



Annual Report 2014

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



About us

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

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

For more information please visit sc.com

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Enhancing our reporting

In line with global developments in reporting, we are no longer publishing a separate sustainability review. Instead, sustainability reporting is embedded across this annual report, reinforcing our commitment to sustainability as the foundation of our business.

We hope you will find this enhancement to our reporting useful and informative.

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

Within this document, the Hong Kong Special Administrative Region of the People's Republic of China is referred to as Hong Kong; The Republic of Korea is referred to as Korea or South Korea; Greater China includes Hong Kong, Taiwan, China and Macau; North East Asia (NEA) includes Korea, Japan and Mongolia; Middle East, North Africa and Pakistan (MENAP) includes the United Arab Emirates (UAE), Bahrain, Qatar, Lebanon, Jordan, Saudi Arabia, Egypt, Oman, Iraq and Pakistan; South Asia includes India, Bangladesh, Nepal and Sri Lanka; and ASEAN includes Singapore, Malaysia, Indonesia, Brunei, Cambodia, Laos, Philippines, Thailand, Vietnam, Myanmar and Australia.

Standard Chartered PLC is headquartered in London where it is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority and PRA. The Group's head office provides guidance on governance and regulatory standards. Standard Chartered PLC stock codes are: HKSE 02888; LSE STAN.LN; and BSE/NSE STAN.IN.

Content symbols

Further information is available where you see these icons:

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

Cover:

Mumbai's Chhatrapati Shivaji Terminus, a bustling railway station and UNESCO World Heritage Site



Strategic report

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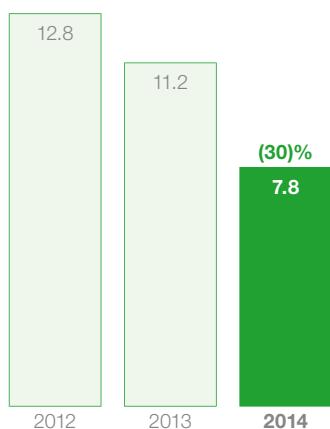
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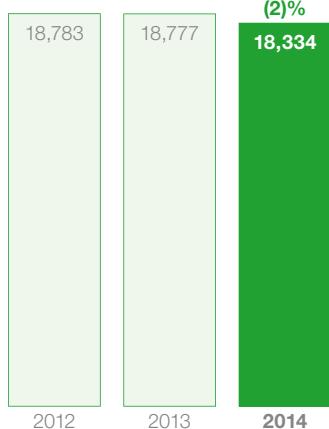
Performance highlights

Executing our refreshed strategy

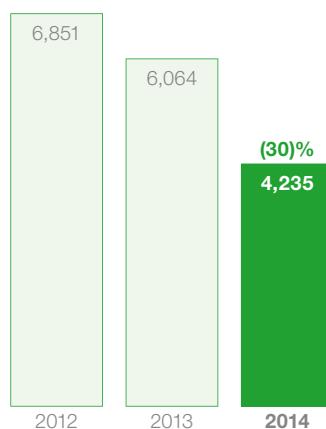
Normalised return on equity¹ %



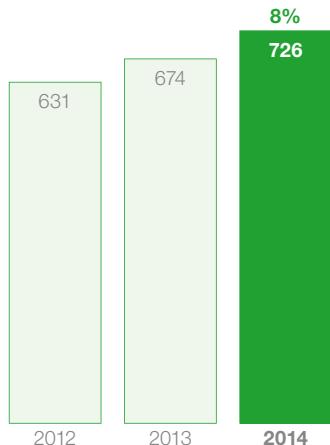
Operating income² \$million



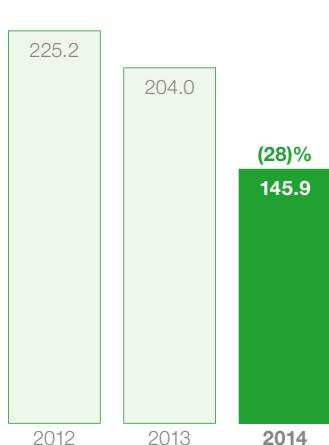
Profit before taxation² \$million



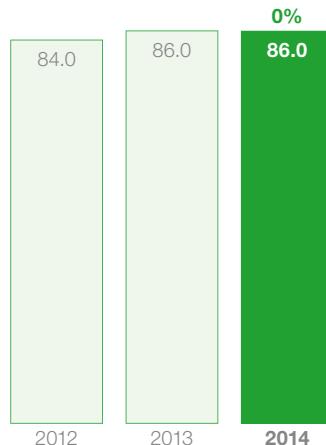
Total assets \$billion



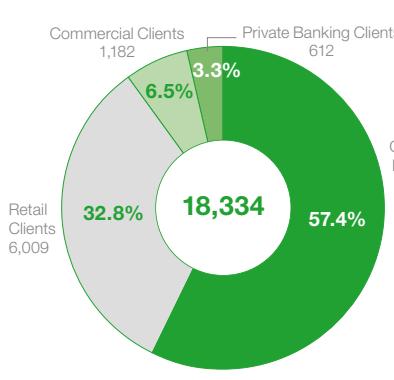
Normalised earnings per share¹ cents



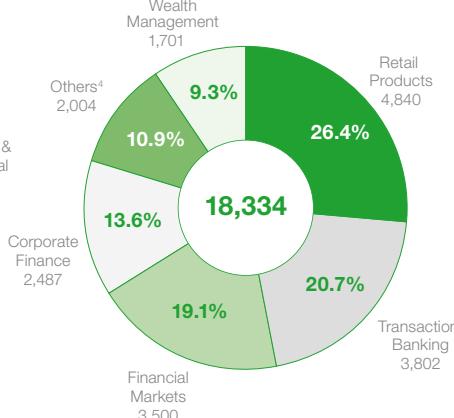
Dividend per share³ cents



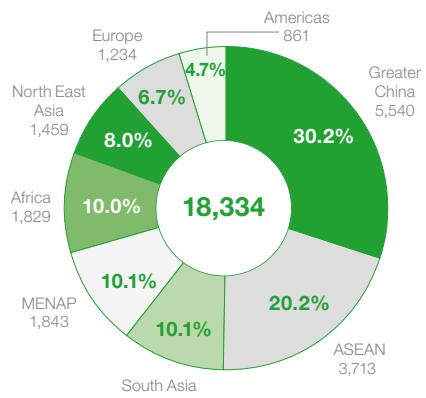
Operating income by client segment \$million



