard Chartered Foundation ¹ | United Kingdom | Guarantor | 100 |
| Standard Chartered Health Trustee (UK) Limited | United Kingdom | £1.00 Ordinary shares | 100 |
| Standard Chartered Holdings Limited | United Kingdom | \$2.00 Ordinary shares | 100 |
| 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 | 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 | United Kingdom | Limited Partnership interest | 100 |
| The SC Transport Leasing Partnership 2 | United Kingdom | Limited Partnership interest | 100 |
| The SC Transport Leasing Partnership 3 | United Kingdom | Limited Partnership interest | 100 |
| The SC Transport Leasing Partnership 4 | United Kingdom | Limited Partnership interest | 100 |
| The BW Leasing Partnership 1 LP ¹ | United Kingdom | Limited Partnership interest | 100 |
| The BW Leasing Partnership 2 LP ¹ | United Kingdom | Limited Partnership interest | 100 |
| The BW Leasing Partnership 3 LP ¹ | United Kingdom | Limited Partnership interest | 100 |
| The BW Leasing Partnership 4 LP ¹ | United Kingdom | Limited Partnership interest | 100 |
| The BW Leasing Partnership 5 LP ¹ | United Kingdom | Limited Partnership interest | 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 (%) |
|---|--------------------------|---|-------------------------------|
| <i>The following companies have the address of 2 More London Riverside, London SE1 2JT, United Kingdom</i> | | | |
| Bricks (C&K) LP ¹ | United Kingdom | Limited Partnership interest | 100 |
| Bricks (O) LP ¹ | United Kingdom | Limited Partnership interest | 100 |
| Bricks (M) LP | United Kingdom | Limited Partnership interest | 100 |
| Bricks (P) LP ¹ | United Kingdom | Limited Partnership interest | 100 |
| Bricks (T) LP ¹ | United Kingdom | Limited Partnership interest | 100 |
| <i>The following company has the address of 8th Floor, 20 Farringdon Street, London, EC4A 4AB, United Kingdom.</i> | | | |
| SC Ventures G.P. Limited | United Kingdom | £1.00 Ordinary shares | 100 |
| <i>The following company has the address of Rua Gamal Abdel Nasser, Edifício Tres Torres, Eixo Víario, Distrito Urbano da Ingombota, Município de Luanda, Província de Luanda, Angola</i> | | | |
| Standard Chartered Bank Angola S.A. | Angola | AOK8,742.05 Ordinary shares | 60 |
| <i>The following company has the address of Level 5, 345 George St, Sydney NSW 2000, Australia</i> | | | |
| Standard Chartered Grindlays Pty Limited | Australia | AUD Ordinary shares | 100 |
| <i>The following companies have the address of 5th Floor Standard House Bldg, The Mall, Queens Road, PO Box 496, Gaborone, Botswana</i> | | | |
| Standard Chartered Bank Insurance Agency (Proprietary) Limited | Botswana | BWP Ordinary shares | 100 |
| Standard Chartered Investment Services (Proprietary) Limited | Botswana | BWP Ordinary shares | 100 |
| Standard Chartered Bank Botswana Limited | Botswana | BWP Ordinary shares | 75.8 |
| Standard Chartered Botswana Education Trust ² | Botswana | Interest in trust | 100 |
| Standard Chartered Botswana Nominees (Proprietary) Limited | Botswana | BWP Ordinary shares | 100 |
| <i>The following company has the address of Avenida Brigadeiro Faria Lima, 3600 – 7th floor, São Paulo, São Paulo, 04538-132, Brazil</i> | | | |
| Standard Chartered Bank (Brasil) S.A. – Banco de Investimento | Brazil | BRL Ordinary shares | 100 |
| <i>The following company has the address of Av. Brigadeiro Faria Lima, 3600 – 7º andar, conj 72 04538-132, São Paulo, Brazil.</i> | | | |
| Standard Chartered Representação Ltda | Brazil | BRL1.00 Ordinary shares | 100 |
| <i>The following company has the address of 51-55 Jalan Sultan, Complex Jalan sultan, Bandar Seri Begawan, BS8811, Brunei Darussalam</i> | | | |
| Standard Chartered Finance (Brunei) Bhd | Brunei Darussalam | BND1.00 Ordinary shares | 100 |
| <i>The following company has the address of G01-02, Wisma Haji Mohd Taha Building, Jalan Gadong, BE4119, Brunei Darussalam</i> | | | |
| Standard Chartered Securities (B) Sdn Bhd | Brunei Darussalam | BND1.00 Ordinary shares | 100 |
| <i>The following company has the address of 1155, Boulevard de la Liberté, Douala, B.P. 1784, Cameroon</i> | | | |
| Standard Chartered Bank Cameroon S.A | Cameroon | XAF10,000.00 Ordinary shares | 100 |
| <i>The following company has the address of 20 Adelaide Street, Suite 1105, Toronto ON M5C 2T6 Canada</i> | | | |
| Standard Chartered (Canada) Limited | Canada | CAD1.00 Ordinary shares | 100 |
| <i>The following company has the address of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands</i> | | | |
| Cerulean Investments LP | Cayman Islands | Limited Partnership interest | 100 |
| <i>The following company has the address of Maples Finance Limited, PO Box 1093 GT, Queensgate House, Georgetown, Grand Cayman, Cayman Islands</i> | | | |
| SCB Investment Holding Company Limited | Cayman Islands | \$1,000.00 A Ordinary shares \$1.00 Class X shares | 100 100 |

40. Related undertakings of the Group continued

Subsidiary Undertakings continued

| Name and registered address | Country of incorporation | Description of shares | Proportion of shares held (%) |
|--|--------------------------|--|-------------------------------|
| <i>The following companies have the address of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road George Town, Grand Cayman KY1-9008, Cayman Islands</i> | | | |
| Sirat Holdings Limited | Cayman Islands | \$0.01 Ordinary shares \$0.01 Preference shares | 100 100 |
| Standard Chartered Principal Finance (Cayman) Limited ⁴ | Cayman Islands | \$0.0001 Ordinary shares | 100 |
| <i>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</i> | | | |
| Sunflower Cayman SPC | Cayman Islands | \$1.00 Management shares | 100 |
| <i>The following company has the address of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands</i> | | | |
| Standard Chartered Saadiq Mudarib Company Limited | Cayman Islands | \$1.00 Ordinary shares | 100 |
| <i>The following company has the address of No. 1034, Managed by Tianjin Dongjiang Secretarial Services , Co., Ltd., Room 202, Office Area of Inspection Warehouse, No.6262 Ao Zhou Road, Dongjiang Free Trade Port Zone, Tianjin Pilot Free Trade Zone, China</i> | | | |
| Pembroke Aircraft Leasing (Tianjin) Limited ³ | China | \$1.00 Ordinary shares | 100 |
| <i>The following company has the address of No. 1035, Managed by Tianjin Dongjiang Secretarial Services , Co., Ltd., Room 202, Office Area of Inspection Warehouse, No.6262 Ao Zhou Road, Dongjiang Free Trade Port Zone, Tianjin Pilot Free Trade Zone, China</i> | | | |
| Pembroke Aircraft Leasing Tianjin 1 Limited ³ | China | CNY1.00 Ordinary shares | 100 |
| <i>The following company has the address of No. 1036, Managed by Tianjin Dongjiang Secretarial Services , Co., Ltd., Room 202, Office Area of Inspection Warehouse, No.6262 Ao Zhou Road, Dongjiang Free Trade Port Zone, Tianjin Pilot Free Trade Zone, China</i> | | | |
| Pembroke Aircraft Leasing Tianjin 2 Limited ³ | China | CNY1.00 Ordinary shares | 100 |
| <i>The following company has the address of Standard Chartered Tower, 201 Century Avenue, Pudong, Shanghai 200120, China</i> | | | |
| Standard Chartered Bank (China) Limited ³ | China | CNY Ordinary shares | 100 |
| <i>The following company has the address of 26F, Fortune Financial Centre, #5, Dong San Huan Zhong Lu, Chaoyang District, Beijing, P. R. China.</i> | | | |
| Standard Chartered Corporate Advisory Co. Ltd ³ | China | \$1.00 Ordinary shares | 100 |
| <i>The following company has the address of No. 188 Yeshen Rd, 11F, A-1161 RM, Pudong New District, Shanghai 31201308, China</i> | | | |
| Standard Chartered Trading (Shanghai) Limited ³ | China | \$15,000,000.00 Ordinary shares | 100 |
| <i>The following company has the address of No. 35, Xinhuanbei Road, TEDA, Tianjin, 300457, China</i> | | | |
| Standard Chartered Global Business Services Co. Limited ³ | China | \$ Ordinary shares | 100 |
| <i>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</i> | | | |
| Standard Chartered Bank Cote d' Ivoire SA | Cote d'Ivoire | XOF100,000.00 Ordinary shares | 100 |
| <i>The following company has the address of Standard Chartered Bank France, 32 Rue de Monceau,75008, Paris, France</i> | | | |
| Pembroke Lease France SAS | France | €1.00 Ordinary shares | 100 |
| <i>The following company has the address of 8 Ecwas Avenue, PMB 259 Banjul, The Gambia</i> | | | |
| Standard Chartered Bank Gambia Limited | The Gambia | GMD1.00 Ordinary shares | 74.8 |
| <i>The following company has the address of Taunusanlage 16, 60325, Frankfurt am Main, Germany</i> | | | |
| Standard Chartered Bank AG | Germany | € 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 (%) |
|---|--------------------------|---------------------------|-------------------------------|
| <i>The following companies have the address of Standard Chartered Bank Building, 87 Independence Avenue, P.O. Box 768, Accra, Ghana</i> | | | |
| Standard Chartered Bank Ghana Limited | Ghana | GHS Ordinary shares | 69.4 |
| | | GHS0.52 Preference shares | 87.0 |
| <i>The following companies have the address of Bordeaux Court, Les Echelons, South Esplanade, St.Peter Port, Guernsey</i> | | | |
| 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 |
| <i>The following company has the address of 15/F, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong</i> | | | |
| Horsford Nominees Limited | Hong Kong | HKD Ordinary shares | 100 |
| <i>The following companies have the address of 14th Floor, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong</i> | | | |
| Kozagi Limited | Hong Kong | HKD Ordinary shares | 100 |
| Majestic Legend Limited | Hong Kong | HKD Ordinary shares | 100 |
| Ori Private Limited | Hong Kong | \$ Ordinary shares | 100 |
| | | \$ A Ordinary shares | 90.7 |
| | | \$ B Ordinary shares | 100 |
| Standard Chartered PF Real Estate (Hong Kong) Limited | Hong Kong | \$ Ordinary shares | 100 |
| <i>The following companies have the address of 25/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong</i> | | | |
| 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 |
| 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 |
| SC Digital Solutions Limited | Hong Kong | HKD Ordinary shares | 65.1 |
| Standard Chartered Leasing Group Limited | Hong Kong | \$ Ordinary shares | 100 |
| Standard Chartered Trade Support (HK) Limited | Hong Kong | HKD 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 (%) |
|---|--------------------------|--|---------------------------------|
| <i>The following company has the address of 3/F Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong</i> | | | |
| Standard Chartered Private Equity Limited | Hong Kong | HKD Ordinary shares \$ Ordinary shares | 100 100 |
| <i>The following company has the address of 13/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong</i> | | | |
| Standard Chartered Trust (Hong Kong) Limited | Hong Kong | HKD Ordinary shares | 100 |
| <i>The following company has the address of 3/F Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong</i> | | | |
| Standard Chartered Private Equity Managers (Hong Kong) Limited | Hong Kong | HKD Ordinary shares | 100 |
| <i>The following company has the address of 15/F, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong</i> | | | |
| Standard Chartered Securities (Hong Kong) Limited | Hong Kong | HKD Ordinary shares | 100 |
| <i>The following company has the address of 21/F, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong</i> | | | |
| Standard Chartered Asia Limited | Hong Kong | HKD Deferred shares HKD Ordinary shares \$ Ordinary shares | 100 100 100 |
| <i>The following companies have the address of 32/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong</i> | | | |
| Standard Chartered Sherwood (HK) Limited | Hong Kong | HKD Ordinary shares | 100 |
| Standard Chartered Bank (Hong Kong) Limited | Hong Kong | HKD A Ordinary shares HKD B Ordinary shares \$ D Ordinary shares \$ C Ordinary shares \$ Preference shares | 100 100 100 100 100 |
| <i>The following company has the address of 1st Floor, Europe Building, No.1, Haddows Road, Nungambakkam, Chennai, 600 006, India</i> | | | |
| Standard Chartered Global Business Services Private Limited | India | INR10.00 Ordinary shares | 100 |
| <i>The following company has the address of 90 M.G.Road, II Floor, Fort, Mumbai, Maharashtra, 400 001, India</i> | | | |
| Standard Chartered Finance Private Limited | India | INR10.00 Ordinary shares | 98.7 |
| <i>The following companies have the address of Crescenzo, 6th Floor, Plot No 38-39, G Block, Bandra Kurla Complex, Bandra East, Mumbai, Maharashtra, 400051, India</i> | | | |
| Standard Chartered (India) Modeling and Analytics Centre Private Limited | India | INR10.00 Ordinary shares | 100 |
| Standard Chartered Investments and Loans (India) Limited | India | INR10.00 Ordinary shares | 100 |
| St Helen's Nominees India Private Limited | India | INR10.00 Ordinary shares | 100 |
| <i>The following company has the address of Crescenzo, 7th Floor, Plot No 38-39, G Block, Bandra Kurla Complex, Bandra East, Mumbai, Maharashtra, 400051, India</i> | | | |
| Standard Chartered Private Equity Advisory (India) Private Limited | India | INR1,000.00 Ordinary shares | 100 |
| <i>The following company has the address of Second Floor, Indique Edge, Khata No. 571/630/6/4, Sy.No.6/4, Ambalipura Village, Varthur Hobli, Marathahalli Sub-Division, Ward No. 150, Bengaluru, 560102, India.</i> | | | |
| Standard Chartered Research and Technology India Private Limited | India | INR10.00 Ordinary shares | 100 |
| <i>The following company has the address of 2nd Floor, 23-25 M.G. Road, Fort, Mumbai, 400 001, India</i> | | | |
| Standard Chartered Securities (India) Limited | India | INR10.00 Ordinary shares | 100 |
| <i>The following company has the address of No. 157-157 A, Jakarta Barat, 11130, Indonesia.</i> | | | |
| PT. Price Solutions Indonesia (dalam likuidasi) | Indonesia | \$100.00 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 (%) |
|--|--------------------------|---|-------------------------------|
| <i>The following companies have the address of 32 Molesworth Street, Dublin 2, D02 Y512, Ireland</i> | | | |
| Inishbrophy Leasing Limited | Ireland | €1.00 Ordinary shares | 100 |
| Inishcannon 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 |
| Inishlynch Leasing Limited | Ireland | €1.00 Ordinary shares | 100 |
| Inishoo Leasing Limited | Ireland | \$1.00 Ordinary shares | 100 |
| Nightjar Limited | Ireland | \$1.00 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 13 Limited | Ireland | \$1.00 Ordinary shares | 100 |
| Pembroke Aircraft Leasing 14 Limited | Ireland | \$1.00 Ordinary shares | 100 |
| Pembroke Aircraft Leasing 15 Limited | Ireland | \$1.00 Ordinary shares | 100 |
| Pembroke Aircraft Leasing 16 Limited | Ireland | \$1.00 Ordinary shares | 100 |
| Pembroke Aircraft Leasing Holdings Limited | Ireland | \$1.00 Ordinary shares | 100 |
| Pembroke Capital Limited | Ireland | €1.25 Ordinary shares \$1.00 Ordinary shares | 100 100 |
| Pembroke Capital Shannon Limited | Ireland | €1.25 Ordinary shares | 100 |
| Skua Limited | Ireland | \$1.00 Ordinary shares | 100 |
| <i>The following company has the address of First Names House, Victoria Road, Douglas, IM2 4DF, Isle of Man</i> | | | |
| Pembroke Group Limited ⁵ | Isle of Man | \$0.01 Ordinary shares | 100 |
| <i>The following companies have the address of 1st Floor, Goldie House, 1-4 Goldie Terrace, Upper Church Street, Douglas, IM1 1EB, Isle of Man</i> | | | |
| Standard Chartered Assurance Limited | Isle of Man | \$1.00 Ordinary shares \$1.00 Redeemable Preference shares | 100 100 |
| Standard Chartered Insurance Limited ⁶ | Isle of Man | \$1.00 Ordinary shares | 100 |
| <i>The following company has the address of 21/F, Sanno Park Tower, 2-11-1 Nagatacho, Chiyoda-ku, Tokyo, 100-6155, Japan</i> | | | |
| Standard Chartered Securities (Japan) Limited | Japan | JPY50,000 Ordinary shares | 100 |
| <i>The following company has the address of 15 Castle Street, St Helier, JE4 8PT, Jersey</i> | | | |
| SCB Nominees (CI) Limited | Jersey | \$1.00 Ordinary shares | 100 |
| <i>The following company has the address of IFC 5, St Helier, JE1 1ST, Jersey</i> | | | |
| Standard Chartered Funding (Jersey) Limited ⁶ | Jersey | £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 (%) |
|--|--------------------------|--|-------------------------------|
| <i>The following companies have the address of StandardChartered@Chiromo, Number 48, Westlands Road, P. O. Box 30003 – 00100, Nairobi, Kenya</i> | | | |
| Standard Chartered Investment Services Limited | Kenya | KES20.00 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 |
| <i>The following company has the address of M6-2701, West 27Fl, Suha-dong, 26, Eulji-ro 5-gil, Jung-gu, Seoul, Korea, Republic of</i> | | | |
| Resolution Alliance Korea Ltd ⁴ | Korea, Republic of | KRW5,000.00 Ordinary shares | 100 |
| <i>The following companies have the address of 2/F, 47 Jongno, Jongno-gu, Seoul, 110-702, Korea, Republic of</i> | | | |
| Standard Chartered Bank Korea Limited | Korea, Republic of | KRW5,000.00 Ordinary shares | 100 |
| Standard Chartered Securities Korea Limited | Korea, Republic of | KRW5,000.00 Ordinary shares | 100 |
| <i>The following company has the address of 17/F, 100, Gongpyeong-dong, Jongno-gu, Seoul, Korea, Republic of</i> | | | |
| Ascenta II | Korea, Republic of | Partnership interest | 100 |
| <i>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</i> | | | |
| Standard Chartered Metropolitan Holdings SAL | Lebanon | \$10.00 Ordinary A shares | 100 |
| <i>The following companies have the address of Level 16, Menara Standard Chartered, 30, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia</i> | | | |
| Cartaban (Malaya) Nominees Sdn Berhad | Malaysia | RM Ordinary shares | 100 |
| Cartaban Nominees (Asing) Sdn Bhd | Malaysia | RM Ordinary shares | 100 |
| Cartaban Nominees (Tempatan) Sdn Bhd | Malaysia | RM Ordinary shares | 100 |
| Golden Maestro Sdn Bhd | Malaysia | RM Ordinary shares | 100 |
| Popular Ambience Sdn Bhd | Malaysia | RM Ordinary shares | 100 |
| Price Solutions Sdn Bhd | Malaysia | RM Ordinary shares | 100 |
| SCBMB Trustee Berhad | Malaysia | RM Ordinary shares | 100 |
| Standard Chartered Bank Malaysia Berhad | Malaysia | RM Irredeemable Cumulative Preference shares | 100 |
| | | RM Ordinary shares | 100 |
| Standard Chartered Saadiq Berhad | Malaysia | RM Ordinary shares | 100 |
| <i>The following companies have the address of Brumby Centre, Lot 42, Jalan Muhibbah, 87000 Labuan F.T., Malaysia</i> | | | |
| Marina Morganite Shipping Limited ⁷ | Malaysia | \$ Ordinary shares | 100 |
| Marina Moss Shipping Limited ⁷ | Malaysia | \$ Ordinary shares | 100 |
| Marina Tanzanite Shipping Limited ⁷ | Malaysia | \$ Ordinary shares | 100 |
| Pembroke Leasing (Labuan) 3 Berhad | Malaysia | \$ Ordinary shares | 100 |
| <i>The following company has the address of N8, Jalan Kerinchi, 59200 Kuala Lumpur, Wilayah Persekutuan, Malaysia</i> | | | |
| Resolution Alliance Sdn Bhd ¹ | Malaysia | RM Ordinary shares | 91 |
| <i>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</i> | | | |
| Standard Chartered Global Business Services Sdn Bhd | Malaysia | RM 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 (%) |
|---|--------------------------|---|-------------------------------|
| <i>The following companies have the address of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands</i> | | | |
| Marina Alysse Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Amandier Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Ambroisee Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Angelica Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Aventureine Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Buxus Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Celsie Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Citrine Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Dahlia Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Dittany Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Dorado Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Lilac Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Lolite Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Obsidian Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Pissenlet Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Protea Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Quartz Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Remora Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Turquoise Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| Marina Zircon Shipping Limited ⁷ | Marshall Islands | \$1.00 Ordinary shares | 100 |
| <i>The following companies have the address of SGG Corporate Services (Mauritius) Ltd, 33, Edith Cavell St, Port Louis, 11324, Mauritius</i> | | | |
| Actis Asia Real Estate (Mauritius) Limited | Mauritius | \$1.00 Class A shares \$1.00 Class B shares | 100 100 |
| Actis Treit Holdings (Mauritius) Limited ¹ | Mauritius | \$1.00 Class A shares \$1.00 Class B shares | 62 62 |
| <i>The following company has the address of 6/F, Standard Chartered Tower, 19, Bank Street, Cybercity, Ebene, 72201, Mauritius</i> | | | |
| Standard Chartered Bank (Mauritius) Limited | Mauritius | \$ Ordinary shares | 100 |
| <i>The following companies have the address of c/o Abax Corporate Services Ltd, 6/F, Tower A, 1 CYBERCITY, Ebene, Mauritius</i> | | | |
| 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 \$ Redeemable Preference shares | 100 100 |
| Standard Chartered Private Equity (Mauritius) III Limited | Mauritius | \$1.00 Ordinary shares | 100 |
| <i>The following company has the address of 5/F, Ebene Esplanade, 24 Bank Street, Cybercity, Ebene, Mauritius</i> | | | |
| Subcontinental Equities Limited | Mauritius | \$1.00 Ordinary shares | 100 |
| <i>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</i> | | | |
| Standard Chartered Bank Nepal Limited | Nepal | NPR100.00 Ordinary shares | 70.2 |
| <i>The following company has the address of Hoogoorddreef 15, 1101 BA, Amsterdam, Netherlands</i> | | | |
| Pembroke Holland B.V. | Netherlands | €450.00 Ordinary shares | 100 |
| <i>The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom</i> | | | |
| Standard Chartered Holdings (Africa) B.V. ⁶ | Netherlands | €4.50 Ordinary shares | 100 |
| Standard Chartered Holdings (Asia Pacific) B.V. ⁶ | Netherlands | €4.50 Ordinary shares | 100 |
| Standard Chartered Holdings (International) B.V. ⁶ | Netherlands | €4.50 Ordinary shares | 100 |
| Standard Chartered MB Holdings B.V. ⁶ | Netherlands | €4.50 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 (%) |
|--|--------------------------|---|-------------------------------|
| <i>The following companies have the address of 142 Ahmadu Bello Way, Victoria Island, Lagos, Nigeria</i> | | | |
| 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 |
| <i>The following company has the address of 3/F Main SCB Building, I.I. Chundrigar Road, Karachi, Sindh, 74000, Pakistan</i> | | | |
| Price Solution Pakistan (Private) Limited | Pakistan | PKR10.00 Ordinary shares | 100 |
| <i>The following company has the address of P.O. Box No. 5556 I.I. Chundrigar Road, Karachi, 74000, Pakistan</i> | | | |
| Standard Chartered Bank (Pakistan) Limited | Pakistan | PKR10.00 Ordinary shares | 98.9 |
| <i>The following company has the address of ul. Towarowa 25A, 00-869 Warszawa, Poland</i> | | | |
| Standard Chartered Global Business Services spółka z ograniczoną odpowiedzialnością | Poland | PLN50.00 Ordinary shares | 100 |
| <i>The following company has the address of Offshore Chambers, PO Box 217, Apia, Western Samoa</i> | | | |
| Standard Chartered Nominees (Western Samoa) Limited | Samoa | \$1.00 Ordinary shares | 100 |
| <i>The following company has the address of Al Faisaliah Office Tower, 7/F, King Fahad Highway, Olaya District, Riyadh P.O box 295522, Riyadh, 11351, Saudi Arabia</i> | | | |
| Standard Chartered Capital (Saudi Arabia) | Saudi Arabia | SAR10.00 Ordinary shares | 100 |
| <i>The following company has the address of 9 & 11, Lightfoot Boston Street, Freetown, Sierra Leone</i> | | | |
| Standard Chartered Bank Sierra Leone Limited | Sierra Leone | SLL1.00 Ordinary shares | 80.7 |
| <i>The following company has the address of 8 Marina Boulevard, Level 23, Marina Bay Financial Centre, Tower 1, 018981, Singapore</i> | | | |
| Standard Chartered Private Equity (Singapore) Pte. Ltd | Singapore | \$ Ordinary shares | 100 |
| <i>The following companies have the address of 8 Marina Boulevard, Level 26, Marina Bay Financial Centre, Tower 1, 018981, Singapore</i> | | | |
| 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 |

40. Related undertakings of the Group continued

Subsidiary Undertakings continued

| Name and registered address | Country of incorporation | Description of shares | Proportion of shares held (%) |
|--|------------------------------|--|-------------------------------|
| <i>The following companies have the address of 9 Raffles Place, #27-00 Republic Plaza, 048619, Singapore.</i> | | | |
| Actis RE Investment 1 Private Limited ¹ | Singapore | SGD Ordinary shares | 100 |
| Actis RE Investment 2 Private Limited ¹ | Singapore | SGD Ordinary shares | 100 |
| Actis RE Investment 3 Private Limited ¹ | Singapore | SGD Ordinary shares | 100 |
| Actis RE Investment 4 Private Limited ¹ | Singapore | SGD Ordinary shares | 100 |
| Actis Treit Holdings No.1 (Singapore) Private Limited ¹ | Singapore | SGD Ordinary shares | 100 |
| Actis Treit Holdings No.2 (Singapore) Private Limited ¹ | Singapore | SGD Ordinary shares | 100 |
| <i>The following company has the address of 7 Changi Business Park Crescent, #03-00 Standard Chartered @ Changi, 486028, Singapore</i> | | | |
| Raffles Nominees (Pte.) Limited | Singapore | SGD Ordinary shares | 100 |
| <i>The following companies have the address of 8 Marina Boulevard, Level 27, Marina Bay Financial Centre, Tower 1, 018981, Singapore</i> | | | |
| SCTS Capital Pte. Ltd | Singapore | SGD Ordinary shares | 100 |
| SCTS Management Pte. Ltd. | Singapore | SGD Ordinary shares | 100 |
| Standard Chartered Bank (Singapore) Limited | Singapore | SGD Ordinary shares SGD Preference shares \$ Ordinary shares \$ Preference shares | 100 100 100 100 |
| Standard Chartered Trust (Singapore) Limited | Singapore | SGD Ordinary shares | 100 |
| Standard Chartered Holdings (Singapore) Private Limited | Singapore | SGD Ordinary shares \$ Ordinary shares | 100 100 |
| <i>The following companies have the address of Abogado Pte Ltd, No. 8 Marina Boulevard, #05-02 MBFC Tower 1, 018981, Singapore</i> | | | |
| Standard Chartered IL&FS Management (Singapore) Pte. Limited | Singapore | \$ Ordinary shares | 50 |
| Standard Chartered PF Managers Pte. Limited | Singapore | \$ Ordinary shares | 100 |
| Standard Chartered Real Estate Investment Holdings (Singapore) Private Limited | Singapore | \$ Ordinary shares | 100 |
| <i>The following company has the address of 9 Battery Road, #15-01 Straits Trading Building, 049910, Singapore</i> | | | |
| Standard Chartered Nominees (Singapore) Pte Ltd | Singapore | SGD Ordinary shares | 100 |
| <i>The following company has the address of 5/F, 4 Sandown Valley Crescent, Sandton, Gauteng, 2196, South Africa</i> | | | |
| CMB Nominees (RF) PTY Limited | South Africa | ZAR1.00 Ordinary shares | 100 |
| <i>The following company has the address of 2nd Floor, 115 West Street, Sandton, Johannesburg, 2196, South Africa</i> | | | |
| Standard Chartered Nominees South Africa Proprietary Limited (RF) | South Africa | ZAR Ordinary shares | 100 |
| <i>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</i> | | | |
| Standard Chartered Bank (Taiwan) Limited | Taiwan | TWD10.00 Ordinary shares | 100 |
| <i>The following companies have the address of 1 Floor, International House, Shaaban Robert Street / Garden Avenue, PO Box 9011, Dar Es Salaam, Tanzania, United Republic of</i> | | | |
| Standard Chartered Bank Tanzania Limited | Tanzania, United Republic of | TZS1,000.00 Ordinary shares TZS1,000.00 Preference shares | 100 100 |
| Standard Chartered Tanzania Nominees Limited | Tanzania, United Republic of | TZS1,000.00 Ordinary shares | 100 |
| <i>The following company has the address of 100 North Sathorn Road, Silom, Bangrak Bangkok , 10500, Thailand</i> | | | |
| Standard Chartered Bank (Thai) Public Company Limited | Thailand | THB10.00 Ordinary shares | 99.9 |
| <i>The following company has the address of Buyukdere Cad. Yapi Kredi Plaza C Blok, Kat 15, Levent, Istanbul, 34330, Turkey</i> | | | |
| Standard Chartered Yatirim Bankasi Turk Anonim Sirketi | Turkey | TRL0.10 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 (%) |
|---|--------------------------|-----------------------------|-------------------------------|
| <i>The following company has the address of Standard Chartered Bank Bldg, 5 Speke Road, PO Box 7111, Kampala, Uganda</i> | | | |
| Standard Chartered Bank Uganda Limited | Uganda | UGS1,000.00 Ordinary shares | 100 |
| <i>The following company has the address of 505 Howard St. #201, San Francisco, CA 94105, United States</i> | | | |
| SC Studios, LLC | United States | Membership Interest | 100 |
| <i>The following company has the address of Standard Chartered Bank, 37F, 1095 Avenue of the Americas, New York 10036, United States</i> | | | |
| Standard Chartered Bank International (Americas) Limited | United States | \$1,000.00 Ordinary shares | 100 |
| <i>The following companies have the address of Corporation Trust Centre, 1209 Orange Street, Wilmington DE 19801, United States</i> | | | |
| Standard Chartered Holdings Inc. | United States | \$100.00 Common shares | 100 |
| Standard Chartered Capital Management (Jersey), LLC | United States | \$ Ordinary shares | 100 |
| Standard Chartered Securities (North America) LLC | United States | Membership Interest | 100 |
| StanChart Securities International LLC | United States | Membership Interest | 100 |
| Standard Chartered International (USA) LLC | United States | Membership Interest | 100 |
| <i>The following company has the address of 50 Fremont Street, San Francisco CA 94105, United States</i> | | | |
| Standard Chartered Overseas Investment, Inc. | United States | \$10.00 Ordinary shares | 100 |
| <i>The following company has the address of C/O Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808, United States</i> | | | |
| Standard Chartered Trade Services Corporation | United States | \$0.01 Common shares | 100 |
| <i>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</i> | | | |
| Standard Chartered Bank (Vietnam) Limited | Vietnam | VND Charter Capital shares | 100 |
| <i>The following companies have the address of Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, Virgin Islands, British</i> | | | |
| Sky Favour Investments Limited ⁷ | Virgin Islands, British | \$1.00 Ordinary shares | 100 |
| Sky Harmony Holdings Limited ⁷ | Virgin Islands, British | \$1.00 Ordinary shares | 100 |
| <i>The following companies have the address of Standard Chartered House, Cairo Road, Lusaka, PO BOX 32238, Zambia</i> | | | |
| Standard Chartered Bank Zambia Plc | Zambia | ZMW0.25 Ordinary shares | 90 |
| Standard Chartered Zambia Securities Services Nominees Limited | Zambia | ZMW1.00 Ordinary shares | 100 |
| <i>The following companies have the address of Africa Unity Square Building, 68 Nelson Mandela Avenue, Harare, Zimbabwe</i> | | | |
| Africa Enterprise Network Trust ² | Zimbabwe | Interest in Trust | 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 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

2 No share capital by virtue of being a trust

3 Limited liability company

4 The Group has determined the principle country of operation to be Singapore

5 The Group has determined the principle country of operation to be Ireland

6 The Group has determined the principle country of operation to be the United Kingdom

7 The Group has determined the principle country of operation to be Hong Kong

40. Related undertakings of the Group continued

Joint ventures

| Name | Country of Incorporation | Description of shares | Proportion of shares held (%) |
|---|--------------------------|--------------------------|-------------------------------|
| <i>The following company has the address of WTC II Building, Jalan Jenderal Sudirman Kav29-31, Jakarta, 12920' Indonesia</i> | | | |
| PT Bank Permata Tbk | Indonesia | IDR125.00 B shares | 44.6 |
| <i>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</i> | | | |
| Resolution Alliance Limited | Thailand | THB10.00 Ordinary shares | 49 |

Associates

| Name | Country of Incorporation | Description of shares | Proportion of shares held (%) |
|--|--------------------------|-----------------------------|-------------------------------|
| <i>The following company has the address of 3 More London Riverside, London, England, SE1 2AQ, United Kingdom</i> | | | |
| Trade Information Network Limited | United Kingdom | \$1.00 Ordinary shares | 16.7 |
| <i>The following company has the address of Bohai Bank Building, No.218 Hai He Dong Lu, Hedong District, Tianjin, China, 300012, China</i> | | | |
| China Bohai Bank Co. Ltd | China | CNY Ordinary shares | 19.9 |
| <i>The following companies have the address of 17/F, 100, Gongpyeong-dong, Jongno-gu, Seoul, Korea, Republic of</i> | | | |
| Ascenta IV | Korea, Republic of | Partnership Interest | 39.1 |
| <i>The following company has the address of C/o CIM Corporate Services Ltd, Les Cascades, Edith Cavell Street, Port Louis, Mauritius</i> | | | |
| FAI Limited | Mauritius | \$1.00 Ordinary shares | 25 |
| <i>The following company has the address of Victoria House, State House Avenue, Victoria, MAHE, Seychelles</i> | | | |
| Seychelles International Mercantile Banking Corporation Limited | Seychelles | SCR1,000.00 Ordinary shares | 22 |
| <i>The following company has the address of 1 Raffles Quay, #23-01, One Raffles Quay, 048583, Singapore</i> | | | |
| Clifford Capital Pte. Ltd | Singapore | \$1.00 Ordinary shares | 9.9 |

Significant investment holdings and other related undertakings

| Name | Country of Incorporation | Description of shares | Proportion of shares held (%) |
|---|--------------------------|--|-------------------------------|
| <i>The following company has the address of 65A Basinghall Street, London, EC2V 5DZ, United Kingdom</i> | | | |
| Cyber Defence Alliance Limited | United Kingdom | Membership interest | 25 |
| <i>The following company has the address of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands</i> | | | |
| ATSC Cayman Holdco Limited | Cayman Islands | \$0.01 A Ordinary shares \$0.01 B Ordinary shares | 5.3 100 |
| <i>The following companies have the address of Harbour Centre #42 North Church Street, , PO Box 1348, Grand Cayman, KY1-1108 Cayman Islands, Cayman Islands</i> | | | |
| 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 |
| <i>The following company has the address of 3, Floor 1, No.1, Shiner Wuxingcayuan, West Er Huan Rd, Xi Shan District, Kunming, Yunnan Province, PRC, China</i> | | | |
| Yunnan Golden Shiner Property Development Co., Ltd. | China | CNY1.00 Ordinary shares | 42.5 |

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 (%) |
|---|--------------------------|--|-------------------------------|
| <i>The following companies have the address of Unit 605-08, 6/F Wing On Centre, 111 Connaught Rd, Central Sheung Wan, Hong Kong</i> | | | |
| Actis Carrock Holdings (HK) Limited | Hong Kong | \$ Class A shares | 39.7 |
| | | \$ Class B shares | 39.7 |
| Actis Jack Holdings (HK) Limited | Hong Kong | \$ Class A shares | 39.7 |
| | | \$ Class B shares | 39.7 |
| Actis Rivendell Holdings (HK) Limited | Hong Kong | \$ Class A shares | 39.7 |
| | | \$ Class B shares | 39.7 |
| Actis Temple Stay Holdings (HK) Limited | Hong Kong | \$ Class A shares | 39.7 |
| | | \$ Class B shares | 39.7 |
| Actis Young City Holdings (HK) Limited | Hong Kong | \$ Class A shares | 39.7 |
| | | \$ Class B shares | 39.7 |
| <i>The following company has the address of 1221 A, Devika Tower, 12th Floor, 6 Nehru Place, New Delhi 110019, New Delhi, 110019, India</i> | | | |
| Mikado Realtors Private Limited | India | INR10.00 Ordinary shares | 26 |
| <i>The following company has the address of Elphinstone Building, 2nd Floor, 10 Veer Nariman Road, Fort, Mumbai -400001, Maharashtra, India</i> | | | |
| TRIL IT4 Private Limited | India | INR10.00 Ordinary shares | 26 |
| <i>The following company has the address of 4/F, 274, Chitalia House, Dr. Cawasji Hormusji Road, Dhobi Talao, Mumbai City, Maharashtra, India 400 002, Mumbai, 400 002, India</i> | | | |
| Industrial Minerals and Chemical Co. Pvt. Ltd | India | INR100.00 Ordinary shares | 26 |
| <i>The following company has the address of TRIO Building, 8/F, Jl. Kebon Sirih Raya Kav, 63, Jakarta, 10340, Indonesia</i> | | | |
| PT Trikomsel Oke Tbk | Indonesia | IDR50.00 Series B shares | 29.2 |
| <i>The following companies have the address of 4/F St Pauls Gate, 22-24 New Street, St Helier, JE1 4TR, Jersey</i> | | | |
| Standard Jazeera Limited | Jersey | \$1.00 Class C Redeemable Preference Shares | 100 |
| | | \$1.00 Ordinary Shares | 20 |
| Standard Topaz Limited | Jersey | \$1,000.00 Ordinary shares | 20.1 |
| | | \$1.00 Class C Redeemable Preference Shares | 100 |
| <i>The following company has the address of 17/F (Gongpyung-dong), 100, Jongno-gu, Seoul, Korea, Republic of</i> | | | |
| Ascenta III | Korea, Republic of | Partnership interest | 31 |
| <i>The following company has the address of 1 Venture Avenue, #07-07 Big Box, 608521, Singapore</i> | | | |
| Omni Centre Pte. Ltd. | Singapore | SGD Redeemable Convertible Preference shares | 100 |
| <i>The following company has the address of 152 Beach Road, #28-00 Gateway East, Singapore, 189721</i> | | | |
| Socash Pte. Ltd. | Singapore | \$ Class B Preference shares | 33.3 |
| <i>The following company has the address of 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States</i> | | | |
| Paxata, Inc. | United States | \$0.0001 Series C2 Preferred Stock | 40.7 |