Operating income by product group \$million



Operating income by region \$million



1. Standard Chartered uses non-generally accepted accounting principles (GAAP) measures, where these are not defined under International Financial Reporting Standards (IFRS) or they have been adjusted. Normalised earnings are defined in the Glossary on page 332 and in note 14 to the financial statements

2. Operating income includes own credit adjustment (OCA) benefit of \$106 million and \$100 million for 2013 and 2014 respectively. Profit before taxation for 2013 and 2014 include OCA and goodwill impairment. 2014 also includes \$300 million in respect of the civil monetary penalty. 2012 included \$667 million due in respect of settlements with the US authorities

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

4. Others include Lending and Portfolio Management (\$1,026 million), Asset and Liability Management (\$653 million) and Principal Finance (\$325 million)

Chairman's statement

Resolved to restore shareholder value



"2014 was a challenging year and our performance was disappointing, but it was also a year when we took decisive action to refocus our strategy and to reposition the Group for the future"

Sir John Peace
Chairman

- Profit before taxation, goodwill impairment, own credit and the civil monetary penalty was down 25 per cent to \$5.2 billion
- Statutory profit before taxation was down 30 per cent to \$4.2 billion
- Income excluding own credit adjustment fell 2 per cent to \$18.2 billion
- Normalised earnings per share declined 28 per cent to 145.9 cents

2014 was a challenging year and our performance was disappointing, but it was also a year when we took decisive action to refocus our strategy and to reposition the Group for the future.

The Board continues to believe that there are significant opportunities for the Group in the medium to long term across our footprint, and that is why we have been careful not to take any knee-jerk actions that may damage the long-term prospects of the business.

However, at the same time, we need to be mindful that there are significant factors impacting our current performance which cannot be ignored: the imperative to build capital levels across the industry; the need for ongoing investment in enhancing our systems and processes associated with conduct and compliance; and the need to change the shape of our business to fit the demands of the current economic and regulatory landscape.

As a consequence of this, the Board has recently endorsed a number of priority areas. The first of these was to provide clarity on our governance, leadership and succession plans, and we are going further by highlighting a number of other priorities: taking steps to build on our capital levels, enhancing our return on equity and continuing to improve our conduct and compliance capabilities.

The Board is determined to reshape the business to restore the Group's performance and to fully realise the opportunities in our markets. At the same time, we are determined to continue to raise the bar on conduct and compliance to ensure that Here for good, our brand promise, is firmly embedded in the DNA of the Group worldwide.

Whilst we are comfortable with our current capital position, the Board does want to improve our capital trajectory, so we are taking actions around risk-weighted assets, cost reductions and business disposals, all of which are aimed at strengthening both our Common Equity Tier 1 ratio and our trajectory going forward.

Normalised earnings per share

145.9 cents

2013: 204.0 cents

Dividend per share

86.00 cents

2013: 86.00 cents

Chairman's statement

We believe that we have identified strong levers to manage capital accretion over time and therefore the Board is recommending a final dividend for 2014 of 57.20 cents, resulting in a total annual dividend of 86.00 cents, which is the same level of dividend per share as 2013.

For several years, we have significantly increased the amount paid out to shareholders by way of dividend, while at the same time consecutively reducing the amount paid out in bonuses, despite increasing staff numbers over this period. In 2014, we are again proposing to pay out more to our shareholders by way of dividends than we pay out in bonuses.

This disciplined approach to managing variable compensation has created significant competitive pressures in some of our key markets. We are, of course, mindful of the external sentiment in some markets on bankers' pay, and conscious of our disappointing performance in 2014, but it is essential that we remain able to pay competitively in the markets where we operate and where wage inflation, on average, is around 5 per cent.

Our people are much sought after by our competition, and we are acutely conscious of the importance of retaining and attracting the best talent as we look to execute on our strategy. It also goes without saying that, consistent with past practice, we will only reward our people for good performance as well as for their good behaviours.

Taking all these factors into account and reflecting on our performance in 2014, the bonus pool is down on 2013 by 9 per cent, and 27 per cent lower than in 2011. In light of the disappointing performance of the Group, those executive directors on the PLC Board throughout the year came to the conclusion that they should show leadership by not taking any variable compensation for 2014.

I would like to take this opportunity to thank Peter Sands on behalf of the Board for the immense contribution he has made to the success of the Group over the past 13 years, both as Group Chief Executive and as Group Finance Director. Since he became Group Chief Executive in 2006, the Group has more than doubled in size and has been consistently profitable. Peter's leadership and insight, over a period of huge change and challenge for the entire industry, ensure that he leaves the Group well placed to achieve its full potential as one of the world's leading financial institutions.

I would also like to thank Jaspal Bindra for his very considerable contributions to the business over the past 16 years, and the other long-serving Board members who are stepping down this year and who have done so much to help position this great bank for the future.

We are extremely fortunate to have Bill Winters, one of the most accomplished and respected bankers in the world today, taking over as Group Chief Executive from Peter in June to drive the Group's next chapter of growth. Bill brings substantial financial experience from leading a very successful global business, and has an exceptional understanding of the global regulatory and conduct environment. He is also a proven leader with a strong track record in nurturing and developing talent. I am thrilled that Bill is joining the Group at this strategically important time and we wish him well in his new role.

We are therefore confident that we are taking the right actions to restore shareholder value.

I would like to thank our clients and shareholders for their support during 2014 and, above all, our great people for their hard work and ongoing commitment to Standard Chartered.



Sir John Peace

Chairman

4 March 2015

Group Chief Executive's review

Taking action to deliver sustainable, profitable growth and improved returns



"The drivers of economic growth in our markets remain immensely strong, and the demand for financial services is rising rapidly"

Peter Sands
Group Chief Executive

2014 was a tough year, our performance was disappointing and we are acutely aware of the impact of this for you, our shareholders. We faced a perfect storm: negative sentiment towards emerging markets, a sharp drop in commodity prices, persistently low interest rates and surplus liquidity, low volatility, and a welter of regulatory challenges.

As a result, we saw intense pressure on margins and volumes, a significant uptick in impairment and a sharp increase in regulatory related cost. Of course, it was not all about external factors. Some of the decisions we took in the past look less good now than they did at the time, such as Korea, which in 2014 made a loss before tax of \$145 million. Not everything we did was as well executed as it should have been, for example, the upgrade of our transaction surveillance systems back in 2007 – shortcomings here ultimately resulted in the civil penalty of \$300 million that we paid in August 2014.

We have taken a range of actions in response to the way our world has changed. We have overhauled our strategy, making it sharper and more focused. We have reconfigured the organisation to align it better with our strategic priorities. We have attacked our cost base. We have redeployed capital. We have disposed of, or are in the process of disposing of, 15 underperforming and non-strategic businesses. We have de-risked portfolios and segments, such as unsecured lending or correspondent banking, and we have stepped up the pace of our programme to raise the bar on conduct. While some of these changes actually made our 2014 performance worse, since we sacrificed income or increased investment, I am confident that the way we are reshaping the Group will get us back to a trajectory of sustainable, profitable growth, delivering returns above our cost of capital and driving the share price.

I should make clear that we are not counting on the world to do us favours. While we do expect a gradual return to a more normal interest rate environment, and this year we have already seen more volatility in currency markets, we are not counting on headwinds turning to tailwinds to boost our performance. We are focused on the levers we control, the things we can do, to improve returns and return to growth.

Our performance priorities are clear. First, we must dispel the concerns about capital, hence the clear target of achieving a Common Equity Tier 1 (CET1) ratio of 11 to 12 per cent in 2015

and thereafter. Second, we must improve returns, hence we are setting a target return on equity of over 10 per cent in the medium term, so that we are delivering sustainably above our cost of capital. This will take a bit of time to achieve, not least because the actions we are taking to strengthen the CET1 ratio make this more difficult. Each of these elements fits into an overall agenda of action, all of which is captured in the scorecards of the individual client and product groups, functions and geographies across the Group.

Capital

On capital, we start from a strong position. In terms of our CET1 ratio, at 10.7 per cent on an end-point basis, we have a 200 basis points (bps) buffer relative to known regulatory requirements. We weathered the Bank of England stress tests comfortably. We are strongly placed from a leverage and Total Loss Absorbing Capacity perspective.

However, we understand market concerns about forward trajectory given the uncertainties about how regulatory requirements will evolve. Although it is impossible to be definitive, a combination of risk-weighted assets (RWA) inflation and escalating expectations do point to a continuing upward drift in requirements. That is why we have put such focus on capital accretion, so that we can absorb regulatory changes and fund growth, while also improving the CET1 ratio. We accreted some 50bps in 2014, 20bps in the first half and 30bps in the second half. To achieve this, we cut some \$9 billion of low-returning RWA, largely from Corporate & Institutional Clients, and saved another \$2 billion from disposals.

We now plan to pull these levers even harder. Over the next two years, we plan to cut a further \$25 to 30 billion of RWA from low-returning client relationships and underperforming businesses. We are making good progress on this already. By taking these actions we are confident that we can achieve our target CET1 ratio of 11 to 12 per cent in 2015 and thereafter.

Costs

In 2014, we kept a tight grip on costs. Headline expenses went up 5 per cent, but more than half of this increase was due to the UK bank levy and restructuring costs attached to the very cost actions we are taking. Underlying expenses went up less than 3 per cent, driven largely by increased spend on regulatory and

conduct priorities. In November, we announced a \$400 million target for cost savings in 2015. We are more than on track to achieve this target, and the \$400 million number relates to our underlying business, so it excludes cost saved from business exits and disposals. Combined with the impact of such actions, we are on track for savings to headline costs exceeding \$600 million in 2015.

The progress we have made in attacking the cost base underpins our confidence in achieving \$1.8 billion in cost savings over the period from 2015 to 2017. Some of the remaining savings will come from the full-year impact of actions we have already taken, for example our decision to exit equities, which will give us \$100 million of savings in 2016. Some will be the result of further peripheral-business exits or withdrawals that we are currently pursuing, but most will be from achieving sustainable efficiency improvements in our big markets and core business activities.

We are stepping up the pace of digitisation, automating and re-engineering key processes and standardising technology platforms. For example, the only way we will get the cost-income ratio in the Retail Clients segment down to our target of 55 per cent is through accelerated digitisation of products, channels and internal processes. And the only way we can manage the ever-increasing complexity of regulation efficiently is through technology, so we are not cutting back on technology investment, but actually increasing this in order to achieve sustainable improvements in productivity.

Asset quality

It should be no surprise that impairment increased in 2014. GDP growth in key markets has been slower, commodity prices fell sharply, and we faced some specific challenges in particular markets, such as the Personal Debt Rehabilitation Scheme (PDRS) in Korea and fraud in China. Of course, we could have fared better. With hindsight, there were clients and situations we should have avoided, but we were never going to be entirely immune to the shift in the credit environment. The actions we have taken to de-risk are having an impact – in India, in China, in our commodities book, and in our unsecured portfolio in the Retail Clients segment. There are still many uncertainties in our markets, but I am very comfortable with our provisioning and with the shape and quality of the book.

In the Retail Clients segment, while impairment remains at an elevated level, the indicators suggest some improvement, most notably in Korea. Looking at the early data for this year, PDRS filings are now less than half of what they were six months ago. In the Corporate & Institutional Clients and Commercial Clients segments, the signals are more mixed, but most of what we are dealing with now, and provisioning for, are accounts that have been troubling for some time. The inflow of new problem accounts into early alerts, credit grade 12 or non-performing loans has slowed. While it would certainly be premature to call the peak, we do not see signs of further deterioration.

The annualised income impact of the exits and disposals in 2014 and those planned for 2015 is some \$450 million, although this depends on the timing of the completion of certain transactions. We will strip this out of our reporting of underlying performance for 2015. On top of this, de-risking and RWA savings in 2014, and the \$25-30 billion of incremental RWA savings we plan for 2015 and 2016, will create a further drag on income, offset by our ability to redeploy into more attractively returning assets.



The underlying drivers of economic growth in our markets – demographics, urbanisation and investment in infrastructure – remain immensely strong

Income growth

In the Retail Clients segment, the priority has been to get cost down, shift the focus to more affluent clients and accelerate digitisation, as well as to de-risk from a conduct and credit perspective. It is all about getting the platform in more robust shape to support sustainable growth. Retail Clients' income was up 2 per cent year-on-year in 2014, but up 5 per cent in the second half of 2014 compared to the second half of 2013, driven by Wealth Management and the shift towards more affluent Priority and Business clients. These will continue to be the key drivers of income growth. Indeed, we aim to increase the percentage of income from Priority and Business clients to 43 per cent in 2015 from 38 per cent in 2014.

In the Private Banking Clients segment, income growth was 4 per cent on a headline basis, or 6 per cent excluding disposals. We see Private Banking Clients as a steady and sustainable source of growth, although at this stage it is obviously very small in the overall scheme of the Group. In 2015, we are looking at on-boarding some 2,000 new clients, achieving double-digit assets under management growth.

The Commercial Clients segment is also quite small, but represents another huge opportunity, and after a year of restructuring and remediation, with income down 22 per cent, our priority for 2015 is to get back to a growth trajectory, strengthening the front line, leveraging the network and growing the client base. We are aiming for around 3,000 new-to-bank clients in 2015.