40. Related undertakings of the Group continued

In liquidation

Subsidiary Undertakings

| Name | Country of Incorporation | Description of shares | Proportion of shares held (%) |
|--|--------------------------|--|-------------------------------|
| <i>The following companies have the address of Deloitte LLP, Hill House, 1 Little New Street, London, EC4A 3TR, United Kingdom</i> | | | |
| SC Leaseco Limited | United Kingdom | \$1.00 Ordinary shares | 100 |
| Standard Chartered APR Limited | United Kingdom | \$1.00 Ordinary shares | 100 |
| Standard Chartered Capital Markets Limited | United Kingdom | £1.00 Ordinary shares \$1.00 Ordinary shares | 100 100 |
| Standard Chartered Debt Trading Limited | United Kingdom | £1.00 Ordinary shares | 100 |
| Compass Estates Limited | United Kingdom | £1.00 Ordinary shares | 100 |
| Chartered Financial Holdings Limited | United Kingdom | £5.00 Ordinary shares £1.00 Preference shares | 100 100 |
| <i>The following company has the address of Cra 7 Nro 71-52 TA if 702, Bogata, Colombia</i> | | | |
| Sociedad Fiduciaria Extebandes S.A. | Colombia | COP1.00 Ordinary shares | 100 |
| <i>The following companies have the address of Schottegatweg Oost, 44, Curacao, Netherlands Antilles</i> | | | |
| 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 |
| <i>The following company has the address of L5 The Forum, Exchange Square, 8 Connaught Place,Central, Hong Kong</i> | | | |
| Standard Chartered Global Trading Investments Limited | Hong Kong | HKD Ordinary shares | 100 |
| <i>The following company has the address of 13/F, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong</i> | | | |
| SC Learning Limited | Hong Kong | HKD Ordinary shares | 100 |
| <i>The following company has the address of 8/Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong</i> | | | |
| Leopard Hong Kong Limited | Hong Kong | \$ Ordinary shares | 100 |
| <i>The following company has the address of Menara Standard Chartered, 3rd floor, Jl. Prof. DR. Satrio No. 164, Jakarta, 12930, Indonesia</i> | | | |
| PT Solusi Cakra Indonesia | Indonesia | IDR23,809,600.00 Ordinary shares | 99 |
| <i>The following company has the address of Standard Chartered@Chiromo, Number 48, Westlands Road, P. O. Box 30003 – 00100, Nairobi, Kenya</i> | | | |
| Standard Chartered Management Services Limited | Kenya | KES20.00 Ordinary shares | 100 |
| <i>The following company has the address of 30 Rue Schrobilgen, 2526, Luxembourg</i> | | | |
| Standard Chartered Financial Services (Luxembourg) S.A. | Luxembourg | €25.00 Ordinary shares | 100 |
| <i>The following company has the address of Level 16, Menara Standard Chartered, 30, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia</i> | | | |
| Amphissa Corporation Sdn Bhd | Malaysia | RM1.00 Ordinary shares | 100 |
| <i>The following companies have the address of Brumby Centre, Lot 42, Jalan Muhibbah, 87000 Labuan F.T., Malaysia</i> | | | |
| Pembroke Leasing (Labuan) 2 Berhad | Malaysia | \$1.00 Ordinary shares | 100 |
| Pembroke Leasing (Labuan) Pte Limited | Malaysia | \$1.00 Ordinary shares | 100 |
| <i>The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom</i> | | | |
| Smart Application Investment B.V. | Netherlands | €45.00 Ordinary shares | 100 |
| <i>The following company has the address of Jiron Huascar 2055, Jesus Maria, Lima 15072, Peru</i> | | | |
| Banco Standard Chartered en Liquidacion | Peru | \$75.133 Ordinary shares | 100 |
| <i>The following company has the address of 8 Marina Boulevard, Level 27, Marina Bay Financial Centre, Tower 1, 018981, Singapore</i> | | | |
| Standard Chartered (2000) Limited | Singapore | SGD Ordinary shares \$ Class A Preference shares £ Class B Preference shares | 100 100 100 |

40. Related undertakings of the Group continued

In liquidation continued

Subsidiary Undertakings continued

| Name | Country of Incorporation | Description of shares | Proportion of shares held (%) |
|--|--------------------------|---|-------------------------------|
| <i>The following company has the address of Quai du General Guisan 38, 8022, Zurich, Switzerland, Switzerland</i> | | | |
| Standard Chartered Bank (Switzerland) S.A. | Switzerland | CHF1,000.00 Ordinary shares CHF100.00 Participation Capital shares | 100 100 |
| <i>The following company has the address of 6/F, Hewlett Packard Building, 337 Fu Hsing North Road, Taipei, Taiwan</i> | | | |
| Kwang Hua Mocatta Company Ltd. | Taiwan | TWD1,000.00 Ordinary shares | 97.9 |
| <i>The following company has the address of Luis Alberto de Herrera 1248, Torre II, Piso 11, Esc. 1111, Uruguay</i> | | | |
| Standard Chartered Uruguay Representacion S.A. | Uruguay | UYU1.00 Ordinary shares | 100 |

Significant investment holdings and other related undertakings

| Name | Country of Incorporation | Description of shares | Proportion of shares held (%) |
|--|--------------------------|------------------------|-------------------------------|
| <i>The following company has the address of Lot 6.05, Level 6, KPMG Tower, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor, Malaysia</i> | | | |
| House Network SDN BHD | Malaysia | RM1.00 Ordinary shares | 25 |

Liquidated/dissolved/sold

Subsidiary Undertakings

| Name | Country of Incorporation | Description of shares |
|---|--------------------------|---|
| SC Overseas Investments Limited | United Kingdom | AUD1.00 Ordinary shares \$1.00 Ordinary shares |
| Standard Chartered (GCT) Limited | United Kingdom | £1.00 Ordinary shares |
| Ocean Horizon Holdings South Ltd | Cayman Islands | \$1.00 Ordinary shares |
| Standard Chartered Corporate Private Equity (Cayman) Limited | Cayman Islands | \$0.001 Ordinary shares |
| Standard Chartered International Partners | Cayman Islands | \$0.001 Ordinary shares |
| Standard Chartered Private Equity (Cayman) Limited | Cayman Islands | \$0.001 Ordinary shares |
| Pembroke 7006 Leasing Limited | Ireland | €1.25 Ordinary shares |
| Pembroke Alpha Limited | Ireland | €1.00 Ordinary shares |
| Ocean Horizon Holdings East Limited | Jersey | \$1.00 Ordinary shares |
| Ocean Horizon Holdings West Limited | Jersey | \$1.00 Ordinary shares |
| Standard Chartered Private Equity Managers (Korea) Limited | Korea, Republic of | KRW5,000.00 Ordinary shares |
| Marina Aquamarine Shipping Limited | Marshall Islands | \$1.00 Ordinary shares |
| Marina Poseidon Shipping Limited | Marshall Islands | \$1.00 Ordinary shares |
| Marina Zeus Shipping Limited | Marshall Islands | \$1.00 Ordinary shares |
| Actis Place Holdings (Mauritius) Limited | Mauritius | \$1.00 Class A Ordinary shares \$1.00 Class B Ordinary shares |
| Pembroke B717 Holdings B.V. | Netherlands | €1.00 Ordinary shares |
| Actis Mahi Holdings (Singapore) Private Limited | Singapore | SGD 1.00 Ordinary shares |
| Augusta Viet Pte. Ltd. | Singapore | \$1.00 Ordinary shares |
| Greenman Pte. Ltd. | Singapore | SGD1.00 Class A Preferred shares SGD1.00 Class B Preferred shares SGD1.00 Ordinary shares |
| Phoon Huat Pte. Ltd. | Singapore | SGD1.00 Ordinary shares |
| Redman Pte. Ltd. | Singapore | SGD1.00 Ordinary shares |
| Standard Chartered Private Equity Managers (Singapore) Pte. Ltd | Singapore | \$ Ordinary shares |
| Actis Place Holdings No.1 (Singapore) Private Limited | Singapore | SGD 1.00 Ordinary shares |
| Actis Place Holdings No.2 (Singapore) Private Limited | Singapore | SGD 1.00 Ordinary shares |
| Standard Chartered (Thailand) Company Limited | Thailand | THB10.00 Ordinary shares |
| Standard Chartered Asset Management Limited | Zimbabwe | \$0.001 Ordinary shares |

40. Related undertakings of the Group continued

Joint ventures

| Name | Country of Incorporation | Description of shares |
|-------------------------|--------------------------|-----------------------|
| Canas Leasing Limited | Ireland | \$1 Ordinary shares |
| Elviria Leasing Limited | Ireland | \$1 Ordinary shares |

Associates

| Name | Country of Incorporation | Description of shares |
|-------------------|--------------------------|-----------------------|
| McAshback Limited | United Kingdom | £0.01 Ordinary shares |

Significant investment holdings and other related undertakings

| Name | Country of Incorporation | Description of shares |
|--|--------------------------|--|
| Greathorse Chemical Limited | Cayman Islands | \$1.00 Ordinary shares |
| Asia Trading Holdings Limited | Cayman Islands | \$0.01 Ordinary shares |
| Joyville Shapoorji Housing Private Limited | India | INR10.00 Common Equity shares |
| Mahindra Homes Private Limited | India | INR10.00 Compulsorily Convertible Preference shares INR10.00 A Ordinary shares INR10.00 B Ordinary shares |
| Northern Arc Capital Limited | India | INR20.00 Compulsorily Convertible Preference shares INR10.00 Equity shares |
| PT Travira Air | Indonesia | IDR1,000,000.00 Ordinary shares |
| Daiyang Metal Company Ltd | Korea, Republic of | KRW 500 Ordinary shares KRW 500 Preferred shares KRW 500 Convertible Preference shares |
| Haram Trade Co. Ltd. | Korea, Republic of | KRW 1,000,000,000 Ordinary shares KRW 1,000,000,000 redeemable convertible preferred shares |
| Maesong Trading Co. Ltd. | Korea, Republic of | KRW 1,000,000,000 Ordinary shares KRW 1,000,000,000 redeemable convertible preferred shares |
| Sameun Trade Co. Ltd. | Korea, Republic of | KRW 500,000,000 Ordinary shares KRW 500,000,000 redeemable convertible preferred shares |
| Taebong Prime Co. Ltd | Korea, Republic of | KRW 10,000,000,000 Ordinary shares KRW 10,000,000,000 redeemable convertible preferred shares |
| Crystal Jade Group Holdings Pte Ltd | Singapore | \$ Ordinary shares |
| MMI Technoventures Pte Ltd | Singapore | SGD Ordinary shares SGD 0.01 Redeemable Preference shares |
| Polaris Limited | Singapore | SGD Ordinary shares |
| THSC Investments Pte. Ltd. | Singapore | SGD0.50 Ordinary Shares |
| New Lifestyle Service Corporation | Vietnam | VND Dividend Preference shares VND Redeemable Preference shares |
| Online Mobile Services Joint Stock Company | Vietnam | VND10,000 Class A1 Redeemable Preference shares VND10,000 Class A1 Dividend Preference shares VND10,000 Class C Dividend Preference shares |
| Eoplast Technologies Inc | Virgin Islands, British | \$0.0001 Class C Preferred shares |



STAFF PHOTO COMPETITION

What sustainability means to our employees

We ran our staff photo competition for the third year running, this year asking participants to send in photographs that represent our three sustainability pillars: Sustainable Finance, Being a Responsible Company and Inclusive Communities. The winning images from each category are displayed here.

Jude Wellington
Chennai, India

Sustainable finance

Saving money is one of the most important aspects of having a secure financial foundation. One of the ways we can empower the next generation is by teaching children about money from a young age.

Jude Wellington highlights the importance of speaking with children about money and the importance of saving – the subject doesn't have to be scary or taboo. By giving children the opportunity to ask questions about money, we can teach them its value and the importance of hard work.

This winning photograph shows that you're never too young to start saving!



Md. Ahidul Hassan
Dhaka, Bangladesh



Janath Batuwangala
Colombo, Sri Lanka

Inclusive communities

Our Sri Lanka-based Cash Management Services team visited two remote schools in the Anuradhapura District to carry out a corporate social responsibility project in 2018.

The two schools, Aluthwewa Kumara Maha Vidyala in Srawasthipura and Selesthimaduwa Vidyala in Nachchadoowa, were in desperate need of basic educational tools.

To help meet the school's need, we donated photocopy machines, ceiling fans, story books, educational books, other stationary items, sports equipment and paint to colourwash the buildings, among other items.

This winning photograph shows the joy this project brought to the children of these schools.

Responsible company

We strive to manage our business sustainably and responsibly. It is our strong belief that a culture of inclusivity is the key to harnessing our unique diversity.

Md. Ahidul Hassan has captured a moment during the Hindu festival 'Holi', popularly known as the Indian festival of 'spring', 'colours' or 'love'.

The festival signifies the arrival of spring, the end of winter, the blossoming of love, and for many a festive day to meet with others – regardless of age, race, gender or religion – to play and laugh, forget and forgive, and repair broken relationships.

This winning photograph depicts hands of different colours joining together in union.

SUPPLEMENTARY INFORMATION (UNAUDITED)

- 380** Supplementary financial information
- 400** Supplementary people information
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- 407** Shareholder information
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Supplementary financial information

Five-year summary¹

| | 2019 \$million | 2018 \$million | 2017 \$million | 2016 \$million | 2015 \$million |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating profit before impairment losses and taxation | 4,484 | 3,142 | 4,008 | 3,849 | 4,116 |
| Impairment losses on loans and advances and other credit risk provisions | (908) | (653) | (1,362) | (2,791) | (4,976) |
| Other impairment | (136) | (182) | (179) | (612) | (855) |
| Profit/(loss) before taxation | 3,713 | 2,548 | 2,415 | 409 | (1,523) |
| Profit/(loss) attributable to shareholders | 2,303 | 1,054 | 1,219 | (247) | (2,194) |
| Loans and advances to banks ² | 53,549 | 61,414 | 78,188 | 72,609 | 64,494 |
| Loans and advances to customers ² | 268,523 | 256,557 | 282,288 | 252,719 | 257,356 |
| Total assets | 720,398 | 688,762 | 663,501 | 646,692 | 640,483 |
| Deposits by banks ² | 28,562 | 29,715 | 30,945 | 32,872 | 28,727 |
| Customer accounts ² | 405,357 | 391,013 | 370,509 | 338,185 | 337,606 |
| Shareholders' equity | 44,835 | 45,118 | 46,505 | 44,368 | 46,204 |
| Total capital resources ³ | 66,868 | 65,353 | 68,983 | 68,181 | 70,364 |
| Information per ordinary share | | | | | |
| Basic earnings/(loss) per share | 57.0c | 18.7c | 23.5c | (14.5)c | (91.9)c |
| Underlying earnings/(loss) per share | 75.7c | 61.4c | 47.2c | 3.4c | (6.6)c |
| Dividends per share ⁴ | 22.0c | 17.0c | — | — | 13.71c |
| Net asset value per share | 1,358.3c | 1,319.3c | 1,366.9c | 1,307.8c | 1,366.0c |
| Net tangible asset value per share | 1,192.5c | 1,167.7c | 1,214.7c | 1,163.9c | 1,244.1c |
| Return on assets ⁵ | 0.3% | 0.3% | 0.2% | 0.0% | (0.3)% |
| Ratios | | | | | |
| Statutory return on ordinary shareholders' equity | 4.2% | 1.4% | 1.7% | (1.1)% | (5.3)% |
| Statutory return on ordinary shareholders' tangible equity | 4.8% | 1.6% | 2.0% | (1.2)% | (5.9)% |
| Underlying return on ordinary shareholders' equity | 5.6% | 4.6% | 3.5% | 0.3% | (0.4)% |
| Underlying return on ordinary shareholders' tangible equity | 6.4% | 5.1% | 3.9% | 0.3% | (0.4)% |
| Statutory cost to income ratio (excluding UK Bank levy) | 68.7% | 76.6% | 70.7% | 69.9% | 70.2% |
| Statutory cost to income ratio (including UK Bank levy) | 70.9% | 78.8% | 72.2% | 72.6% | 73.1% |
| Underlying cost to income ratio (excluding UK Bank levy) | 65.9% | 67.7% | 69.3% | 69.5% | 65.0% |
| Underlying cost to income ratio (including UK Bank levy) | 68.2% | 69.9% | 70.8% | 72.2% | 67.8% |
| Capital ratios: | | | | | |
| (CET1)/ Tier 1 capital ⁶ | 13.8% | 14.2% | 13.6% | 13.6% | 12.6% |
| Total capital ⁶ | 21.2% | 21.6% | 21.0% | 21.3% | 19.5% |

1 The amounts for the three financial years ended 2015 to 2017 are presented in line with IAS 39 and, therefore, not on a comparable basis to the current financial year presented in accordance with IFRS 9

2 Excludes amounts held at fair value through profit or loss

3 Shareholders' funds, non-controlling interests and subordinated loan capital

4 Dividend paid during the year per share

5 Represents profit attributable to shareholders divided by the total assets of the Group

6 Unaudited

Analysis of underlying performance by key market

The following tables provide information for key markets in which the Group operates. The numbers are prepared on a management view. Refer to Note 2 for details.