Given that the Corporate & Institutional Clients segment contributes around 60 per cent of the Group's income, this is the crux of the issue. Income fell 2 per cent in 2014, impacted by a combination of de-risking and RWA actions, as well as pressure on margins and the impact of low commodity prices and low volatility. This overall picture disguises some areas of strong growth. Institutional investors, for example, saw 18 per cent income growth at attractive returns in 2014. This is a big opportunity. As for Corporates, right now it is all about improving return rather than income growth per se, and achieving this is all about leveraging the network and deepening relationships to drive non-funded income – hence our focus on increasing the number of markets and products per client. In 2015, we are looking to take the product-client ratio from 6.3 in 2014 to over 6.5, and the market-client ratio from 2.8 in 2014 to

over 3. We are also focusing on non-financing income, targeting an increase in the current proportion of 41 per cent to more than 43 per cent. These metrics are the key to driving good income growth that lifts our return on RWA in this segment.

Step back from the segments and look at our markets, and the scale of the income opportunity is evident. Despite all the turbulence and shifts in sentiment, the underlying drivers of economic growth – demographics, urbanisation and investment in infrastructure – remain immensely strong, and the demand for financial services is rising rapidly. Our challenge is to capture these opportunities in a disciplined, return-focused way to drive shareholder value.

Conduct

We have launched a comprehensive programme called Raising the Bar on Conduct, which encompasses every aspect of conduct, and touches every person in the Group. We recognise that we cannot claim to be Here for good unless we make every effort to ensure that good conduct informs every interaction and is embedded in every decision we make – from strategy to client on-boarding, product design and remuneration. Among the more critical elements of this programme, I would highlight:

- Our Financial Crime Risk Mitigation Programme, which encompasses over 50 separate projects and initiatives to remediate and reinforce our controls and capabilities in this vital arena. This is a massive multi-year investment programme. Playing a stronger role in the fight against financial crime is a strategic imperative for Standard Chartered
- To complement stronger controls, we are de-risking our client portfolios. For example, we have exited a significant number of our correspondent banking relationships, mainly in Latin America and Central Europe. We have also exited around 70,000 small and medium-sized enterprise relationships over the past 18 months, and we are putting strict limits on the types of new client that we are prepared to take on in certain geographies and sectors
- To reinforce our governance, we have established a Board-level Financial Crime Risk Committee, with a combination of experienced independent non-executive directors and expert advisors

Conclusion

The actions we have taken, and are taking, on capital, cost, risk and conduct are all part of a package. We are reshaping the Group to respond to the way our world has changed. We are reshaping the Group to ensure we can fulfil our aspiration to bank the people and companies driving trade, investment and the creation of wealth across Asia, Africa and the Middle East. And we are reshaping the Group to get back to sustainable, profitable growth, delivering returns above our cost of capital.

This will be my last review for the Annual Report and Accounts, and it is obviously one of the more challenging sets of numbers I have had to explain. In my 13 years at the Group, I have seen lots of ups and downs. Standard Chartered today is very different from the bank I first joined as Finance Director in 2002. That year we made about \$1 billion in profits, and in 2006, the year I became Group Chief Executive, we made about \$3 billion. Since then, of course, we have navigated the global financial crisis, roughly doubled in size, and confronted all sorts of new challenges. The world of banking has changed far more dramatically than most people realise, and it is only part way through a fundamental transformation.



We have launched a comprehensive programme called Raising the Bar on Conduct, which touches every person in the Group

I will leave Standard Chartered proud of what we have achieved and confident about what the future holds for this extraordinary institution. In Bill Winters, I have a successor just right for the task. I am delighted to be passing the baton on to a banker of such calibre, to a leader of such strengths. Bill will inherit a bank with a superb client franchise, a unique network and an exceptionally strong balance sheet. Perhaps even more importantly, he will inherit a fantastic team of people – professional and collaborative, and truly believing in, and committed to being, Here for good.

I would like to take this opportunity to say thank you to our clients, and to all the people of Standard Chartered. The past couple of years have been pretty tough, but we have demonstrated resilience and an ability to adapt and reinvent. I know that Standard Chartered will once again show the world what a great bank this is.

Peter Sands
Group Chief Executive
4 March 2015

Our strategy

What guides us



Our ambition

The world's best international bank

Our strategy

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

Our brand promise

Here for good

Our aspirations

Relationships

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

Investment

Play a leading role in facilitating investment and deepening financial markets

Trade

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

Wealth

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

Relevant scale

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

Our values

Courageous

We take measured risks and stand up for what is right

Responsive

We deliver relevant, timely solutions for clients and customers

International

We value diversity and collaborate across the network

Creative

We innovate and adapt, continuously improving the way we work

Trustworthy

We are reliable, open and honest

Our commitments

Colleagues

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

Society

A force for good, promoting sustainable economic and social development

Investors

A distinctive investment, delivering consistently superior performance via disciplined growth

Regulators

A responsible partner with exemplary governance and ethics

Our business model

How we create value

Banks play a crucial role in economies by facilitating payments and converting short-term deposits into long-term financing. Through these activities we take on and manage risk. Read more about Standard Chartered's approach to risk on pages 12 to 15, with details of our allocation of risk-weighted assets to client segments on pages 120 and 121.

As an international banking group focused on Asia, Africa and the Middle East, we serve a wide range of clients from

individuals and small and mid-sized businesses to large companies and financial institutions, helping them to build, grow and protect their wealth. Read more about our business on pages 30 to 34.

We have a clear strategy and in 2014 reorganised our business to help us better support our clients and meet our aspirations. Read more about our strategy on page 8.

Our business model is focused on sustainable value creation



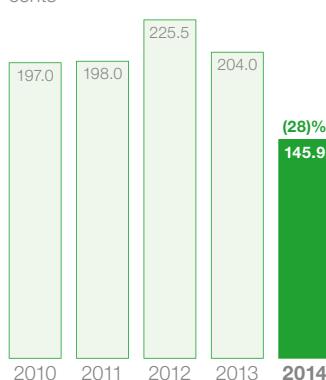
Key performance indicators

Delivering value to shareholders and clients

1 Deliver consistently superior performance via disciplined growth

Normalised earnings per share¹

cents



Aim

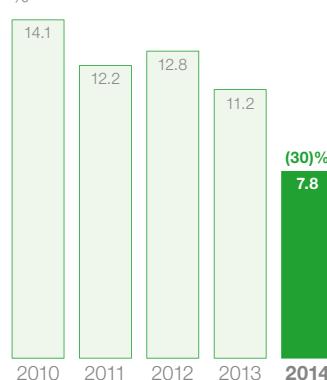
To deliver earnings per share (EPS) growth.

Analysis

EPS declined 28 per cent compared to 2013, reflecting a challenging market environment and significant restructuring actions.

Normalised return on equity²

%



Aim

To deliver return on equity of over 10 per cent in the medium term while balancing the long-term objective of having strong yet efficient levels of capital.

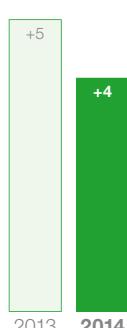
Analysis

Returns declined 30 per cent compared to 2013, reflecting a challenging market environment and significant restructuring actions.

2 Build trusted relationships with clients

Retail Clients

Net Promoter Score (NPS)
relative to market average³



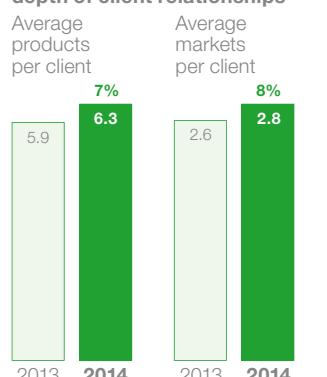
Aim

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

Analysis

Our relative global NPS in 2014 was four points above the market average.

Corporate & Institutional Clients
depth of client relationships⁴



Aim

To leverage our network and product capabilities to increase the average number of markets and products per client.

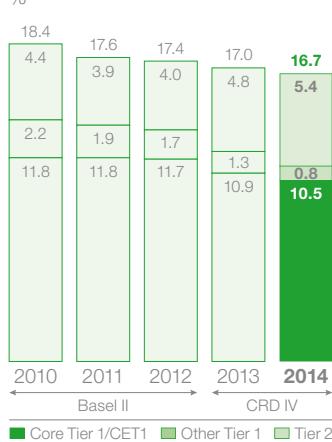
Analysis

We continued to drive deeper and broader client use of our products and markets.

3 Maintain balance sheet strength to support our aspirations

Capital ratios⁵

%



Aim

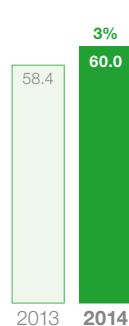
To maintain a strong capital base and accrete capital to a Common Equity Tier 1 (CET1) ratio of between 11 and 12 per cent in 2015 and thereafter.

Analysis

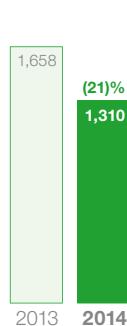
The Group remains strongly capitalised, with a transitional CET1 ratio of 10.5 per cent, or 10.7 per cent on an end-point basis. The Group has continued to manage its balance sheet proactively and with discipline, focusing on deployment of risk-weighted assets.

Private Banking Clients⁶

Total AUM
(\$billion)



Number of clients
new to segment



Aim

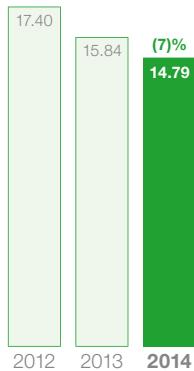
To grow and deepen client relationships and add new clients.

Analysis

We added 1,310 new clients compared to 1,658 in 2013 and increased assets under management (AUM) by 3 per cent.

5 Protect the environment, contributing to sustainable economic and social development

Total Scope 1, 2 and 3 Greenhouse Gas emissions/\$million operating income⁷ Tonnes CO₂ equivalent/\$million operating income



Aim

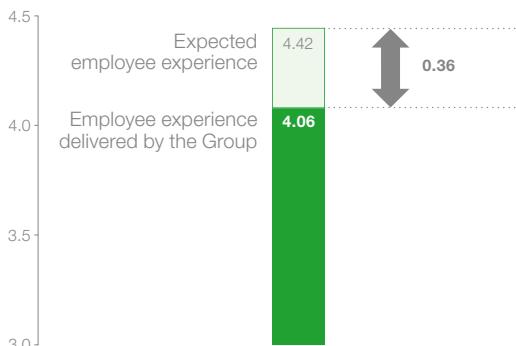
To reduce Greenhouse Gas emissions arising from our operations.

Analysis

We reduced Greenhouse Gas emissions relative to operating income for the past three years. Starting in 2014, we have included Scope 3 emissions arising from air travel in the KPI. Air travel emissions data is collected from 41 countries and based on seating class and distance flown.

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

My Voice employee survey gap score⁸



Aim

To continually align the aspirations of our people with those of the Group, encouraging a performance-oriented culture and a place where people love to work.

Analysis

Using a new employee survey, My Voice, we are gaining an understanding of our core strengths and opportunities to improve, including a new gap score. In 2014, our overall My Voice gap score was 0.36. Areas that need attention include collaboration and clarity around growth opportunities and career paths. Strong scores were registered for the Group's brand, strategy and culture, with particularly positive results on individual commitment, conduct and job engagement.

1. Normalised earnings per share

This KPI is calculated as profit attributable to ordinary shareholders of the Group as normalised for certain one-off or irregular items – as defined in the Glossary – divided by the weighted average of the shares in issue during the year

Source: this measure is reported in note 14 of the Group's audited financial statements

2. Normalised return on shareholders' equity

This KPI is calculated as the normalised profit attributable to ordinary shareholders as a percentage of average ordinary shareholders' equity

Source: this measure is derived from information within the Group's audited financial statements, being normalised earnings (note 14) as a percentage of average shareholders' equity (excluding preference shares)

3. Retail Clients: relative Net Promoter Score (NPS)

'Net Promoter Score' and 'NPS' are trademarks of Satmetrix Systems Inc., Bain & Company, and Fred Reichheld. Standard Chartered uses Bain methodology recalibrated for financial services to calculate NPS. In 2014, we began to move to a new methodology, progressively changing our sampling periods and method to create greater transparency, and benchmarking our NPS against the overall market. NPS gauges customer support for the retail banking products and services we provide. We ask our customers "How likely are you to recommend Standard Chartered to a friend or colleague?" and apply a 10-point scale where 10 is most likely. We then derive the NPS by subtracting the percentage of detractors (those who score zero to six) from the percentage of promoters (those who score nine to 10). NPS operates on a scale from -100 (all detractors) to +100 (all promoters)

Source: Market Probe & RFI Customer Satisfaction Survey (20 markets on average each year). The survey uses interviews completed in 2014

4. Corporate & Institutional Clients depth of relationships

Average number of markets and products per client

Source: Standard Chartered data

5. Capital ratios

The components of the Group's capital are summarised on page 119. The Tier ratios are measured by the ratio of respective capital to risk-weighted assets; the 2010-2013 ratios are calculated on a Basel II basis, and the 2014 ratios on a Basel III transitional basis