| | 2019 | | | | | | | | |
|---|---------------------|-----------------|-----------------|---------------------|-----------------|---------------------|---------------|----------------|---------------|
| | Hong Kong \$million | Korea \$million | China \$million | Singapore \$million | India \$million | Indonesia \$million | UAE \$million | UK \$million | US \$million |
| Operating income | 3,755 | 972 | 872 | 1,639 | 1,041 | 273 | 617 | 762 | 759 |
| Operating expenses | (1,934) | (769) | (666) | (986) | (672) | (180) | (423) | (678) | (587) |
| Operating profit before impairment losses and taxation | 1,821 | 203 | 206 | 653 | 369 | 93 | 194 | 84 | 172 |
| Credit impairment | (111) | (15) | (81) | (91) | (290) | (87) | (48) | (33) | (63) |
| Other impairment | (5) | 1 | – | – | – | – | – | – | – |
| Profit from associates and joint ventures | – | – | 247 | – | – | – | – | – | – |
| Underlying profit before taxation | 1,705 | 189 | 372 | 562 | 79 | 6 | 146 | 51 | 109 |
| Total assets employed | 159,725 | 54,408 | 30,293 | 85,155 | 28,163 | 4,795 | 20,301 | 150,103 | 60,373 |
| Of which: loans and advances to customers including FVTPL | 77,277 | 34,469 | 14,772 | 45,951 | 15,674 | 2,098 | 10,406 | 42,179 | 17,038 |
| Total liabilities employed | 149,703 | 47,420 | 27,005 | 80,006 | 18,437 | 3,188 | 12,905 | 142,804 | 66,357 |
| Of which: customer accounts | 123,330 | 38,533 | 21,797 | 60,821 | 13,800 | 2,320 | 10,078 | 82,036 | 34,733 |
| | 2018 | | | | | | | | |
| | Hong Kong \$million | Korea \$million | China \$million | Singapore \$million | India \$million | Indonesia \$million | UAE \$million | UK \$million | US \$million |
| Operating income | 3,752 | 1,009 | 821 | 1,547 | 949 | 260 | 637 | 819 | 667 |
| Operating expenses | (1,944) | (797) | (675) | (1,009) | (677) | (179) | (453) | (671) | (621) |
| Operating profit before impairment losses and taxation | 1,808 | 212 | 146 | 538 | 272 | 81 | 184 | 148 | 46 |
| Credit impairment | (57) | (1) | (30) | (115) | (130) | (39) | (196) | (51) | (36) |
| Other impairment | (109) | 1 | – | – | (1) | – | – | 17 | – |
| Profit from associates and joint ventures | – | – | 205 | – | – | 26 | – | – | – |
| Underlying profit/(loss) before taxation | 1,642 | 212 | 321 | 423 | 141 | 68 | (12) | 114 | 10 |
| Total assets employed | 153,372 | 51,306 | 30,272 | 81,882 | 29,886 | 4,990 | 19,847 | 136,967 | 48,706 |
| Of which: loans and advances to customers including FVTPL | 71,971 | 33,435 | 12,894 | 46,342 | 16,567 | 2,536 | 10,749 | 41,248 | 13,464 |
| Total liabilities employed | 139,332 | 45,347 | 27,158 | 80,200 | 20,554 | 3,110 | 13,679 | 148,041 | 42,301 |
| Of which: customer accounts | 116,999 | 36,894 | 21,801 | 58,415 | 16,306 | 2,061 | 10,517 | 93,096 | 16,218 |

Analysis of underlying performance by Retail Banking and Commercial Banking segments

Retail Banking

| | 2019 | | | | |
|---|---|---------------------------------|-----------------------------------|--------------------------------|--------------------|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Operating income | 3,003 | 1,432 | 700 | 36 | 5,171 |
| Operating expenses | (2,015) | (1,097) | (619) | (23) | (3,754) |
| Operating profit before impairment losses and taxation | 988 | 335 | 81 | 13 | 1,417 |
| Credit impairment | (153) | (136) | (47) | – | (336) |
| Other impairment | – | – | 2 | – | 2 |
| Underlying profit before taxation | 835 | 199 | 36 | 13 | 1,083 |
| Restructuring | (47) | (7) | (9) | – | (63) |
| Statutory profit before taxation | 788 | 192 | 27 | 13 | 1,020 |
| Loans and advances to customers including FVTPL | 72,759 | 27,934 | 5,320 | 557 | 106,570 |
| Customer accounts | 98,434 | 35,959 | 8,585 | 1,067 | 144,045 |
| 2018 | | | | | |
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Europe & Americas \$million | Total \$million |
| Operating income | 2,886 | 1,352 | 765 | 38 | 5,041 |
| Operating expenses | (1,959) | (1,083) | (668) | (26) | (3,736) |
| Operating profit before impairment losses and taxation | 927 | 269 | 97 | 12 | 1,305 |
| Credit impairment | (72) | (135) | (60) | – | (267) |
| Other impairment | (5) | – | – | – | (5) |
| Underlying profit before taxation | 850 | 134 | 37 | 12 | 1,033 |
| Restructuring | (18) | (20) | (30) | – | (68) |
| Statutory profit before taxation | 832 | 114 | 7 | 12 | 965 |
| Loans and advances to customers including FVTPL | 67,718 | 27,812 | 5,595 | 510 | 101,635 |
| Customer accounts | 95,086 | 32,120 | 8,433 | 1,052 | 136,691 |

Commercial Banking

| | 2019 | | | | |
|---|---|---------------------------------|-----------------------------------|--------------------|--|
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Total \$million | |
| Operating income | 594 | 559 | 325 | 1,478 | |
| Operating expenses | (386) | (310) | (211) | (907) | |
| Operating profit before impairment losses and taxation | 208 | 249 | 114 | 571 | |
| Credit impairment | (22) | (38) | (63) | (123) | |
| Underlying profit before taxation | 186 | 211 | 51 | 448 | |
| Restructuring | (7) | (2) | (2) | (11) | |
| Statutory profit before taxation | 179 | 209 | 49 | 437 | |
| Loans and advances to customers including FVTPL | 13,174 | 8,779 | 4,733 | 26,686 | |
| Customer accounts | 20,590 | 10,250 | 3,243 | 34,083 | |
| 2018 | | | | | |
| | Greater China & North Asia \$million | ASEAN & South Asia \$million | Africa & Middle East \$million | Total \$million | |
| Operating income | 584 | 523 | 284 | 1,391 | |
| Operating expenses | (389) | (330) | (204) | (923) | |
| Operating profit before impairment losses and taxation | 195 | 193 | 80 | 468 | |
| Credit impairment | (23) | (73) | (148) | (244) | |
| Underlying profit/(loss) before taxation | 172 | 120 | (68) | 224 | |
| Restructuring | (7) | (3) | (2) | (12) | |
| Statutory profit/(loss) before taxation | 165 | 117 | (70) | 212 | |
| Loans and advances to customers including FVTPL | 13,926 | 9,118 | 4,227 | 27,271 | |
| Customer accounts | 22,011 | 9,720 | 3,129 | 34,860 | |

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.

| | 2019 | | | | |
|--|---|--------------------------|------------------------------|---------------------------|---------------------------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million |
| Transaction Banking | 2,992 | 19 | 838 | — | — |
| Trade | 721 | 19 | 360 | — | — |
| Cash Management | 1,929 | — | 477 | — | — |
| Securities Services | 342 | — | 1 | — | — |
| Financial Markets | 2,617 | — | 299 | — | — |
| Foreign Exchange | 950 | — | 178 | — | — |
| Rates | 664 | — | 32 | — | — |
| Commodities | 140 | — | 25 | — | — |
| Credit and Capital Markets | 564 | — | 13 | — | — |
| Capital Structuring Distribution Group | 302 | — | 27 | — | — |
| DVA | (100) | — | — | — | — |
| Other Financial Markets | 97 | — | 24 | — | — |
| Corporate Finance ¹ | 1,048 | — | 93 | 2 | — |
| Lending and Portfolio Management | 553 | — | 239 | — | — |
| Wealth Management | — | 1,514 | 2 | 362 | — |
| Retail Products | — | 3,629 | 6 | 214 | — |
| CCPL and other unsecured lending | — | 1,251 | — | — | — |
| Deposits | — | 1,797 | 6 | 179 | — |
| Mortgage and Auto | — | 472 | — | 36 | — |
| Other Retail Products | — | 109 | — | (1) | — |
| Treasury | — | — | — | — | 1,090 |
| Other | (25) | 9 | 1 | (1) | (230) |
| Total underlying operating income | 7,185 | 5,171 | 1,478 | 577 | 860 |
| | | | | | 15,271 |

1 In December 2018, it was decided to discontinue the ship operating lease business and any future profits and losses will be reported as restructuring. Prior periods have not been restated

| | 2018 | | | | |
|---|---|--------------------------|------------------------------|---------------------------|---------------------------------|
| | Corporate & Institutional Banking \$million | Retail Banking \$million | Commercial Banking \$million | Private Banking \$million | Central & other items \$million |
| Transaction Banking | 2,887 | 20 | 811 | — | — |
| Trade | 729 | 20 | 374 | — | — |
| Cash Management | 1,825 | — | 437 | — | — |
| Securities Services | 333 | — | — | — | — |
| Financial Markets | 2,328 | — | 284 | — | — |
| Foreign Exchange | 829 | — | 172 | — | — |
| Rates | 527 | — | 28 | — | — |
| Commodities | 168 | — | 24 | — | — |
| Credit and Capital Markets | 312 | — | 12 | — | — |
| Capital Structuring Distribution Group | 285 | — | 24 | — | — |
| DVA | 77 | — | — | — | — |
| Other Financial Markets | 130 | — | 24 | — | — |
| Corporate Finance ¹ | 1,098 | — | 88 | — | — |
| Lending and Portfolio Management ¹ | 542 | — | 213 | — | — |
| Wealth Management | — | 1,491 | 3 | 305 | — |
| Retail Products | — | 3,535 | 4 | 211 | — |
| CCPL and other unsecured lending | — | 1,310 | — | — | — |
| Deposits | — | 1,603 | 4 | 175 | — |
| Mortgage and Auto | — | 537 | — | 36 | — |
| Other Retail Products | — | 85 | — | — | — |
| Treasury | — | — | — | — | 1,223 |
| Other | 5 | (5) | (12) | — | (63) |
| Total underlying operating income | 6,860 | 5,041 | 1,391 | 516 | 1,160 |
| | | | | | 14,968 |

1 There has been a reorganisation of certain product teams between Corporate Finance and Lending and Portfolio Management. Prior periods have been restated

Average balance sheets and yields and volume and price variances

Average balance sheets and yields

As explained in Note 1 to the financial statements on (page 262) the Group has changed its accounting policies for net interest income and net trading income such that contractual interest on financial instruments measured at fair value through profit or loss is recorded in net trading income. For the purposes of calculating net interest margin the following adjustments are made:

- Statutory net interest income is adjusted to remove interest expense on amortised cost liabilities used to provide funding to the Financial Markets business
- Financial instruments measured at fair value through profit or loss are reclassified as non-interest earning

In the Group's view this results in a net interest margin that is more reflective of banking book performance.

The following tables set out the average balances and yields for the Group's assets and liabilities for the periods ended 31 December 2019 and 31 December 2018 under the revised definition of net interest margin. 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.

Average assets

| | 2019 | | | | |
|---|--|--|---------------------------|--|-----------------------------|
| | Average non-interest earning balance \$million | Average interest earning balance \$million | Interest income \$million | Gross yield interest earning balance % | Gross yield total balance % |
| Cash and balances at central banks | 17,544 | 29,177 | 329 | 1.13 | 0.70 |
| Gross loans and advances to banks | 26,639 | 61,040 | 1,834 | 3.00 | 2.09 |
| Gross loans and advances to customers | 49,662 | 274,970 | 10,775 | 3.92 | 3.32 |
| Impairment provisions against loans and advances to banks and customers | – | (4,786) | – | – | – |
| Investment securities | 29,188 | 134,355 | 3,611 | 2.69 | 2.21 |
| Property, plant and equipment and intangible assets | 11,217 | – | – | – | – |
| Prepayments, accrued income and other assets | 84,965 | – | – | – | – |
| Investment associates and joint ventures | 2,608 | – | – | – | – |
| Total average assets | 221,823 | 494,756 | 16,549 | 3.34 | 2.31 |
| | 2018 | | | | |
| | Average non-interest earning balance \$million | Average interest earning balance \$million | Interest income \$million | Gross yield interest earning balance % | Gross yield total balance % |
| Cash and balances at central banks | 24,724 | 32,730 | 364 | 1.11 | 0.63 |
| Gross loans and advances to banks | 21,639 | 65,727 | 1,783 | 2.71 | 2.04 |
| Gross loans and advances to customers | 40,302 | 261,595 | 10,038 | 3.84 | 3.32 |
| Impairment provisions against loans and advances to banks and customers | – | (5,701) | – | – | – |
| Investment securities | 23,958 | 121,763 | 2,965 | 2.44 | 2.03 |
| Property, plant and equipment and intangible assets | 10,660 | – | – | – | – |
| Prepayments, accrued income and other assets | 78,361 | – | – | – | – |
| Investment associates and joint ventures | 2,458 | – | – | – | – |
| Total average assets | 202,102 | 476,114 | 15,150 | 3.18 | 2.23 |

Average balance sheets and yields and volume and price variances continued

Average liabilities

| | 2019 | | | | |
|---|--|--|----------------------------|--------------------------------------|---------------------------|
| | Average non-interest bearing balance \$million | Average interest bearing balance \$million | Interest expense \$million | Rate paid interest bearing balance % | Rate paid total balance % |
| Deposits by banks | 17,561 | 27,619 | 739 | 2.68 | 1.64 |
| Customer accounts: | | | | | |
| Current accounts and savings deposits | 38,804 | 183,323 | 2,114 | 1.15 | 0.95 |
| Time and other deposits | 59,094 | 167,904 | 4,088 | 2.43 | 1.80 |
| Debt securities in issue | 9,335 | 49,351 | 1,120 | 2.27 | 1.91 |
| Accruals, deferred income and other liabilities | 95,461 | 1,336 | 65 | 4.87 | 0.07 |
| Subordinated liabilities and other borrowed funds | – | 15,062 | 756 | 5.02 | 5.02 |
| Non-controlling interests | 31 | – | – | – | – |
| Shareholders' funds | 50,215 | – | – | – | – |
| | 270,501 | 444,595 | 8,882 | 2.00 | 1.24 |
| Adjustment for Financial Markets funding costs | | | (340) | | |
| Total average liabilities and shareholders' funds | 270,501 | 444,595 | 8,542 | 1.92 | 1.19 |
| | 2018 | | | | |
| | Average non-interest bearing balance \$million | Average interest bearing balance \$million | Interest expense \$million | Rate paid interest bearing balance % | Rate paid total balance % |
| Deposits by banks | 10,950 | 29,867 | 594 | 1.99 | 1.46 |
| Customer accounts: | | | | | |
| Current accounts and savings deposits | 38,909 | 178,454 | 1,667 | 0.93 | 0.77 |
| Time and other deposits | 52,081 | 157,928 | 3,339 | 2.11 | 1.59 |
| Debt securities in issue | 5,986 | 48,138 | 988 | 2.05 | 1.83 |
| Accruals, deferred income and other liabilities | 95,214 | – | – | – | – |
| Subordinated liabilities and other borrowed funds | – | 15,780 | 767 | 4.86 | 4.86 |
| Non-controlling interests | 48 | – | – | – | – |
| Shareholders' funds | 50,241 | – | – | – | – |
| | 253,429 | 430,167 | 7,355 | 1.71 | 1.08 |
| Adjustment for Financial Markets funding costs | | | (237) | | |
| Total average liabilities and shareholders' funds | 253,429 | 430,167 | 7,118 | 1.65 | 1.04 |

Net interest margin (NIM)

| | 2019 \$million | restated 2018 ¹ \$million |
|---|-------------------|--|
| Interest income (statutory) | 16,549 | 15,150 |
| Average interest earning assets | 494,756 | 476,114 |
| Gross yield (%) | 3.34 | 3.18 |
| Interest expense (statutory) | 8,882 | 7,355 |
| Adjustment for Financial Markets funding costs | (340) | (237) |
| Adjusted interest expense used to fund financial instruments held at fair value | 8,542 | 7,118 |
| Average interest-bearing liabilities | 444,595 | 430,167 |
| Rate paid (%) | 1.92 | 1.65 |
| Net yield (%) | 1.42 | 1.53 |
| Net interest income adjusted for Financial Markets funding costs | 8,007 | 8,032 |
| Net interest margin (%) | 1.62 | 1.69 ² |

1 The Group has changed its accounting policies for net interest income and net trading income. Refer to Note 1

2 Restated as per Net interest margin, defined under Alternative performance measures in the Strategic report (page 64)

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.

| | 2019 versus 2018 | | |
|---|--|-------------------|---|
| | (Decrease)/increase in interest due to: | Rate \$million | Net (decrease)/ increase in interest \$million |
| | Volume \$million | Rate \$million | Net (decrease)/ increase in interest \$million |
| Interest earning assets | | | |
| Cash and unrestricted balances at central banks | (40) | 5 | (35) |
| Loans and advances to banks | (141) | 192 | 51 |
| Loans and advances to customers | 333 | 404 | 737 |
| Investment securities | 336 | 310 | 646 |
| Total interest earning assets | 488 | 911 | 1,399 |
| Interest-bearing liabilities | | | |
| Subordinated liabilities and other borrowed funds | (36) | 25 | (11) |
| Deposits by banks | (60) | 205 | 145 |
| Customer accounts: | | | |
| Current accounts and savings deposits | 56 | 391 | 447 |
| Time and other deposits | 247 | 502 | 749 |
| Debt securities in issue | 28 | 104 | 132 |
| Total interest-bearing liabilities | 235 | 1,227 | 1,462 |
| 2018 versus 2017 | | | |
| | (Decrease)/increase in interest due to: | Rate \$million | Net increase/ (decrease) in interest \$million |
| | Volume \$million | Rate \$million | Net increase/ (decrease) in interest \$million |
| Interest earning assets | | | |
| Cash and unrestricted balances at central banks | (53) | 130 | 77 |
| Loans and advances to banks | (462) | 290 | (172) |
| Loans and advances to customers | (825) | 1,935 | 1,110 |
| Investment securities | (219) | (81) | (300) |
| Total interest earning assets | (1,559) | 2,274 | 715 |
| Interest-bearing liabilities | | | |
| Subordinated liabilities and other borrowed funds | (69) | 88 | 19 |
| Deposits by banks | (233) | (64) | (297) |
| Customer accounts: | | | |
| Current accounts and savings deposits | 123 | 481 | 604 |
| Time and other deposits | (877) | 1,420 | 543 |
| Debt securities in issue | (78) | 310 | 232 |
| Total interest-bearing liabilities | (1,134) | 2,235 | 1,101 |

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, as amended, the Consolidated financial statements pages 387 to 393 are presented in Indian rupees (INR) using a US dollar/Indian rupee exchange rate of 71.2740 as at 31 December 2019 as published by the Reserve Bank of India. Amounts have been translated using the said exchange rate including totals and sub-totals and any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Consolidated income statement (translated to INR)

For the year ended 31 December 2019

| | 2019 Rs.million | restated 2018 ¹ Rs.million |
|---|--------------------|---|
| Interest income | 1,179,513 | 1,079,801 |
| Interest expense | (633,056) | (524,220) |
| Net interest income | 546,458 | 555,581 |
| Fees and commission income | 293,007 | 287,163 |
| Fees and commission expense | (41,980) | (38,274) |
| Net fee and commission income | 251,027 | 248,889 |
| Net trading income | 238,768 | 191,086 |
| Other operating income | 62,579 | 58,516 |
| Operating income | 1,098,831 | 1,054,071 |
| Staff costs | (507,613) | (504,192) |
| Premises costs | (29,935) | (56,306) |
| General administrative expenses | (157,587) | (208,548) |
| Depreciation and amortisation | (84,103) | (61,082) |
| Operating expenses | (779,239) | (830,128) |
| Operating profit before impairment losses and taxation | 319,593 | 223,943 |
| Credit impairment | (64,717) | (46,542) |
| Goodwill impairment | (1,924) | – |
| Other impairment | (9,693) | (12,972) |
| Profit from associates and joint ventures | 21,382 | 17,177 |
| Profit before taxation | 264,640 | 181,606 |
| Taxation | (97,860) | (102,563) |
| Profit for the year | 166,781 | 79,042 |
| Profit attributable to: | | |
| Non-controlling interests | 2,637 | 3,920 |
| Parent company shareholders | 164,144 | 75,123 |
| Profit for the year | 166,781 | 79,042 |
| | Rupees | Rupees |
| Earnings per share: | | |
| Basic earnings per ordinary share | 40.6 | 13.3 |
| Diluted earnings per ordinary share | 40.2 | 13.2 |