Source: this measure is reported in the Capital section on pages 118 to 125

6. Private Banking Clients

Represents total AUM for Private Banking Clients, and the gross number of clients added to the segment during the year

Source: Standard Chartered data

7. Total Scope 1, 2 and 3 Greenhouse Gas emissions

The emissions within our reporting inventory correspond to a reporting period of 1 October 2013 to 30 September 2014 to allow sufficient time for independent assurance to be gained. Accordingly, the operating income used in this inventory corresponds to the same period rather than calendar year used in financial reporting, consistent with international carbon reporting practice

Source: Standard Chartered data

8. My Voice employee survey

The gap score represents the difference between the importance that our employees attribute to the employee experience across 40 measures, and their perception of how well the Group is delivering in these areas. Maximum gap score 5, with 0 being the target

Source: Standard Chartered My Voice engagement survey

Risk management

Our risk profile remains in line with our strategy

We manage our risks to build a sustainable franchise in the interests of all our stakeholders. The Group has a defined Risk Tolerance Statement, approved by the Board, which is an expression of the maximum level of risk we are prepared to take. This plays a central role in the development of our strategy and policies. We have a well-established risk governance structure and we closely manage our risks to maintain the Group's risk profile in compliance with the Risk Tolerance Statement.

Our risk profile is aligned to our business strategy and risk tolerance. It is consistent with our business model and the core business activities we undertake in the markets in which we operate. We have low exposure to asset classes and segments

outside our core markets and target customer base. Our balance sheet is highly liquid and diversified across a wide range of products, industries, geographies and client segments, which serves to mitigate risk. We review and adjust our underwriting standards and limits in response to observed and anticipated changes in the external environment and the evolving expectations of our stakeholders.

This section provides a high-level overview of our risk profile, risk management framework, Risk Tolerance Statement and principal uncertainties.

 Further details are set out in Risk and Capital review on pages 64 to 117

Risk profile

Highly diversified and short tenor portfolio

- Our balance sheet remains resilient and well diversified across a wide range of geographies, client segments, industries and products which serves to mitigate risk
- No single industry concentration represents more than 16 per cent of loans and advances to customers in the Corporate & Institutional Clients and Commercial Clients segments
- The loan portfolio remains predominantly short-dated, with 65 per cent of loans and advances to customers in the Corporate & Institutional Clients and Commercial Clients segments maturing in under one year
- Our top 20 corporate exposures have reduced as a percentage of Common Equity Tier 1 capital, and continue to be highly diversified, with each, on average, spread across seven markets and five industries
- Over 40 per cent of the corporate portfolio is investment grade, and this mix is improving
- We hold a diverse mix of collateral, valued conservatively. Over half of our sub-investment grade corporate portfolio is collateralised
- 40 per cent of customer loans and advances are in Retail Products; the unsecured portion of the portfolio is down from 21 per cent to 19 per cent in 2014, reflecting the continued de-risking of the unsecured book. The overall loan-to-value ratio on our mortgage portfolio is less than 50 per cent
- We have low exposure to asset classes outside our core markets

Strong capital and liquidity position

- We remain well capitalised and our balance sheet remains highly liquid
- We have a strong advances-to-deposits ratio
- We remain a net provider of liquidity to interbank markets
- Our customer deposit base is diversified by type and maturity
- We have a substantial portfolio of liquid assets that can be realised if a liquidity stress occurs

Robust risk governance structure and experienced senior team

- We have a clear Risk Tolerance Statement which is aligned to the Group's strategy; it is approved by the Board and informs the more granular risk parameters within which our businesses operate
- We continuously monitor our risk profile to ensure it remains within our risk tolerance, and regularly conduct stress tests
- We review and adjust our exposures, underwriting standards and limits in response to observed and anticipated changes in the external environment and expectations
- We have a very experienced senior risk team and our risk committees are staffed by the Group's most senior leaders
- We have a robust risk management framework that assigns accountability and responsibility for the management and control of risk
- We maintain a consistent and highly selective approach to large corporate credit underwriting

In 2014, the Group continued to face external challenges such as slower economic growth in its core markets of China and India and a sustained fall in the prices of a number of commodities. These are, in effect, a continuation of themes from 2012 and 2013. The Group has been disciplined in its approach and in taking risk-mitigating actions during this period in anticipation of a potential sustained downturn or dislocation in these markets.

The Group's loan impairment has increased by \$524 million, or 32 per cent, to \$2.1 billion. Over 40 per cent of the Group's loan impairment arises in the Retail Clients segment, which has shown signs of stabilisation through 2014 and, while still elevated, is 5 per cent lower in the second half. Corporate & Institutional Clients and Commercial Clients loan impairment increased by \$558 million to \$1,203 million, compared to 2013. This represents 69 basis points (bps) (2013: 36 bps) of average customer loans and advances, an elevated level for 2014, in the context of a prolonged slowdown in the Group's core markets of China and India, and in Commodities. Non-performing loans (net of individual impairment provisions) are higher by

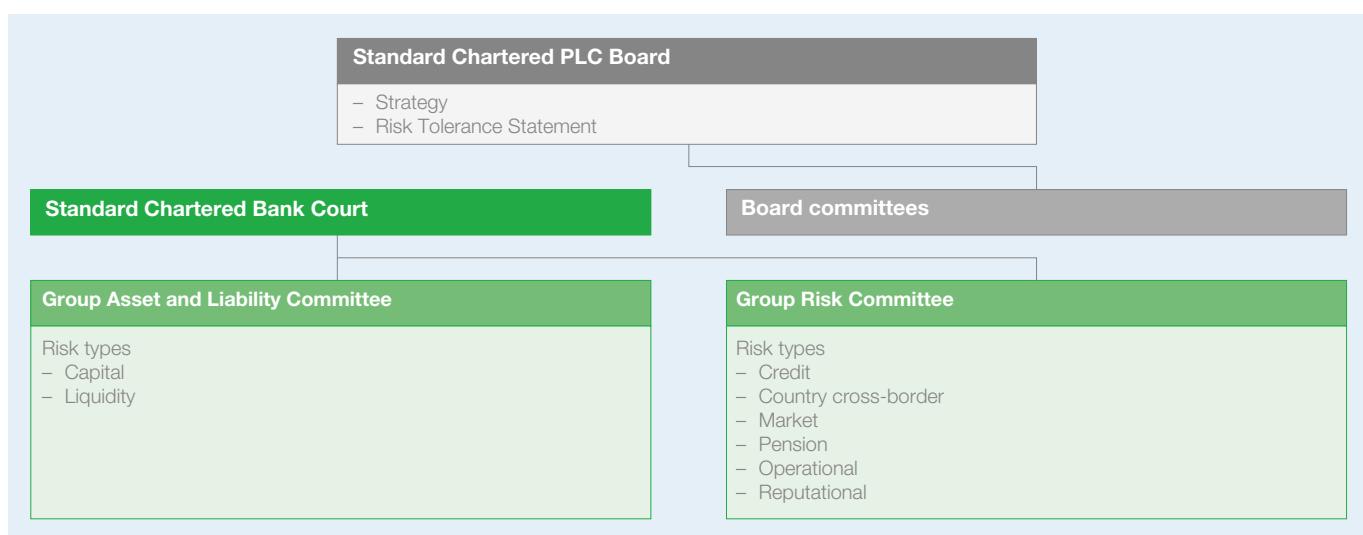
\$585 million. This increase is primarily in the Corporate & Institutional and Commercial Clients segments.