1 Refer to Accounting policies section (Note 1). The Group has changed its accounting policies for net interest income and net trading income

Consolidated statement of comprehensive income (translated to INR)

For the year ended 31 December 2019

| | 2019 Rs.million | 2018 Rs.million |
|--|--------------------|--------------------|
| Profit for the year | 166,781 | 79,043 |
| Other comprehensive (loss)/income | | |
| Items that will not be reclassified to income statement: | (37,847) | 27,227 |
| Own credit (losses)/gains on financial liabilities designated at fair value through profit or loss | (32,929) | 28,082 |
| Equity instruments at fair value through other comprehensive income | 927 | 2,566 |
| Actuarial losses on retirement benefit obligations | (8,838) | (1,354) |
| Taxation relating to components of other comprehensive income | 2,994 | (2,067) |
| Items that may be reclassified subsequently to income statement: | 9,337 | (84,745) |
| Exchange differences on translation of foreign operations: | | |
| Net losses taken to equity | (27,512) | (104,203) |
| Net gains on net investment hedges | 13,613 | 20,099 |
| Share of other comprehensive income from associates and joint ventures | 1,782 | 2,352 |
| Debt instruments at fair value through other comprehensive income: | | |
| Net valuation gains/(losses) taken to equity | 39,557 | (9,123) |
| Reclassified to income statement | (12,117) | 2,210 |
| Net impact of expected credit losses | 499 | – |
| Cashflow hedges: | | |
| Net (losses)/gains taken to equity | (4,562) | 2,423 |
| Reclassified to income statement | 1,497 | 499 |
| Taxation relating to components of other comprehensive income | (3,421) | 998 |
| Other comprehensive loss for the year, net of taxation | (28,510) | (57,518) |
| Total comprehensive income for the year | 138,272 | 21,525 |
| Total comprehensive income attributable to: | | |
| Non-controlling interests | 1,426 | 2,423 |
| Parent company shareholders | 136,846 | 19,101 |
| Total comprehensive income for the year | 138,272 | 21,525 |

Consolidated balance sheet (translated to INR)

As at 31 December 2019

| | 2019 Rs.million | 2018 Rs.million |
|---|--------------------|--------------------|
| Assets | | |
| Cash and balances at central banks | 3,758,135 | 4,099,039 |
| Financial assets held at fair value through profit or loss | 6,615,510 | 6,210,246 |
| Derivative financial instruments | 3,364,988 | 3,251,591 |
| Loans and advances to banks ¹ | 3,816,651 | 4,377,221 |
| Loans and advances to customers ² | 19,138,708 | 18,285,844 |
| Investment securities | 10,244,283 | 8,973,468 |
| Other assets | 2,995,076 | 2,523,171 |
| Current tax assets | 38,417 | 35,067 |
| Prepayments and accrued income | 192,440 | 178,541 |
| Interests in associates and joint ventures | 135,991 | 164,429 |
| Goodwill and intangible assets | 377,039 | 360,361 |
| Property, plant and equipment | 443,324 | 462,568 |
| Deferred tax assets | 78,758 | 74,624 |
| Assets classified as held for sale | 146,326 | 94,652 |
| Total assets | 51,345,647 | 49,090,823 |
| Liabilities | | |
| Deposits by banks | 2,035,728 | 2,117,907 |
| Customer accounts | 28,891,415 | 27,869,061 |
| Repurchase agreements and other similar secured borrowing | 137,915 | 99,855 |
| Financial liabilities held at fair value through profit or loss | 4,773,505 | 4,326,332 |
| Derivative financial instruments | 3,455,649 | 3,364,774 |
| Debt securities in issue | 3,779,304 | 3,310,962 |
| Other liabilities | 2,963,787 | 2,730,436 |
| Current tax liabilities | 50,106 | 48,181 |
| Accruals and deferred income | 382,670 | 384,381 |
| Subordinated liabilities and other borrowed funds | 1,155,138 | 1,069,181 |
| Deferred tax liabilities | 43,548 | 40,127 |
| Provisions for liabilities and charges | 32,002 | 94,794 |
| Retirement benefit obligations | 33,428 | 28,438 |
| Liabilities included in disposal groups held for sale | 641 | 17,605 |
| Total liabilities | 47,734,835 | 45,502,034 |
| Equity | | |
| Share capital and share premium account | 504,477 | 506,829 |
| Other reserves | 832,837 | 846,593 |
| Retained earnings | 1,858,256 | 1,862,318 |
| Total parent company shareholders' equity | 3,195,570 | 3,215,740 |
| Other equity instruments | 392,934 | 353,590 |
| Total equity excluding non-controlling interests | 3,588,503 | 3,569,331 |
| Non-controlling interests | 22,309 | 19,458 |
| Total equity | 3,610,812 | 3,588,788 |
| Total equity and liabilities | 51,345,647 | 49,090,823 |

1 Reverse repurchase agreements and other similar secured lending balances held at amortised cost of Rs.95,578 million (31 December 2018: Rs.271,910 million) has been included with loans and advances to banks

2 Reverse repurchase agreements and other similar secured lending balances held at amortised cost of Rs.104,702 million (31 December 2018: Rs.224,584 million) has been included with loans and advances to customers

Company statement of changes in equity (translated to INR)

For the year ended 31 December 2019

| | Ordinary share capital and share premium account Rs.million | Preference share capital and share premium account Rs.million | Capital and merger reserves Rs.million | Own credit adjust- ment reserve Rs.million | Fair value through other compre- hensive income reserve – debt Rs.million | Fair value through other compre- hensive income reserve – equity Rs.million | Cash flow reserve – hedge Rs.million | Translation reserve Rs.million | Parent company share- holders' equity instruments Rs.million | Other equity instruments Rs.million | Non- controlling interests Rs.million | Total Rs.million | |
|--|---|---|---|--|---|---|---|--------------------------------------|--|--|--|---------------------|-----------|
| As at 1 January 2018 | 399,348 | 106,483 | 1,220,852 ¹ | 3,849 | (5,488) | 3,778 | (3,207) | (317,454) | 1,845,640 | 3,253,801 | 353,590 | 23,734 | 3,631,125 |
| Profit after tax | – | – | – | – | – | – | – | – | 75,123 | 75,123 | – | 3,920 | 79,043 |
| Other comprehensive income/(loss) | – | – | – | 25,516 | (5,987) | 4,775 | 2,495 | (82,535) | (285) ² | (56,021) | – | (1,497) | (57,518) |
| Distributions | – | – | – | – | – | – | – | – | – | – | – | (6,914) | (6,914) |
| Shares issued, net of expenses ³ | 998 | – | – | – | – | – | – | – | – | 998 | – | – | 998 |
| Treasury shares purchased | – | – | – | – | – | – | – | – | (570) | (570) | – | – | (570) |
| Treasury shares issued | – | – | – | – | – | – | – | – | 641 | 641 | – | – | 641 |
| Share option expense, net of taxation | – | – | – | – | – | – | – | – | 11,261 | 11,261 | – | – | 11,261 |
| Dividends on ordinary shares | – | – | – | – | – | – | – | – | (38,417) | (38,417) | – | – | (38,417) |
| Dividends on preference shares and AT1 securities | – | – | – | – | – | – | – | – | (31,075) | (31,075) | – | – | (31,075) |
| Other movements | – | – | – | – | – | – | – | – | – | – | – | 214 ⁴ | 214 |
| As at 31 December 2018 | 400,346 | 106,483 | 1,220,852 | 29,365 | (11,475) | 8,553 | (713) | (399,990) | 1,862,318 | 3,215,740 | 353,590 | 19,458 | 3,588,788 |
| Profit after tax | – | – | – | – | – | – | – | – | 164,144 | 164,144 | – | 2,637 | 166,781 |
| Other comprehensive (loss)/income | – | – | – | (29,222) | 25,516 | 2,138 | (3,492) | (12,829) | (9,408) ² | (27,298) | – | (1,212) | (28,510) |
| Distributions | – | – | – | – | – | – | – | – | – | – | – | (2,495) | (2,495) |
| Shares issued, net of expenses ³ | 1,782 | – | – | – | – | – | – | – | – | 1,782 | – | – | 1,782 |
| Other equity instruments issued, net of expenses | – | – | – | – | – | – | – | – | – | – | 39,343 | – | 39,343 |
| Treasury shares purchased | – | – | – | – | – | – | – | – | (14,682) | (14,682) | – | – | (14,682) |
| Treasury shares issued | – | – | – | – | – | – | – | – | 499 | 499 | – | – | 499 |
| Share option expense, net of taxation | – | – | – | – | – | – | – | – | 9,907 | 9,907 | – | – | 9,907 |
| Dividends on ordinary shares | – | – | – | – | – | – | – | – | (51,317) | (51,317) | – | – | (51,317) |
| Dividend on preference shares and AT1 securities | – | – | – | – | – | – | – | – | (31,931) | (31,931) | – | – | (31,931) |
| Share buy-back ⁵ | (4,134) | – | 4,134 | – | – | – | – | – | (71,702) | (71,702) | – | – | (71,702) |
| Other movements | – | – | – | – | – | – | – | – | 428 ⁶ | 428 | – | 3,920 ⁷ | 4,348 |
| As at 31 December 2019 | 397,994 | 106,483 | 1,224,986 | 143 | 14,041 | 10,691 | (4,205) | (412,819) | 1,858,256 | 3,195,570 | 392,934 | 22,309 | 3,610,812 |

¹ Includes capital reserve of Rs.356 million, capital redemption reserve of Rs.927 million and merger reserve of Rs.1,219,569 million² Comprises actuarial loss, net of taxation and share from associates and joint ventures Rs. 9,408 million (Rs. 285 million for the year ending 31 December 2018)³ Comprises share capital of shares issued to fulfil discretionary awards Rs.71 million, share capital of shares issued to fulfil employee Sharesave options Rs.71 million (Rs.356 million for the year ended 31 December 2018) and share premium of shares issued to fulfil employee Sharesave options exercised Rs.1,640 million (Rs.641 million for the year ended 31 December 2018)⁴ Movement is mainly due to additional share capital issued by Standard Chartered Bank Angola S.A. subscribed by its non-controlling interest without change in shareholding percentage⁵ On 1 May 2019, the Group commenced a share buy-back of its ordinary shares of Rs.36 each up to a maximum consideration of Rs.71,274 million. Nominal value of share purchases is Rs.4,134 million for the year ended 31 December 2019 and the total consideration paid was Rs.71,702 million which includes share buy-back expenses of Rs.428 million. The total number of shares purchased was 116,103,483 representing 3.51% of the ordinary shares in issue. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account⁶ Comprises Rs.713 million disposals of non-controlling interest of Phoon Huat Pte Ltd offset by Rs. 285 million withholding tax on capitalisation of revenue reserves for Standard Chartered Bank Ghana Limited⁷ Comprises Rs.5,132 million of non-controlling interest in SC Digital Solutions offset by Rs.1,212 million disposal of non-controlling interest in Phoon Huat Pte Ltd, Sirat Holdings Limited and Ori Private Limited

Cash flow statement (translated to INR)

For the year ended 31 December 2019

| | Group | | Company | |
|---|---------------------|--------------------|--------------------|--------------------|
| | 2019 Rs.million | 2018 Rs.million | 2019 Rs.million | 2018 Rs.million |
| Cash flows from operating activities: | | | | |
| Profit before taxation | 264,640 | 181,606 | 1,589,838 | 56,306 |
| Adjustments for non-cash items and other adjustments included within income statement | 172,269 | 187,807 | (1,194,552) | 16,536 |
| Change in operating assets | (2,514,903) | (914,944) | (390,083) | 4,348 |
| Change in operating liabilities | 2,133,587 | 2,413,266 | (298,068) | (32,929) |
| Contributions to defined benefit schemes | (9,765) | (10,192) | — | — |
| UK and overseas taxes paid | (101,280) | (54,881) | — | — |
| Net cash (used in)/from operating activities | (55,451) | 1,802,662 | (292,865) | 44,261 |
| Cash flows from investing activities: | | | | |
| Purchase of property, plant and equipment | (15,609) | (12,188) | — | — |
| Disposal of property, plant and equipment | 8,482 | 6,058 | — | — |
| Dividends received from subsidiaries, associates and joint ventures | 214 | 4,775 | 320,305 | 73,769 |
| Disposal of subsidiaries | — | 499 | — | — |
| Purchase of investment securities | (18,493,679) | (19,699,278) | (540,471) | — |
| Disposal and maturity of investment securities | 17,219,798 | 18,815,124 | 75,907 | 44,261 |
| Net cash (used in)/from investing activities | (1,280,794) | (885,009) | 144,259 | 118,030 |
| Cash flows from financing activities: | | | | |
| Issue of ordinary and preference share capital, net of expenses | 41,125 | 998 | 41,125 | 998 |
| Exercise of share options | 499 | 641 | 499 | 641 |
| Purchase of own shares | (14,682) | (570) | (14,682) | (570) |
| Cancellation of shares including share buy-back | (71,702) | — | (71,702) | — |
| Premises and equipment lease liability principal payment | (23,663) | — | — | — |
| Gross proceeds from issue of subordinated liabilities | 71,274 | 35,637 | 71,274 | 35,637 |
| Interest paid on subordinated liabilities | (42,978) | (42,907) | (38,987) | (36,136) |
| Repayment of subordinated liabilities | (1,639) | (149,462) | — | (33,784) |
| Proceeds from issue of senior debts | 653,511 | 696,062 | 428,499 | 324,439 |
| Repayment of senior debts | (548,240) | (501,056) | (269,416) | (223,872) |
| Interest paid on senior debts | (56,805) | (36,136) | (52,743) | (25,302) |
| Investment from non-controlling interests | 3,991 | — | — | — |
| Dividends paid to non-controlling interests, preference shareholders and AT1 securities | (34,425) | (37,989) | (31,931) | (31,075) |
| Dividends paid to ordinary shareholders | (51,317) | (38,417) | (51,317) | (38,417) |
| Net cash (used in)/from financing activities | (75,052) | (73,198) | 10,620 | (27,440) |
| Net (decrease)/increase in cash and cash equivalents | (1,411,296) | 844,454 | (426,504) | 134,850 |
| Cash and cash equivalents at beginning of the year | 6,949,215 | 6,217,302 | 1,254,850 | 1,120,000 |
| Effect of exchange rate movements on cash and cash equivalents | (17,462) | (112,542) | — | — |
| Cash and cash equivalents at end of the year | 5,520,456 | 6,949,215 | 828,346 | 1,254,850 |

Company balance sheet (translated to INR)

As at 31 December 2019

| | 2019 Rs.million | 2018 Rs.million |
|---|--------------------|--------------------|
| Non-current assets | | |
| Investments in subsidiary undertakings | 4,136,529 | 2,484,113 |
| Current assets | | |
| Derivative financial instruments | 16,322 | 641 |
| Financial assets held at fair value through profit or loss | 320,876 | – |
| Investment securities | 973,959 | 822,288 |
| Amounts owed by subsidiary undertakings | 828,346 | 1,254,850 |
| Taxation | 1,069 | 855 |
| Total current assets | 2,140,572 | 2,078,635 |
| Current liabilities | | |
| Derivative financial instruments | 52,600 | 80,397 |
| Amounts owed to subsidiary undertakings | 1,853 | – |
| Financial liabilities held at fair value through profit or loss | 7,983 | – |
| Other creditors | 28,723 | 28,723 |
| Total current liabilities | 91,159 | 109,120 |
| Net current assets | 2,049,413 | 1,969,514 |
| Total assets less current liabilities | 6,185,942 | 4,453,627 |
| Non-current liabilities | | |
| Debt securities in issue | 1,405,024 | 1,226,055 |
| Subordinated liabilities and other borrowed funds | 1,039,745 | 957,637 |
| Total non-current liabilities | 2,444,769 | 2,183,693 |
| Total assets less liabilities | 3,741,172 | 2,269,934 |
| Equity | | |
| Share capital and share premium account | 504,477 | 506,829 |
| Other reserves | 1,224,273 | 1,220,852 |
| Retained earnings | 1,619,488 | 188,663 |
| Total shareholders' equity | 3,348,239 | 1,916,344 |
| Other equity instruments | 392,934 | 353,590 |
| Total equity | 3,741,172 | 2,269,934 |

Company statement of changes in equity (translated to INR)

For the year ended 31 December 2019

| | Share capital and share premium account Rs.million | Capital and merger reserve Rs.million | Own credit adjustment Rs.million | Retained earnings Rs.million | Other equity instruments Rs.million | Total Rs.million |
|---|--|---|--|------------------------------------|---|---------------------|
| As at 1 January 2018 | 505,832 | 1,220,852 ¹ | – | 189,874 | 353,590 | 2,270,148 |
| Profit for the year | – | – | – | 56,948 | – | 56,948 |
| Shares issued, net of expenses | 998 | – | – | – | – | 998 |
| Treasury shares purchased | – | – | – | (570) | – | (570) |
| Treasury shares issued | – | – | – | 641 | – | 641 |
| Share option expense, net of taxation | – | – | – | 11,261 | – | 11,261 |
| Capitalised on scrip dividend | – | – | – | 1,568 | – | 1,568 |
| Dividends on ordinary shares | – | – | – | (39,985) | – | (39,985) |
| Dividends on preference share and AT1 securities | – | – | – | (31,075) | – | (31,075) |
| As at 31 December 2018 | 506,829 | 1,220,852 | – | 188,662 | 353,590 | 2,269,934 |
| Profit for the year | – | – | – | 1,590,052² | – | 1,590,052 |
| Other comprehensive loss | – | – | (713) | – | – | (713) |
| Shares issued, net of expenses | 1,782 | – | – | – | – | 1,782 |
| Other equity instruments issued, net of expenses | – | – | – | – | 39,343 | 39,343 |
| Treasury shares purchased | – | – | – | (14,682) | – | (14,682) |
| Treasury shares issued | – | – | – | 499 | – | 499 |
| Share option expense, net of taxation | – | – | – | 9,907 | – | 9,907 |
| Dividends on ordinary shares | – | – | – | (51,317) | – | (51,317) |
| Dividends on preference share and AT1 securities | – | – | – | (31,931) | – | (31,931) |
| Cancellation of shares including share buy-back ³ | (4,134) | 4,134 | – | (71,702) | – | (71,702) |
| As at 31 December 2019 | 504,477 | 1,224,986 | (713) | 1,619,488 | 392,934 | 3,741,172 |

1 Includes capital reserve of Rs.356 million, capital redemption reserve of Rs.927 million and merger reserve of Rs.1,219,569 million

2 Includes dividend received of Rs.1,495,970 million from Standard Chartered Holding Limited. Of this amount, Rs.1,281,364 million was a dividend in specie of Standard Chartered Bank (Hong Kong) Limited and Standard Chartered Bank (China) Limited, while Rs.214,535 million was a cash dividend related to the sale of Standard Chartered NEA Limited and Standard Chartered Bank (Taiwan) Limited

3 On 1 May 2019, the Group commenced a share buy-back of its ordinary shares of Rs.35.64 each up to a maximum consideration of Rs.71,274 million. Nominal value of share purchases is Rs.4,134 million for the year ended 31 December 2019 and the total consideration paid was Rs.71,702 million which includes share buy-back expenses of Rs.428 million. The total number of shares purchased was 116,103,483 representing 3.51% of the ordinary shares in issue. The nominal value of the shares was transferred from the share capital to the capital redemption reserve account

Summary of significant differences between Indian GAAP and IFRS

The condensed consolidated interim financial statements of the Group for the year ended 31 December 2019 with comparatives as at 31 December 2018 are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted by the European Union.

IFRS differs in certain significant respects from Indian Generally Accepted Accounting Principles (GAAP). Such differences involve methods for measuring the amounts shown in the financial statements of the Group, as well as additional disclosures required by Indian GAAP.

Set out below are descriptions of certain accounting differences between IFRS and Indian GAAP that could have a significant effect on profit or loss attributable to parent company shareholders for the period ended 31 December 2019 and 31 December 2018 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 2019. 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 transactions or events that may occur in the future.

In making an investment decision, potential investors should consult their own professional advisers for an understanding of the differences between IFRS and Indian GAAP and how those differences may have affected the financial results of the Group. The summary does not purport to be complete and is subject to and qualified in its entirety by reference to the pronouncements of the International Accounting Standards Board (IASB), together with the pronouncements of the Indian accounting profession.

Changes in accounting policy

IFRS (IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

Changes in accounting policy are applied retrospectively. Comparatives are restated and the effect of period(s) not presented is adjusted against opening retained earnings of the earliest year presented. Policy changes made on the adoption of a new standard are made in accordance with that standard's transitional provisions.

Indian GAAP (AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies)

The cumulative amount of the change is included in the income statement for the period in which the change is made except as specified in certain standards (transitional provision) where the change during the transition period resulting from adoption of the standard has to be adjusted against opening retained earnings and the impact disclosed.

Where a change in accounting policy has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such an amount is not ascertainable, this fact should be indicated.

Functional and presentation currency

IFRS (IAS 21 The Effects of Changes in Foreign Exchange Rates)

An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency.

Monetary 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 functional and 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:

- Foreign currency monetary items should be reported using the closing rate
- 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
- 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 direct relevant activities, or has the right 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 with the excess over this fair value when compared with the acquisition cost recognised as goodwill.

For acquisitions occurring on or after 1 January 2004, IFRS 3 requires that, when assessing the value of the assets of an acquired entity, certain identifiable intangible assets must be recognised and, if considered to have a finite life, amortised through the income statement over an appropriate period.

Adjustments to provisional fair values are permitted provided those adjustments are made within 12 months from the date of acquisition, with a corresponding adjustment to goodwill. After re-assessment of respective fair values of net assets acquired, any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised immediately in the income statement.

The Group's policy for non-controlling interests is generally not to recognise non-controlling interests at their fair value, but to recognise them based on their proportionate share of the fair value of the identifiable net assets 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 does not exceed 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 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)

The Group's policy is to hold all property, plant, aviation, shipping and equipment fixed assets at cost less depreciation and consequently tangible fixed assets are not subject to revaluation. Fixed assets are, however, subject to impairment testing.

Foreign exchange gains or losses relating to the procurement of property, plant and equipment can be capitalised as part of the asset. Depreciation is recorded over the asset's estimated useful life. Borrowing costs that are directly attributable to the acquisition or construction of an asset must be capitalised as part of that asset.

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 – IFRS 9 Financial Instruments

Classification and measurement Accounting policy

The Group classifies its financial assets into the following measurement categories: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. Financial liabilities are classified as either amortised cost, or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

Recognition and measurement of financial instruments continued

Financial assets held at amortised cost and fair value through other comprehensive income

Debt instruments held at amortised cost or held at fair value through comprehensive income (FVOCI) have contractual terms that give rise to cash flows that are solely payments of principal and interest (SPPI characteristics). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

Whether financial assets are held at amortised cost or at FVOCI depends on the objectives of the business models under which the assets are held. A business model refers to how the Group manages financial assets to generate cash flows.

The Group makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management.

Financial assets that have SPPI characteristics and which are held within a business model whose objective is to hold financial assets to collect contractual cash flows ('hold to collect') are recorded at amortised cost.

Conversely, financial assets that have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ('hold to collect and sell') are classified as FVOCI.

Equity instruments designated as FVOCI

Non-trading equity instruments acquired for strategic purposes rather than capital gain may be irrevocably designated at initial recognition at FVOCI on an instrument-by-instrument basis. Gains and losses arising from changes in the fair value of these instruments, including foreign exchange gains and losses, are recognised directly in equity and are never reclassified to profit or loss, even on derecognition.

Financial assets and liabilities held at fair value through profit or loss

Financial assets that are not held at amortised cost or which are not held at fair value through other comprehensive income are held at fair value through profit or loss. Financial assets and liabilities held at fair value through profit or loss are either mandatorily classified fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

Mandatorily classified at fair value through profit or loss

Financial assets and liabilities that are mandatorily held at fair value through profit or loss include:

- Financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short term
- Hybrid financial assets that contain one or more embedded derivatives
- Financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics
- Equity instruments that have not been designated as held at FVOCI
- Financial liabilities that constitute contingent consideration in a business combination

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 ('accounting mismatch').

Financial liabilities may also be designated at fair value through profit or loss where they are managed on a fair value basis or have a bifurcately embedded derivative where the Group is not able to separately value the embedded derivative component.

Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

Financial guarantee contracts and loan commitments

Financial guarantee contracts and loan commitments issued at below market interest rates are initially recognised as liabilities at fair value and subsequently at the higher of the expected credit loss provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Group has access at that date. The fair value of a liability includes the risk that the Group will not be able to honour its obligations.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at FVOCI are initially recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on the settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets that are not subsequently measured at fair value through profit or loss.

Subsequent measurement

Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest method. Foreign exchange gains and losses are recognised in the income statement.

Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in income. Changes in expected credit losses are recognised in the profit or loss and are accumulated in a separate component of equity.

Recognition and measurement of financial instruments continued

Equity investments designated at FVOCI are subsequently carried at fair value with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity.

Financial assets and liabilities mandatorily held at fair value through profit or loss and financial assets designated at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value recorded in the net trading income line in the income statement unless the instrument is part of a cash flow hedging relationship.

Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss are held at fair value, with changes in fair value recognised in the net trading income line in the profit or loss, other than that attributable to changes in credit risk. Fair value changes attributable to credit risk are recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated fair value through profit or loss is recognised in profit or loss.

Indian GAAP (AS 13 Investments)

For investments and loans & advances, the Reserve Bank of India (RBI) outlines classification criteria and measurement requirements which differ from those set out in IFRS.

AS 13 requires investments to be categorised as follows:

- Current investments, which are those readily realisable and intended to be held for less than one year, are carried at the lower of cost and fair value, with changes in fair value taken directly to profit or loss
- Long-term investments, which are those investments not classified as current, are carried at cost unless there is a permanent diminution in value, in which case a provision for diminution is required to be made by the entity

Loans & advances are recognised at transaction or originated value only.

Financial liabilities are usually carried at cost. There is no ability to designate instruments at fair value.

Derivatives

IFRS (IFRS 9/IAS 39 Financial Instruments: Recognition and Measurement)

IFRS 9 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.

The Group continues to apply the hedge accounting requirements of IAS 39 rather than the requirements of IFRS 9.

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 into for hedging purposes.

Impairment of financial assets

Under IFRS 9 the impairment of financial assets is as follows:

Measurement

Expected credit losses are computed as unbiased, probability-weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward-looking.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). For less material Retail Banking loan portfolios, the Group has adopted simplified approaches based on historical roll rates or loss rates.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgement. As a practical expedient, the Group may also measure credit impairment on the basis of an instrument's fair value using an observable market price.

Cash shortfalls are discounted using the effective interest rate on the financial instrument as calculated at initial recognition, or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

| Instruments | Location of expected credit loss provisions |
|---|---|
| Financial assets held at amortised cost | Loss provisions: netted against gross carrying value |
| Financial assets held at FVOCI – Debt instruments | Other comprehensive income (FVOCI expected credit loss reserve) |
| Loan commitments | Provisions for liabilities and charges |
| Financial guarantees | Provisions for liabilities and charges |

Recognition

12 months expected credit losses (stage 1)

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit-impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

Significant increase in credit risk (stage 2)

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or roll rate approach is applied to compute expected credit loss, significant increase in credit risk is primarily based on 30 days past due.

Recognition continued**Credit-impaired (or defaulted) exposures (stage 3)**

Financial assets that are credit-impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit-impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit-impaired.

Irrevocable lending commitments to a credit-impaired obligor that have not yet been drawn down are also included within the stage 3 credit impairment provision to the extent that the commitment cannot be withdrawn.

Loss provisions against credit-impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

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.

For loans and advances, the RBI regulations stipulate minimum provision based on days past due along with other factors. Additionally, RBI regulations require banks to hold provisions in respect of standard assets and for specific country risk exposures.

Derecognition of financial instruments – IFRS 9

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.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss except for equity instruments elected FVOCI (see above) and cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively. However, where a financial liability has been modified, it is derecognised if the difference between the modified cash flows and the original cash flows is more than 10 per cent, or if less than 10 per cent, the Group will perform a qualitative assessment to determine whether the terms of the two instruments are substantially different.

If the Group purchases its own debt, it is derecognised and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income' except for the cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income which are never recycled to the profit or loss.

IFRS – classification debt/equity

The substance of a financial instrument, rather than its legal form, governs its classification. A financial instrument is classified as a liability where there is a contractual obligation to deliver either cash or another financial asset to the holder of that instrument, regardless of the manner in which the contractual obligation will be settled. Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Indian GAAP

Classification is based on the legal form rather than substance.

Provisions for liabilities and charges**IFRS (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)**

The amount recognised as a provision is the best estimate at the balance sheet date of the expenditure required to settle the obligation, discounted using a pre-tax market discount rate if the effect is material.

Indian GAAP (AS 29 Provisions, 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.

Pension obligations continued

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 are revalued to fair value 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.

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 (IFRS 9)

Interest income and expense is recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Indian GAAP (AS 9 Revenue Recognition)

As per AS 9, interest is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable. There is no specific effective interest rate requirement for loans and investments.

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 dividends is similar to IFRS with effect from 1 April 2016.

Leases

Indian GAAP (AS 19 Leases)

As per AS 19, Leases are classified as Operating or Finance leases. Leases are classified as finance leases where the significant risk and rewards of ownership of the leased item are transferred to the lessee but the title remains with the lessor. Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

Supplementary people information

Global

| | 2019 | 2018 | % change ¹ |
|------------------------------|---------------|--------|-----------------------|
| Full-time equivalent (FTE) | 84,332 | 85,336 | (1.2) |
| Headcount (year end) | 84,398 | 85,402 | (1.2) |
| Employed workers | 82,494 | 82,827 | (0.4) |
| Fixed-term workers | 1,904 | 2,575 | (26.1) |
| Non-employed workers | 11,104 | 12,064 | (8.0) |
| Headcount (12-month average) | 83,938 | 86,269 | (2.7) |

Male

| | | | |
|-----------|---------------|--------|-------|
| FTE | 45,504 | 46,139 | (1.4) |
| Headcount | 45,518 | 46,153 | (1.4) |
| Female | | | |
| FTE | 38,828 | 39,198 | (0.9) |
| Headcount | 38,880 | 39,249 | (0.9) |

Nationalities

| | | | |
|--|------------|-----|-----|
| | 129 | 125 | 3.2 |
|--|------------|-----|-----|

Position type

| | 2019 | 2018 | % change |
|---|---------------|--------|----------|
| Executive and non-executive director | 13 | 13 | – |
| Female executive and non-executive director | 4 | 4 | – |
| Senior management ² | 4,076 | 4,094 | (0.4) |
| Female senior management | 1,162 | 1,135 | 2.4 |
| Rest of employees | 80,322 | 81,308 | (1.2) |
| Female rest of employees | 37,718 | 38,114 | (1.0) |

Employment type

| | 2019 | 2018 | % change |
|-----------------------------------|---------------|--------|----------|
| Business FTE | 37,091 | 38,598 | (3.9) |
| Business headcount | 37,117 | 38,621 | (3.9) |
| Business female headcount | 19,254 | 19,586 | (1.7) |
| Support services FTE | 47,241 | 46,739 | 1.1 |
| Support services headcount | 47,281 | 46,781 | 1.1 |
| Female support services headcount | 19,626 | 19,663 | (0.2) |

Region

| | 2019 | 2018 | % change |
|-----------------------|---------------|--------|----------|
| GCNA FTE | 20,842 | 20,757 | 0.4 |
| GCNA headcount | 20,857 | 20,771 | 0.4 |
| GCNA female headcount | 13,244 | 13,128 | 0.9 |
| ASA FTE | 47,597 | 47,350 | 0.5 |
| ASA headcount | 47,619 | 47,371 | 0.5 |
| ASA female headcount | 18,909 | 18,748 | 0.9 |
| AME FTE | 11,579 | 13,182 | (12.2) |
| AME headcount | 11,581 | 13,184 | (12.2) |
| AME female headcount | 4,966 | 5,594 | (11.2) |
| EA FTE | 4,314 | 4,047 | 6.6 |
| EA headcount | 4,341 | 4,076 | 6.5 |
| EA female headcount | 1,761 | 1,779 | (1.0) |

| | 2019 | 2018 | % change ¹ |
|---|---------------|--------|-----------------------|
| Age | | | |
| < 30 years FTE | 19,079 | 20,812 | (8.3) |
| < 30 years headcount | 19,087 | 20,819 | (8.3) |
| < 30 years female headcount | 10,163 | 10,962 | (7.3) |
| 30-50 years FTE | 59,027 | 58,652 | 0.6 |
| 30-50 years headcount | 59,063 | 58,692 | 0.6 |
| 30-50 years female headcount | 25,965 | 25,647 | 1.2 |
| > 50 years FTE | 6,226 | 5,872 | 6.0 |
| > 50 years headcount | 6,248 | 5,891 | 6.1 |
| > 50 years female headcount | 2,752 | 2,640 | 4.2 |
| Talent management | | | |
| Global voluntary turnover rate (%) | 12.7 | 13.2 | (3.5) |
| Global turnover rate (%) | 16.1 | 16.4 | (1.8) |
| Male (%) | 16.8 | 16.7 | 0.4 |
| Female (%) | 15.3 | 16.0 | (4.4) |
| GCNA (%) | 15.1 | 16.5 | (8.6) |
| ASA (%) | 17.0 | 17.7 | (4.0) |
| AME (%) | 14.7 | 12.3 | 19.5 |
| EA (%) | 15.4 | 13.9 | 10.3 |
| < 30 years (%) | 23.6 | 23.9 | (1.6) |
| 30-50 years (%) | 13.6 | 13.7 | (0.5) |
| > 50 years (%) | 15.3 | 14.6 | 4.7 |
| Average tenure (years) – male | 6.7 | 6.4 | 3.8 |
| Average tenure (years) – female | 7.0 | 6.7 | 4.2 |
| Roles filled internally ³ (%) | 34.2 | 35.8 | (4.4) |
| of which filled by females (%) | 42.6 | 43.7 | (2.6) |
| New female employees (%) | 45.2 | 46.7 | (3.2) |
| Employees with completed performance appraisal (%) | 99.9 | 99.7 | 0.2 |
| Absenteeism rate ⁴ (%) | 1.51 | 1.48 | 2.1 |
| Learning | | | |
| Employees receiving training (%) | 93.3 | 95.6 | (2.4) |
| Employees receiving training (excluding mandatory learning) (%) | 92.7 | 82.7 | 12.1 |
| Senior management ² (%) | 96.1 | 97.0 | (0.9) |
| Average number of training days per employee (including mandatory learning) | 2.81 | 2.88 | (2.4) |
| Average cost of training per employee ⁵ | 773 | 769 | 0.6 |
| Health & Safety | | | |
| Fatalities ⁶ | 3 | 3 | – |
| Major injuries ⁷ | 44 | 68 | (34.3) |

1 For all metrics expressed as a percentage, percentage change means percentage point change

2 Senior management is defined as Managing Directors and bands 4 (including Management Team). 2018 has been updated for comparison

3 Roles filled internally has been updated in 2019 to reflect whole year rather than quarterly. 2018 updated for comparison

4 Excludes Korea. Absenteeism rate has been updated to include other sickness leave types. 2018 updated for comparison

5 Average cost of training per employee updated to include cost of learning management system. 2018 updated for comparison

6 Road traffic accidents were the sole cause of fatalities in 2019 and 2018. Figures include accidents that occurred during commuting (employees' direct travel to and from work)

7 As per the UK Health and Safety Executive definition

Supplementary sustainability information

Business: Sustainable Finance

Employees trained in environmental and social risk management

| | 2019 | 2018 | 2017 |
|-------------------|-------|-------|------|
| Employees trained | 1,149 | 1,308 | 568 |

Environmental and social risk management

| | 2019 | 2018 | 2017 |
|---------------------------------|-------|------|------|
| Number of transactions reviewed | 1,127 | 827 | 487 |

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 2017 | 1 | 9 | 1 | 1 | 2 | – | 1 |
| Total 2018 | 4 | 7 | – | – | – | – | 3 |
| Total 2019 | 5 | 7 | – | 2 | 1 | 2 | – |

2019

Sector

| | | | | | | | |
|----------------|---|---|---|---|---|---|---|
| Mining | – | – | – | – | – | – | – |
| Infrastructure | – | 2 | – | – | – | – | 2 |
| Oil & Gas | 1 | 2 | – | 1 | 1 | – | – |
| Renewables | 1 | 2 | – | – | – | – | – |
| Telecoms | – | – | – | – | – | – | – |
| Power | 3 | 1 | – | 1 | – | – | – |
| Other | – | – | – | – | – | – | – |

Region

| | | | | | | | |
|-----------------|---|---|---|---|---|---|---|
| Greater China | – | – | – | – | – | – | – |
| North East Asia | – | – | – | – | – | – | 2 |
| South Asia | 1 | – | – | – | – | – | – |
| ASEAN | 1 | 2 | – | – | – | – | – |
| MENAP | 3 | 3 | – | 2 | – | – | – |
| Africa | – | 1 | – | – | – | – | – |
| Americas | – | 1 | – | – | 1 | – | – |
| Europe | – | – | – | – | – | – | – |

Designation⁴

| | | | | | | | |
|----------------|---|---|---|---|---|---|---|
| Designated | – | 1 | – | – | 1 | 2 | – |
| Non-designated | 5 | 6 | – | 2 | – | – | – |