 Further details are set out in the Risk overview section on pages 58 to 63

Risk management framework

Effective risk management is fundamental to being able to generate profits consistently and sustainably, and is thus a central part of the financial and operational management of the Group.

Ultimate responsibility for the Group's strategy, for setting our Risk Tolerance Statement and for the effective management of risk rests with the Board. The Standard Chartered Bank Court (the 'Court'), which comprises the group executive directors and other senior executives, is the highest executive body of the Group. The Court has overall accountability for risk management and delegates authority for the management of risk to the Group Risk Committee and the Group Asset and Liability Committee.



Roles and responsibilities

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence describes a specific set of responsibilities for risk management and control:

- First line of defence: all employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities. Business, function and geographic heads are accountable for risk management in their respective businesses and functions, and for countries where they have governance responsibilities
- Second line of defence: risk control owners, supported by their respective control functions, are responsible for ensuring that the Group's risk profile is contained within its risk tolerance. The scope of each risk control owner's responsibilities is defined by a given type of risk and is

not constrained by functional, business or geographic boundaries. The second-line control functions must be independent of the businesses they control, to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. The major risk types are defined on the next page

- Third line of defence: the independent assurance provided by the Group Internal Audit function. Its role is defined and overseen by the Audit Committee

The Group Chief Risk Officer directly manages a Risk function that is separate from the origination, trading and sales functions of the businesses. The Group Chief Risk Officer also chairs the Group Risk Committee and is a member of the Court.

Risk tolerance and strategic alignment

The management of risk lies at the heart of our business. One of the main risks we incur arises from extending credit to clients through our trading and lending operations. Through our risk management framework we manage risks Group-wide, with the objective of maximising risk-adjusted returns while remaining

within our risk tolerance. Our primary risk types are set out in the table below, with an explanation of how they arise from our business. We recognise that a single transaction or activity may give rise to multiple types of risk exposure, and we use risk types to ensure comprehensive and consistent identification and control of risks, wherever they may arise.

Risk type	How this arises from our business	Risk Tolerance Statement
Credit	Arises principally from lending, or from other financial commitments from clients or third parties. Lending and helping clients manage their financial risks is core to our banking services	The Group manages its credit and country cross-border exposures following the principle of diversification across products, geographies, client segments and industry sectors
Country cross-border	Arises from activities involving lending or transactions across borders or in a currency other than the currency in which the transaction is booked. Providing funds across borders and currencies facilitates trade and cross-border investment and is a core part of our service	The Group should control its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Group's franchise
Market	Arises predominantly from providing clients access to financial markets, facilitation of which entails taking moderate market risk positions. Also arises in the non-trading book from the requirement to hold a large liquid assets buffer of high-quality liquid debt securities, and from the translation of non-dollar denominated assets, liabilities and earnings	The Group should be able to meet its payment and collateral obligations under extreme but plausible liquidity stress scenarios without recourse to extraordinary central bank support
Liquidity	We balance the needs of depositors who require ready access to their cash and savings, while providing longer-term loans to clients who need the financial stability to invest in longer-term projects such as housing or infrastructure	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
Operational	Operational risks are inherent in all our activities and our business. While these risks are actively managed, they cannot be entirely avoided	The Group will protect its reputation to ensure that there is no material damage to the Group's franchise
Reputational	Our reputation is a function of how we are perceived by our stakeholders, including clients, investors, regulators, employees and the societies in which we operate	Under stressed conditions, of a severity experienced on average once in 25 years, the Group's prudential capital ratios on a transitional basis should exceed minimum regulatory capital requirements, without recourse to external sources
Pension	Arises from defined benefit pension schemes provided to the Group's employees in some markets. This is principally a legacy of pension commitments made to employees in previous years	Our approach to managing each risk type (except Capital) is set out in Risk profile on pages 64 to 100 and in Risk management approach on pages 105 to 117. Details on Capital are set out on pages 118 to 125
Capital	We are committed to growth underpinned by the diversity of our business across clients and customers, products and geographies	

 Our approach to managing each risk type (except Capital) is set out in Risk profile on pages 64 to 100 and in Risk management approach on pages 105 to 117. Details on Capital are set out on pages 118 to 125

Principal uncertainties

We are in the business of taking selected risks to generate shareholder value, and we seek to contain and mitigate these risks to ensure they remain within our risk tolerance and are adequately compensated for.

The key uncertainties we face in the coming year are set out below. This should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties that we may experience.



Further details on Principal uncertainties are set out in Risk and Capital review on pages 101 to 104