Independent review

| | | | | | | | |
|-----|---|---|---|---|---|---|---|
| Yes | 5 | 7 | – | 2 | 1 | – | – |
| No | – | – | – | – | – | 2 | – |

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 impact

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

Operations: Responsible Company

Environment

| | 2019 | | 2018 | | 2017 | |
|--|----------------|------------------|----------|-----------|----------|-----------|
| | Measured | Scaled up | Measured | Scaled up | Measured | Scaled up |
| Offices reporting | 164 | — | 174 | — | 188 | — |
| Net internal area of occupied property (m ²) | 825,088 | 1,154,999 | 822,623 | 1,185,929 | 814,886 | 1,194,363 |
| Green lease clause inclusion ¹ (%) | 82 | — | 78 | — | 76 | — |
| Occupied net internal area where data is collected (%) | 71 | — | 69 | — | 85 | — |
| Headcount ² | 73,094 | 84,398 | 62,420 | 85,402 | 64,648 | 86,021 |
| Annual operating income from 1 October to 30 September (\$m) | — | 15,200 | — | 14,958 | — | 14,614 |
| Greenhouse gas emissions – Absolute (tonnes CO₂eq/year) | | | | | | |
| Scope 1 emissions (combustion of fuels) | 3,435 | 4,542 | 4,467 | 8,584 | 5,870 | 7,922 |
| Scope 2 emissions (purchased electricity) | 98,383 | 141,771 | 104,267 | 139,366 | 113,908 | 180,014 |
| Scope 1 & 2 emissions | 101,818 | 146,313 | 108,734 | 147,950 | 119,777 | 187,936 |
| Scope 3 emissions with distance uplift (air travel) ³ | 87,295 | 96,196 | 106,636 | 124,966 | 102,257 | 120,710 |
| Scope 1, 2 & 3 emissions | 189,113 | 242,509 | 215,370 | 272,917 | 222,034 | 308,646 |
| Scope 3 emissions (Global Data Centre) ⁴ | — | 46,362 | — | 21,523 | — | 23,904 |
| Greenhouse gas emissions – Intensity | | | | | | |
| Scope 1 & 2 emissions/m ² (kg CO ₂ eq/m ² /year) | 123 | 127 | 132 | 125 | 147 | 157 |
| Scope 1 & 2 emissions/headcount (tonnes CO ₂ eq/headcount/year) | 1.39 | 1.73 | 1.74 | 1.73 | 1.85 | 2.18 |
| Scope 3 emissions/headcount with distance uplift (tonnes CO ₂ eq/headcount/year) | 1.14 | 1.14 | 1.46 | 1.46 | 1.40 | 1.40 |
| Scope 1, 2 & 3 emissions/m ² (kg CO ₂ eq/m ² /year) | 229 | 210 | 262 | 230 | 272 | 258 |
| Scope 1, 2 & 3 emissions/headcount (tonnes CO ₂ eq/headcount/year) | 2.53 | 2.87 | 3.21 | 3.20 | 3.26 | 3.59 |
| Scope 1 & 2 emissions/\$m operating income (tonnes CO ₂ eq/\$m/year) | — | 9.63 | — | 9.89 | — | 12.86 |
| Scope 1, 2 & 3 emissions/\$m operating income (tonnes CO ₂ eq/\$m/year) | — | 15.95 | — | 18.25 | — | 21.12 |
| Environmental resource efficiency | | | | | | |
| Energy | | | | | | |
| Indirect non-renewable energy consumption ⁵ (GWh/year) | 154 | 223 | 162 | 224 | 168 | 277 |
| Indirect renewable energy consumption ⁶ (GWh/year) | 16 | 17 | 17 | 17 | 21 | 19 |
| Direct non-renewable energy consumption ⁷ (GWh/year) | 14 | 19 | 18 | 31 | 24 | 32 |
| Direct renewable energy consumption ⁸ (GWh/year) | — | — | — | — | — | — |
| On-site renewable energy consumption ⁹ (MWh/year) | 537 | 555 | 458 | 458 | 330 | 330 |
| Energy consumption (GWh/year) | 184 | 258 | 198 | 272 | 213 | 327 |
| Energy consumption/headcount (kWh/headcount/year) | 2,522 | 3,061 | 3,167 | 3,187 | 3,291 | 3,807 |
| Energy consumption/m ² (kWh/m ² /year) | 223 | 224 | 240 | 230 | 261 | 274 |
| Water | | | | | | |
| Water consumption (ML/year) | 425 | 654 | 605 | 916 | 649 | 1,149 |
| Water consumption/headcount (m ³ /headcount/year) | 6 | 8 | 10 | 11 | 10 | 13 |
| Water consumption/m ² (kL/m ² /year) | 0.51 | 0.57 | 0.74 | 0.77 | 0.80 | 0.96 |
| Paper | | | | | | |
| Print paper consumption (ktonnes/year) | 1.41 | 1.41 | 1.05 | 1.49 | 1.62 | 1.89 |
| Print paper consumption/headcount (kg/headcount/year) | 16.96 | — | 17.70 | — | 21.97 | — |
| Waste ¹⁰ | | | | | | |
| Waste (ktonnes/year) | 4.8 | — | 5.1 | — | 4.8 | — |
| Waste/FTE (kg/headcount/year) | 66 | — | 81 | — | 74 | — |
| Waste reused or recycled (%) | 35 | — | 46 | — | 24 | — |
| Retired IT equipment reused or recycled (ktonnes/year) | 0.33 | — | 0.19 | — | 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 Reflects the Group's headcount (formerly labelled full-time employees or FTE) at 31 December 2019

3 In 2019, we updated our Scope 3 methodology to reflect the impact of radiative forcing. As a result, we have restated Scope 3 emissions for 2018 and 2017

4 Scope 3 emissions calculated from total energy consumption from our outsourced global data centres

5 Indirect non-renewable energy refers to purchased electricity from non-renewable sources

6 Indirect renewable energy refers to purchased electricity from off-site renewable sources

7 Direct non-renewable energy refers to the gross calorific values of fuels consumed on-site

8 Direct renewable energy refers to the gross calorific values of renewable fuels consumed on-site

9 On-site renewable energy refers to renewable energy generated and consumed on-site

10 In 2019, we reviewed our methodology for measured and scaled-up waste. Scaled-up waste data is not representative and is therefore not shown

Additional notes on environment data

The emissions within our inventory correspond to a reporting period of 1 October 2018 to 30 September 2019. 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 from across our properties. We then scale up to reflect the portion of the portfolio from which we do not gather measurements. 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. For paper and business travel, it is defined per full-time employee.

Scaled-up data represents measured data taken from a sample of branches, which is then extrapolated to reflect the Group's total property footprint in energy and water. For 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 32 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 785km have had the 'short haul' emissions calculation factor applied. All flights with distance flown over 785km have had the 'international' emissions calculation factor applied.

Global Documentation is our independent third-party assurance provider for greenhouse gas (GHG) emissions. In 2019, our measured Scope 1 and Scope 2 emissions, as well as water and waste data, were assured by Global Documentation, ensuring the accuracy and credibility of our reporting.

 Read our Carbon Emission Criteria at sc.com/environmentcriteria

 Review our Independent Assurance Report at sc.com/environmentalassurance

Financial crime prevention

| | 2019 % | 2018 % | 2017 % |
|--|-------------|-----------|-----------|
| Staff completing anti-money laundering (AML) e-learning ¹ | 99.9 | 99.9 | 99.2 |
| Staff completing anti-bribery and corruption (ABC) e-learning ¹ | 99.9 | 99.9 | 99.3 |
| Staff completing sanctions e-learning ¹ | 99.9 | 99.9 | 99.6 |

1 Includes employees who are yet to complete training, but who remain within the allotted time allowed for completion

Communities: Inclusive Communities

Community expenditure

| Total (\$million) | 2019 | 2018 | 2017 |
|---|-------------|------|-------|
| Cash contributions | 27.5 | 22.9 | 22.1 |
| Employee time (non-cash item) | 16.9 | 18.8 | 18.1 |
| Gifts in kind (non-cash item) ¹ | 0.3 | 0.1 | 0.1 |
| Management costs | 4.5 | 4.5 | 4.5 |
| Total (direct investment by the Group) | 49.2 | 46.3 | 44.8 |
| | | | |
| Leverage ² | 1.9 | 2.9 | 5.0 |
| Total (incl. leverage) | 51.1 | 49.2 | 49.8 |
| Percentage of prior year operating profit (PYOP) | 2.01 | 2.04 | 12.18 |

1 Gifts In kind comprises all non-monetary donations

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

2020 Sustainability Aspirations

Our Sustainability Aspirations build on our three sustainability pillars with measurable targets to show how we are achieving sustainable outcomes across our business. These also allow us to demonstrate how we support the United Nations Sustainable Development Goals (SDGs).

Pillar one: Sustainable Finance

| Aspirations | Targets: We will work with our clients to: | Target date |
|---|--|---|
| Infrastructure Everyone should have access to safe, reliable and affordable power and infrastructure which transforms lives and strengthens economies  | <ul style="list-style-type: none"> → Provide project financing services for \$40 billion of infrastructure projects that promote sustainable development that align to our verified Green and Sustainable Product Framework → Catalyse \$5 billion of finance via blended finance transactions | Jan 2020 – Dec 2024 |
| Climate change Climate change is one of today's greatest challenges and addressing it is essential to promote sustainable economic growth  | <ul style="list-style-type: none"> → Provide \$35 billion worth of project financing services, M&A advisory, debt structuring, transaction banking and lending services for renewable energy that align to our verified Green and Sustainable Product Framework → Develop a methodology to measure, manage and ultimately reduce the CO₂ emissions from the activities we finance → Only provide financial services to clients who are: <ul style="list-style-type: none"> - By Jan 2021, less than 100% dependent on earnings from thermal coal (based on % EBITDA at group level) - By Jan 2025, less than 60% dependent on earnings from thermal coal (based on % EBITDA at group level) - By Jan 2027, less than 40% dependent on earnings from thermal coal (based on % EBITDA at group level) - By Jan 2030, less than 10% dependent on earnings from thermal coal (based on % EBITDA at group level) | Jan 2020 – Dec 2024 Jan 2019 – Dec 2020 Jan 2020 – Jan 2030 |
| Entrepreneurs Entrepreneurs are the heart of local economies, creating jobs and empowering people  | <ul style="list-style-type: none"> → Provide \$15 billion of financing to small business clients (Business Banking) → Provide \$3 billion of financing to microfinance institutions | Jan 2020 – Dec 2024 |
| Commerce Trade creates jobs and contributes to economies by enabling people to connect across borders  | → Bank 10,000 of our clients' international and domestic networks of suppliers and buyers through banking the ecosystem programmes | Jan 2020 – Dec 2024 |
| Digital Everyone should have access to digital banking products enabling safe, efficient and inclusive banking  | → Roll out digital-only bank in a total of 12 markets and double the number of clients we bank in Africa to 3.2 million | Jan 2020 – Dec 2021 |
| Impact finance Innovative financial products and partnerships can help us solve global development challenges and improve the lives of millions in our markets  | <ul style="list-style-type: none"> → Introduce ESG scores for equity investments for Private Banking clients allowing them to tailor their investment choices in a sustainable manner → Develop a tailored Impact Profile for all Private Bank clients, providing a framework that enables them to understand their passions and harness capital market solutions to support the SDGs → Increase the proportion of Private Bank investment solutions (across funds, bonds, structured products and discretionary mandates) with a sustainability lens from below 10% to 50% | Jan 2020 – Dec 2020 Jan 2020 – Dec 2024 Jan 2020 – Dec 2024 |

Pillar 2: Responsible Company

| Aspirations | Targets: We will: | Target date |
|---|--|--|
| People Our people are our greatest asset, and our diversity drives our business success  | <ul style="list-style-type: none"> → Conduct a feasibility analysis to incorporate a Living Wage into agreements for all non-employed workers → Complete disability confidence assessments for 44 of our larger markets → Embed an integrated health and wellbeing strategy to support building and re-skilling a future-ready, diverse workforce → Support all employees to develop a personalised growth plan to reflect the future skills needed to respond to the changing and digitised nature of work → Increase gender representation: 35% women in senior roles with an interim target: <ul style="list-style-type: none"> - Dec 2020: 30% → Increase our 'Culture of Inclusion' score to 84.5% with an interim target: <ul style="list-style-type: none"> - Dec 2021: 80% | Jan 2019 – Dec 2020 Jan 2020 – Dec 2020 Jan 2020 – Dec 2021 Jan 2020 – Dec 2021 Sept 2016 – Dec 2024 Jan 2020 – Dec 2024 |
| Environment Reducing our own impact on the environment will protect our planet for the benefit of our communities  | <ul style="list-style-type: none"> → Reduce annual greenhouse gas emissions (Scope 1 and 2) to net zero with an interim target: <ul style="list-style-type: none"> - Dec 2025: 60,000 tCO₂e → Source all energy from renewable sources → Join the Climate Group 'RE100' → Reduce our Scope 3 value chain emissions from business travel by 7% → Introduce an emissions offset programme for Scope 3 travel emissions → Reduce annual office paper use by 57% to 10kg/headcount/year → Reduce waste per colleague to 40kg → Recycle 90% of waste | Jan 2019 – Dec 2030 Jan 2020 – Dec 2030 Jan 2020 – Dec 2020 Jan 2020 – Dec 2020 Jan 2020 – Dec 2020 Jan 2012 – Dec 2020 Jan 2020 – Dec 2025 Jan 2020 – Dec 2025 |
| Conduct Good conduct and high ethical standards are essential in achieving fair outcomes for our clients  | <ul style="list-style-type: none"> → Learn from risks identified through concerns raised via our Speaking Up programme and conduct plans and publish an annual Threats and Themes Report → Develop enhanced internal policies and guidelines on privacy, data ethics and algorithmic fairness, and embed a new governance framework for all data-related risks | Ongoing Jan 2020 – Dec 2021 |
| Financial crime compliance Financial crime has serious social and economic consequences, harming individuals and communities  | <ul style="list-style-type: none"> → Tackle financial crimes such as illegal wildlife trade (IWT) by developing red flags for financial flows, training frontline staff to identify potential suspicious transactions and participating in public-private partnerships to share intelligence and good practices → Deliver at least 18 correspondent banking academies | Ongoing Jan 2020 – Dec 2020 |

Pillar 3: Inclusive Communities

| Aspirations | Targets: We will: | Target dates |
|--|--|---|
| Community engagement Health and education are vital for thriving and prosperous communities  | <ul style="list-style-type: none"> → Invest 0.75% of prior year operating profit (PYOP) in our communities → Raise \$50m for Futuremakers by Standard Chartered → Education: Reach one million girls and young women through Goal → Employability: Reach 100,000 young people → Entrepreneurship: Reach 50,000 young people, and micro and small businesses → Support the development of the Vision Catalyst Fund → Increase participation for employee volunteering to 55% | Jan 2006 – Dec 2020 Jan 2019 – Dec 2023 Jan 2006 – Dec 2023 Jan 2019 – Dec 2023 Jan 2019 – Dec 2023 Jan 2019 – Dec 2020 Jan 2020 – Dec 2023 |

Shareholder information

Expected dividend and interest payment dates

| Ordinary shares | Final dividend | |
|--|--------------------------------|-----------------------------|
| Results and dividend announced | 27 February 2020 | |
| Ex-dividend date | 5 March (UK) 4 March (HK) 2020 | |
| Record date for dividend | 6 March 2020 | |
| Last date to amend currency election instructions for cash dividend | 15 April 2020 | |
| Dividend payment date | 14 May 2020 | |
| Preference shares | 1st half yearly dividend | 2nd half yearly dividend |
| 73/8 per cent non-cumulative irredeemable preference shares of £1 each | 1 April 2020 | 1 October 2020 |
| 81/4 per cent non-cumulative irredeemable preference shares of £1 each | 1 April 2020 | 1 October 2020 |
| 6.409 per cent non-cumulative redeemable preference shares of \$5 each | 30 January and 30 April 2020 | 30 July and 30 October 2020 |
| 7.014 per cent non-cumulative redeemable preference shares of \$5 each | 30 January 2020 | 30 July 2020 |

Annual General Meeting

The Annual General Meeting (AGM) details are as follows:

| Date and time | Location |
|--|---|
| Wednesday 6 May 2020 11.00am London time (6.00pm Hong Kong time) | 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 sc.com/agm

Interim results

The interim results will be announced to the London Stock Exchange, The Stock Exchange of Hong Kong Limited, the BSE Limited (Bombay Stock Exchange), 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 2019, on or before 31 December 2020. 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 sc.com/shareholders 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 |
|-----------------------------|----------------------|---|--|
| Final 2007 | 16 May 2008 | 56.23c/28.33485p/HK\$4.380092 | £16.2420/\$32.78447 |
| Interim 2008 | 9 October 2008 | 25.67c/13.96133p/HK\$1.995046 | £14.00/\$26.0148 |
| Final 2008 | 15 May 2009 | 42.32c/28.4693p/HK\$3.279597 | £8.342/\$11.7405 |
| Interim 2009 | 8 October 2009 | 21.23c/13.25177p/HK\$1.645304 | £13.876/\$22.799 |
| Final 2009 | 13 May 2010 | 44.80c/29.54233p/HK\$3.478306 | £17.351/\$26.252 |
| Interim 2010 | 5 October 2010 | 23.35c/14.71618p/HK\$1.811274/INR0.984124 ¹ | £17.394/\$27.190 |
| Final 2010 | 11 May 2011 | 46.65c/28.272513p/HK\$3.623404/INR1.9975170 ¹ | £15.994/\$25.649 |
| Interim 2011 | 7 October 2011 | 24.75c/15.81958125p/HK\$1.928909813/INR1.13797125 ¹ | £14.127/\$23.140 |
| Final 2011 | 15 May 2012 | 51.25c/31.63032125p/HK\$3.9776083375/INR2.6667015 ¹ | £15.723/\$24.634 |
| Interim 2012 | 11 October 2012 | 27.23c/16.799630190p/HK\$2.111362463/INR1.349803950 ¹ | £13.417/\$21.041 |
| Final 2012 | 14 May 2013 | 56.77c/36.5649893p/HK\$4.4048756997/INR2.976283575 ¹ | £17.40/\$26.28792 |
| Interim 2013 | 17 October 2013 | 28.80c/17.8880256p/HK\$2.233204992/INR1.6813 ¹ | £15.362/\$24.07379 |
| Final 2013 | 14 May 2014 | 57.20c/33.9211444p/HK\$4.43464736/INR3.354626 ¹ | £11.949/\$19.815 |
| Interim 2014 | 20 October 2014 | 28.80c/17.891107200p/HK\$2.2340016000/INR1.671842560 ¹ | £12.151/\$20.207 |
| Final 2014 | 14 May 2015 | 57.20c/37.16485p/HK\$4.43329/INR3.514059 ¹ | £9.797/\$14.374 |
| Interim 2015 | 19 October 2015 | 14.40c/9.3979152p/HK\$1.115985456/INR0.86139372 ¹ | £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 |
| Final 2017 | 17 May 2018 | 11.00c/7.88046p/HK\$0.86293/INR0.653643340 ¹ | £7.7600/\$10.83451 |
| Interim 2018 | 22 October 2018 | 6.00c/4.59747p/HK\$0.46978/INR0.3696175 ¹ | £6.7104/\$8.51952 |
| Final 2018 | 16 May 2019 | 15.00c/11.569905p/HK\$1.176260/INR0.957691650 ¹ | N/A |
| Interim 2019 | 21 October 2019 | 7.00c/5.676776p/HK\$0.548723/INR0.425028600 ¹ | 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 KFintech, Tower B, Plot 31-32, Selenium Building, Financial District, Nanakramguda, Gachibowli, Hyderabad 500032, Telangana, India.

Chinese translation

If you would like a Chinese version of the 2019 Annual Report 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, the English text shall prevail.

Electronic communications

If you hold your shares on the UK register and in future you would like to receive the Annual Report 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.

Main awards and accolades 2019

MAJOR AWARDS 2019

The Asset Triple A Awards 2019

The Asset Triple A Asset Servicing, Institutional Investor and Insurance Awards

- Best Custodian – Overall
- Best Subcustodian, Global
- Best Custodian, Bond Connect-Offshore – China
- Best Custody Specialist, Africa
- Best Custody Specialist, Fund Managers



The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards

- Best Working Capital and Trade Finance
- Best Renminbi Bank
- Best in Treasury and Working Capital – Liquidity Management
- Editors' Triple Star* – Straight2Bank Pay
- Best in Treasury & Cash Management – North Asia
- Best in Treasury & Cash Management – South Asia
- Best in Treasury & Cash Management – MENA
- Best in Working Capital & Trade Finance – MENA

The Asset Triple A Islamic Finance Awards

- Global Sukuk Adviser of the Year
- Best Bank for Digital Innovation
- Best Investment Bank Middle East

GTR Leaders in Trade Awards 2019

- Best Trade Finance Bank in the Middle East and North Africa
- Best Export Finance Bank

Flimetrix 2019

Flimetrix Distinguished Provider 2019

- Distinguished Provider of Transaction Banking Services for USD to USD
- Distinguished Provider of Transaction Banking Services for EUR to EUR
- Distinguished Provider of Transaction Banking Services for USD to EUR



Global Custodian 2019

Global Custodian's 2019 Leaders in Custody

- Best Bank Network Management Team
- Emerging Markets Continued Excellence – MENA



Global Custodian Agent Banks in Frontier Markets Survey 2019

Global Outperformer – 9 Markets

- Bahrain
- Bangladesh
- Botswana
- Ghana
- Jordan
- Kenya
- Nigeria
- Sri Lanka
- Vietnam



Market Outperformer – 10 Markets

- Bangladesh
- Botswana
- Ghana
- Jordan
- Kenya
- Mauritius
- Nigeria
- Sri Lanka
- Vietnam
- Zambia



Global Finance 2019

World's Best Supply Chain Finance Providers 2019

- Global Best Supply Chain Finance Provider – Bank



World's Best Trade Finance Providers 2019

- Global Best Bank for Export Finance
- Best Trade Finance Bank in Asia-Pacific



Treasury & Cash Management Awards 2019

- Best Bank for Liquidity Management

World's Best Foreign Exchange Providers 2019

- Best FX Provider For Emerging Markets Currencies

Transaction Banking Awards 2019

- World's Best Sub-Custodian Bank
- World's Best Sub-Custodian Bank, Middle East

Stars of China

- Best Foreign Bank for One Belt, One Road

The World's Best Global Banks

- Best Bank for Sustainable Finance

The Banker

The Banker Deal of the Year

- Transaction Bank of the Year – Supply Chain Finance
- Transaction Bank of the Year – Asia Pacific
- Transaction Bank of Year – Middle East

Asiamoney

New Silk Road Finance Awards 2019

- Best Bank for infrastructure/Project Finance in Middle East & Africa

Adam Smith Awards Asia 2019

- **Winner:** Best working capital management solution – Olam International Limited (Standard Chartered, Citi and Rabobank).
- **Winner:** Treasury today asia woman of the year 2019 – Rashmi Joshi, Castrol India Ltd
- **Highly commended:** Best funding solution – Juneyao Airlines Co., Ltd.
- **Highly commended:** First class relationship management – Astro Malaysia Holdings Berhad (Standard Chartered and SAP Malaysia)

MAJOR AWARDS 2019 CONTINUED

- **Highly commended:** Best sustainable finance solution – Sitic International Holding Company Limited.
- **Highly commended:** Best fintech solution – Digital Guangdong Co. Ltd. (Standard Chartered and Linklogis).
- **Highly commended:** Treasury Today Asia Woman of the Year 2019 – Latifah Mohamed Yusof, Astro Malaysia Holdings Berhad

AsiaRisk Awards

- Currency Derivatives House of the Year Award

FinanceAsia

Achievement Awards 2019 – House Awards

- Project Finance House – International
- Syndicated Loan – International

The Asset

PVB

- Rising Star – Best PB for UHNW (PVB)
- Best Structured Investment Product (FM)

Euromoney

AFE – Regional

- Best Bank for Sustainable Finance – Africa



Asiamoney

New Silk Road Awards

- Best International Bank for BRI in Southeast Asia
- Best International Bank for BRI in South Asia
- Best Bank for BRI-related financing in South Asia

DIVERSITY AND INCLUSION AWARDS

2019 Working Mother & Avtar Best 100 Companies for Women in India

- Avtar – The Power of Diversity

Most Inclusive Companies in India

- Avtar – The Power of Diversity

2019 Working Mother & Avtar Best 100 Companies for Women in India

- Avtar – The Power of Diversity

Exceptional Woman Leader of the Year in Nigeria

- The Great Place to Work
- Yemisi Lowo-Adesola – Nigeria

Gold Standard in the Hong Kong LGBT+ Inclusion Index

- The Community Business LGBT+ Inclusion Index

Best Private Bank – Talent Management and Diversity

- Wealth Briefing European Awards

100 LGBT+ Executives

- Outstanding LGBT+ Role Model
- Alison McFadyen

Top 10 Best workplaces for women

- Great Place to Work

2019 HEROes Women Executive

- 2019 HEROes Women Role Model
- Nancy Wisniewksi

2019 HEROes Advocate Executive

- 2019 HEROes Women Role Model
- Shazad Dada – Pakistan

2019 HEROes Women Future Leader

- 2019 HEROes Women Role Model
- Joyce Adetu

2019 HEROes Women Executive

- 2019 HEROes Women Role Model
- Souad Benkredda

2019 HEROes Advocate Executive

- 2019 HEROes Women Role Model
- Osman E Faiz

2019 Equileap Gender Equality Global Report – Global ranking is at 44th; UK ranking is 5th; Kenya ranking is 1st

- EQUILEAP

2019 Bloomberg Gender Equality Index recognised among one of 230 companies in the world promoting gender equality

- Bloomberg Gender Equality Index

Best Practice Award in Vision category and “Progressive” award in Benefits Category, Communications Category and Social Responsibility Category by Global Diversity and Inclusion Benchmark

- Global Diversity and Inclusion Benchmark

50 Most Influential Women in Middle East Finance

- Financial Times 50 Middle East Women

50 Most Influential Women in Middle East Finance

- Financial Times 50 Middle East Women
- Rola Abu Manneh

Best Places to Work for LGBTQ Equality

- Human Rights Council Corporate Equality Index 2019

- Souad Benkredda

SUSTAINABILITY INDICES



FTSE4Good

We are listed in the FTSE4Good Index. The FTSE4Good measures the performance of companies that meet globally recognised corporate responsibility standards.



We participate in the CDP Climate questionnaire.

SUSTAINABILITY AND COMMUNITY ENGAGEMENT AWARDS

The Ceylon Chamber of Commerce – Best Corporate Citizen Awards

- Women Empowerment – Winner : Goal programme
- Best Sustainability Project – Goal programme
- Certificate of Merit – Financial Education in the Tea Estates (Futuremakers by Standard Chartered)
- Overall runners up – Best Corporate Citizen (Less than Rs.15bn annual turnover)

American Chamber of Commerce – CSR Excellence Awards (Thailand)

- Standard Chartered Bank received Gold Status recognising nine consecutive years of CSR Excellence

Global Finance – World’s Best Bank Awards

- World’s Best Bank for Sustainable Finance

Euromoney Awards for Excellence

- Africa’s Best Bank for Sustainable Finance

International Business Magazine (Jordan)

- Best CSR Bank Award

International Finance

- IFM Best CSR Bank

Global Brand Magazine

- Best CSR Bank

Community Chest Awards (Singapore)

- Charity Platinum

People’s Association Community Spirit Awards (Singapore)

- Community Partnership Merit Award

Sustainable Development Goals Pioneer

- Global Compact Network South Africa

Glossary

AT1 or Additional Tier 1 capital

Additional Tier 1 capital consists of instruments other than Common Equity Tier 1 that meet the Capital Requirements Regulation (CRR) criteria for inclusion in Tier 1 capital.

Additional value adjustment

See Prudent valuation adjustment.

Advanced Internal Rating Based (AIRB) approach

The AIRB approach under the Basel framework is used to calculate credit risk capital based on the Group's own estimates of prudential parameters.

Alternative performance measures

A financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

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.

Average interest bearing liabilities

The annual average total balance of financial liabilities measured at amortised cost that incur interest expense for the Group, excluding liabilities used to fund the Financial Markets business. Average balances are determined using daily balances, except for certain categories which have been determined less frequently.

Average interest earning assets

The annual average total balance of financial assets measured at amortised cost or fair value through other comprehensive income that generate interest income for the Group. Average balances are determined using daily balances, except for certain categories which have been determined less frequently.

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

The global regulatory standards on bank capital adequacy and liquidity, originally issued in December 2010 and updated in June 2011. In December 2017, the BCBS published a document setting out the finalisation of the Basel III framework. The latest requirements issued in December 2017 will be implemented from 2022.

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.

Basic underlying earnings per share (EPS)

Represents the underlying earnings divided by the basic weighted average number of shares.

Basis point (bps)

One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent.

Capital-lite income

Income derived from products with low RWA consumption or products which are non-funding in nature.

CRD IV or Capital Requirements Directive IV

A capital adequacy legislative package adopted by EU member states. CRD IV comprises the recast Capital Requirements Directive and the Capital Requirements Regulation (CRR). The package implements the Basel III framework together with transitional arrangements for some of its requirements. CRD IV came into force on 1 January 2014. CRR II and CRD V amending the existing package came into force in June 2019 with most changes starting to apply from 28 June 2021.

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.

Cash shortfall

The difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive over the contractual life of the instrument.

Clawback

An arrangement under which an individual has to return ownership of an amount of variable remuneration paid in the past or which has already vested to the Group under certain conditions

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 or Common Equity Tier 1 capital

Common Equity Tier 1 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 Common Equity Tier 1.

CET1 ratio

A measure of the Group's CET1 capital as a percentage of risk-weighted assets.

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.

Countercyclical capital buffer

The countercyclical capital buffer (CCyB) is part of a set of macroprudential instruments, designed to help counter procyclicality in the financial system. CCyB as defined in the Basel III standard provides for an additional capital requirement of up to 2.5 per cent of risk-weighted assets in a given jurisdiction. The Bank of England's Financial Policy Committee has the power to set the CCyB rate for the United Kingdom. Each bank must calculate its 'institution-specific' CCyB rate, defined as the weighted average of the CCyB rates in effect across the jurisdictions in which it has credit exposures. The institution-specific CCyB rate is then applied to a bank's total risk-weighted assets.

Counterparty credit risk

The risk that a counterparty defaults before satisfying its obligations under a derivative, a securities financing transaction (SFT) or a similar contract.

CCF or Credit conversion factor

An estimate of the amount the Group expects a customer to have drawn further on a facility limit at the point of default. This is either prescribed by CRR or modelled by the bank.

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 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.

Days past due

One or more days that interest and/or principal payments are overdue based on the contractual terms.

DVA or Debit valuation adjustment

An adjustment to the fair value of derivative contracts that reflects 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 transferable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.

Default

Financial assets in default represent those that are at least 90 days past due in respect of principal or interest and/or where the assets are otherwise considered to be unlikely to pay, including those that are credit-impaired.

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.

Diluted underlying earnings per share (EPS)

Represents the underlying earnings divided by the diluted weighted average number of shares.

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.

Early alert, purely and non-purely precautionary

A borrower's account which exhibits risks or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded to credit grade 12 or worse. When an account is on early alert, it is classified as either purely precautionary or non-purely precautionary. A purely precautionary account is one that exhibits early alert characteristics, but these do not present any imminent credit concern. If the symptoms present an imminent credit concern, an account will be considered for classification as non-purely precautionary.

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.

ECL or Expected credit loss

Represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

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 Institution

External credit ratings are used to assign risk-weights under the standardised approach for sovereigns, corporates and institutions. The external ratings are from credit rating agencies that are registered or certified in accordance with the credit rating agencies regulation or from a central bank issuing credit ratings which is exempt from the application of this regulation.

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 where a bank takes receipt of a debt or equity security, a commodity or foreign exchange without making immediate payment, or where a bank delivers a debt or equity security, a commodity or foreign exchange without receiving immediate payment.

Free funds

Free funds include equity capital, retained reserves, current year unremitting 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 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 reflects the funding costs that the market participant would incorporate when determining an exit price.

G-SIBs or Global Systemically Important Banks

Global banking 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 assessed under a framework established by the FSB and the BCBS. In the EU, the G-SIB framework is implemented via CRD IV and G-SIBs are referred to as Global Systemically Important Institutions (G-SIIs).

G-SIB buffer

A CET1 capital buffer which results from designation as a G-SIB. The G-SIB buffer is between 1 per cent and 3.5 per cent, depending on the allocation to one of five buckets based on the annual scoring. In the EU, the G-SIB buffer is implemented via CRD IV as Global Systemically Important Institutions (G-SII) buffer requirement.

GCNA hub

See 'Hong Kong regional hub'.

Hong Kong regional hub

Standard Chartered Bank (Hong Kong) Limited and its subsidiaries including the primary operating entities in China, Korea and Taiwan. Standard Chartered PLC is the ultimate parent company of Standard Chartered Bank (Hong Kong) Limited.

Interest rate risk

The risk of an adverse impact on the Group's income statement due to changes in interest rates.

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.

IRB or internal ratings-based approach

Risk-weighting methodology in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of prudential parameters.

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).

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.

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.

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.

Loan exposure

Loans and advances to customers reported on the balance sheet held at amortised cost or FVOCI, non-cancellable credit commitments and cancellable credit commitments for credit cards and overdraft facilities.

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.

Loss rate

Uses an adjusted gross charge-off rate, developed using monthly write-off and recoveries over the preceding 12 months and total outstanding balances.

Low returning clients

See 'Perennial sub-optimal clients'.

Main bank net promoter score

'Main bank' is the net promoter score given from clients who use Standard Chartered as their main bank.

Malus

An arrangement that permits the Group to reduce the value of all or part of deferred variable remuneration based on ex-post risk adjustments before it has vested.

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, implementing the FSB's Total Loss Absorbing Capacity (TLAC) standard. MREL is intended to ensure that 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.

Network income

Income generated outside of a client group's headquarter country, mainly within Corporate & Institutional Banking and Commercial Banking.

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.

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.

Non-linearity

Non-linearity of expected credit loss occurs when the average of expected credit loss for a portfolio is higher than the base case (median) due to the fact that bad economic environment could have a larger impact on ECL calculation than good economic environment.

NPLs or non-performing loans

An NPL is any loan that is more than 90 days past due or is otherwise individually impaired. This excludes Retail 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.

Normalised items

See 'Underlying' on page 265.

Operating expenses

Staff and premises costs, general and administrative expenses, depreciation and amortisation. Underlying operating expenses exclude expenses as described in 'Underlying earnings'. 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 'Underlying 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.

Perennial sub-optimal clients

Clients that have returned below 3% return on risk-weighted assets for the last three years.

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 the Basel framework which provides the approach to calculation of the minimum capital requirements for credit, market and operational risk. Minimum capital requirements are 8 per cent of the Group's risk-weighted assets.

Pillar 2

The second pillar of the three pillars of the Basel framework 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 the Basel framework which aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

Priority Banking

Priority Banking customers are individuals who have met certain criteria for deposits, AUM, mortgage loans or monthly payroll. Criteria varies by country.

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 over a given time horizon.

Probability weighted

Obtained by considering the values the metric can assume, weighted by the probability of each value occurring.

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

An adjustment to 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.

Regulatory consolidation

The regulatory consolidation of Standard Chartered PLC differs from the statutory consolidation in that it excludes Standard Chartered Assurance Limited and Standard Chartered Insurance Limited and includes the full consolidation of PT Bank Permata Tbk.

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.

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, expressed as a percentage of an exposure value in accordance with the applicable standardised or IRB approach provisions.

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.

Roll rate

Uses a matrix that gives average loan migration rate from delinquency states from period to period. A matrix multiplication is then performed to generate the final PDs by delinquency bucket over different time horizons.

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 credit exposures are aggregated into a pool, which is used to back new securities. Under traditional securitisation transactions, assets are sold to a structured entity (SE) which then issues new securities to investors at different levels of seniority (credit tranching). This allows the credit quality of the assets to be separated from the credit rating of the originating institution and transfers risk to external investors in a way that meets their risk appetite. Under synthetic securitisation transactions, the transfer of risk is achieved by the use of credit derivatives or guarantees, and the exposures being securitised remain exposures of the originating institution.

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.

SICR or Significant increase in credit risk

Assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after considering the passage of time).

Solo

The solo regulatory group as defined in the Prudential Regulation Authority waiver letter dated 24 August 2017 differs from Standard Chartered Bank Company in that it includes the full consolidation of eight subsidiaries, namely Standard Chartered Holdings (International) B.V., Standard Chartered MB Holdings B.V., Standard Chartered UK Holdings Limited, Standard Chartered Grindlays PTY Limited, SCMB Overseas Limited, Standard Chartered Capital Management (Jersey) LLC, Standard Chartered Debt Trading Limited and Cerulean Investments LP.

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.

Stage 1

Assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

Stage 2

Assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3

Assets that are in default and considered credit-impaired (non-performing loans).

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 and related share premium accounts.

TLAC or Total loss absorbing capacity

An international standard for TLAC issued by the FSB, which requires G-SIBs to have sufficient loss-absorbing and recapitalisation capacity available in resolution, to minimise impacts on financial stability, maintain the continuity of critical functions and avoid exposing public funds to loss.

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.

Unbiased

Not overly optimistic or pessimistic, represents information that is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that the financial information will be received favourably or unfavourably by users.

Unlikely to pay

Indications of unlikelihood to pay shall include placing the credit obligation on non-accrued status; the recognition of a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the Group taking on the exposure; selling the credit obligation at a material credit-related economic loss; the Group consenting to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or, where relevant fees; filing for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the Group; the obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to the Group.

VaR or Value at Risk

A quantitative measure of market risk estimating the potential loss that will not be exceeded in a set time period at a set statistical confidence level.

ViU or Value-in-Use

The present value of the future expected cash flows expected to be derived from an asset or CGU.

Write-downs

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. Write-downs 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'.

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Belt & Road Relay

The photographs on the cover of this Annual Report were taken during the Standard Chartered Belt & Road Relay. Find out more on page 58.



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