Uncertainty	Description	Mitigants
Deteriorating macroeconomic conditions in footprint countries	<ul style="list-style-type: none"> Deteriorating macroeconomic conditions can have an impact on: our performance via their influence on personal expenditure and consumption patterns; demand for business products and services; the debt service burden of consumers and businesses; the general availability of credit for retail and corporate borrowers; and the availability of capital and liquidity funding for our business 	<ul style="list-style-type: none"> We balance risk and return, taking account of changing conditions through the economic cycle We monitor economic trends in our markets very closely and continuously review the suitability of our risk policies and controls
Financial markets dislocation	<ul style="list-style-type: none"> Financial markets volatility or a sudden dislocation could affect our performance, through its impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios or the availability of capital or liquidity Financial markets instability also increases the likelihood of default by our corporate customers and financial institution counterparties 	<ul style="list-style-type: none"> We stress test our market risk exposures to highlight the potential impact of extreme market events on those exposures and to confirm that they are within authorised stress triggers. Stress scenarios are regularly updated to reflect changes in risk profile and economic events. Where necessary, overall reductions in market risk exposure are enforced We assess carefully the performance of our financial institution counterparties, rate them internally according to their systemic importance and adjust our exposure accordingly We maintain robust processes to assess the suitability and appropriateness of products and services we provide to our clients and customers
Geo-political events	<ul style="list-style-type: none"> We face a risk that geo-political tensions or conflict in our footprint could impact trade flows, our clients' ability to pay and our ability to manage capital across borders 	<ul style="list-style-type: none"> We actively monitor the political situation in all of our principal markets and conduct regular stress tests of the impact of such events on our portfolios, which inform assessments of risk appetite and any need to take mitigating action
Regulatory changes	<ul style="list-style-type: none"> The nature and impact of future changes in economic policies, laws and regulations are not predictable and may run counter to our strategic interests. These changes could also affect the volatility and liquidity of financial markets, and more generally the way we conduct business and manage capital and liquidity 	<ul style="list-style-type: none"> We review key regulatory developments in order to anticipate changes and their potential impact on our performance Both unilaterally and through our participation in industry groups, we respond to consultation papers and discussions initiated by regulators and governments. The focus of these activities is to develop the framework for a stable and sustainable financial sector and global economy
Regulatory compliance	<ul style="list-style-type: none"> Although we seek to comply with all applicable laws and regulations, we are and may be subject to regulatory reviews and investigations by governmental and regulatory bodies, including in relation to US sanctions compliance and anti-money laundering controls. We cannot currently predict the nature or timing of the outcome of these matters. For sanctions compliance violations, there is a range of potential penalties which could ultimately include substantial monetary penalties, additional compliance and remediation requirements and/or additional business restrictions Regulators and other agencies in certain markets are conducting investigations into a number of areas of regulatory compliance and market conduct, including sales and trading, involving a range of financial products, and submissions made to set various market interest rates and other financial benchmarks, such as foreign exchange. Further details of material settlements and ongoing investigations are set out on page 103 	<ul style="list-style-type: none"> We have established a Board-level Financial Crime Risk Committee and, since 2013, we have a Financial Crime Risk Mitigation Programme, which is a comprehensive, multi-year programme designed to review and enhance many aspects of our existing approach to money laundering prevention and to combating terrorism finance and the approach to sanctions compliance and the prevention of bribery and corruption We are contributing to industry proposals to strengthen financial benchmarks processes in certain markets and continue to review our practices and processes in the light of the investigations, reviews and industry proposals We are cooperating with all relevant ongoing reviews, requests for information and investigations In meeting regulatory expectations and demonstrating active risk management, the Group also takes steps to restrict or restructure or otherwise to mitigate higher-risk business activities, which could include divesting or closing businesses that exist beyond risk tolerances
Risk of fraud and other criminal acts	<ul style="list-style-type: none"> The banking industry has long been a target for third parties seeking to defraud, to disrupt legitimate economic activity, or to facilitate other illegal activities. The risk posed by such criminal activity is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology and the internet. The incidence of cyber crime is rising, becoming more globally coordinated, and is a challenge for all organisations 	<ul style="list-style-type: none"> We seek to be vigilant to the risk of internal and external crime in our management of people, processes, systems and in our dealings with customers and other stakeholders We have a broad range of measures in place to monitor and mitigate this risk. Controls are embedded in our policies and procedures across a wide range of the Group's activities, such as origination, recruitment, and physical and information security We have a broad set of techniques, tools and activities to detect and respond to cyber crime, in its many forms. We actively collaborate with our peers, regulators and other expert bodies as part of our response to this risk
Exchange rate movements	<ul style="list-style-type: none"> Changes in exchange rates affect the value of our assets and liabilities denominated in foreign currencies, as well as the earnings reported by our non-dollar denominated branches and subsidiaries Sharp currency movements can also impact trade flows and the wealth of clients, both of which could have an impact on our performance 	<ul style="list-style-type: none"> We actively monitor exchange rate movements and adjust our exposure accordingly Under certain circumstances, we may take the decision to hedge our foreign exchange exposures in order to protect our capital ratios from the effects of changes in exchange rates

Governance overview

Exemplary governance supports our decisions and guides our behaviours

Our approach to governance

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

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

Exemplary corporate governance supports decisions and guides behaviours within the Group. As a leading international bank, we strive for best practice in corporate governance across our footprint. We believe that simply complying with written corporate governance standards is not enough. It is vital for companies to have an underlying culture with behaviours and values that support effective corporate governance. It is the responsibility of all of our employees to be responsive and vigilant to ensure compliance with both the letter and the spirit of our governance framework. At Standard Chartered, every employee is expected to live the Group's brand promise, Here for good, and be part of a culture that is open and challenging, yet cohesive and collaborative. We take care to ensure that all employees have, and demonstrate, the necessary skills, values and experience commensurate with their responsibilities. We place as much emphasis on the way employees behave as on what they deliver.

 **Further details on our approach to corporate governance and an overview of the activities of the Board and its Committees can be found on pages 133 to 209**

Who is on our Board

We have continued to enhance the shape and dynamic of the Board and its committees through 2014, both in line with our multi-year Board succession plan and to support our drive to raise the bar on conduct through the committee structure. As at 4 March 2015, there are 17 directors on the Board. On 26 February 2015, we announced a comprehensive series of changes to the composition of the Board as part of the next phase of its transition. See page 137 for more details of the changes.

Code compliance

We apply the provisions of the UK Corporate Governance Code 2012 issued by the Financial Reporting Council (the 'Code'). We also apply the Hong Kong Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules and have complied with its code provisions, save that the Board Risk Committee is responsible for the oversight of internal control (other than internal control over financial reporting) and risk management systems (Hong Kong Corporate Governance Code provision C.3.3 paragraphs (f), (g) and (h)). If there were no Board Risk Committee, these matters would be the responsibility of the Audit Committee.

Subject to the below, the directors confirm that the Group has complied with all of the provisions of the Code during the year ended 31 December 2014. By way of explanation we advise that:

Oliver Stocken did not seek re-election at the 2014 AGM as he was due to step down from the Board before the end of 2014. However, following John Paynter stepping down from the Board in December 2014, and to support the smooth transition of the Board's composition, Oliver agreed to remain on the Board for a short period, before stepping down on 28 February 2015.

Richard Meddings did not seek re-election at the 2014 AGM, following an announcement made in January 2014 that he would step down from the Board in June 2014.

We have reviewed the new provisions set out in the UK Corporate Governance Code 2014, which we are not formally required to report against until December 2015. Throughout the Corporate governance report, we have provided a narrative statement of how governance operates within the Group and our application of the principles set out in the Hong Kong Listing Rules and the main principles of the Code.

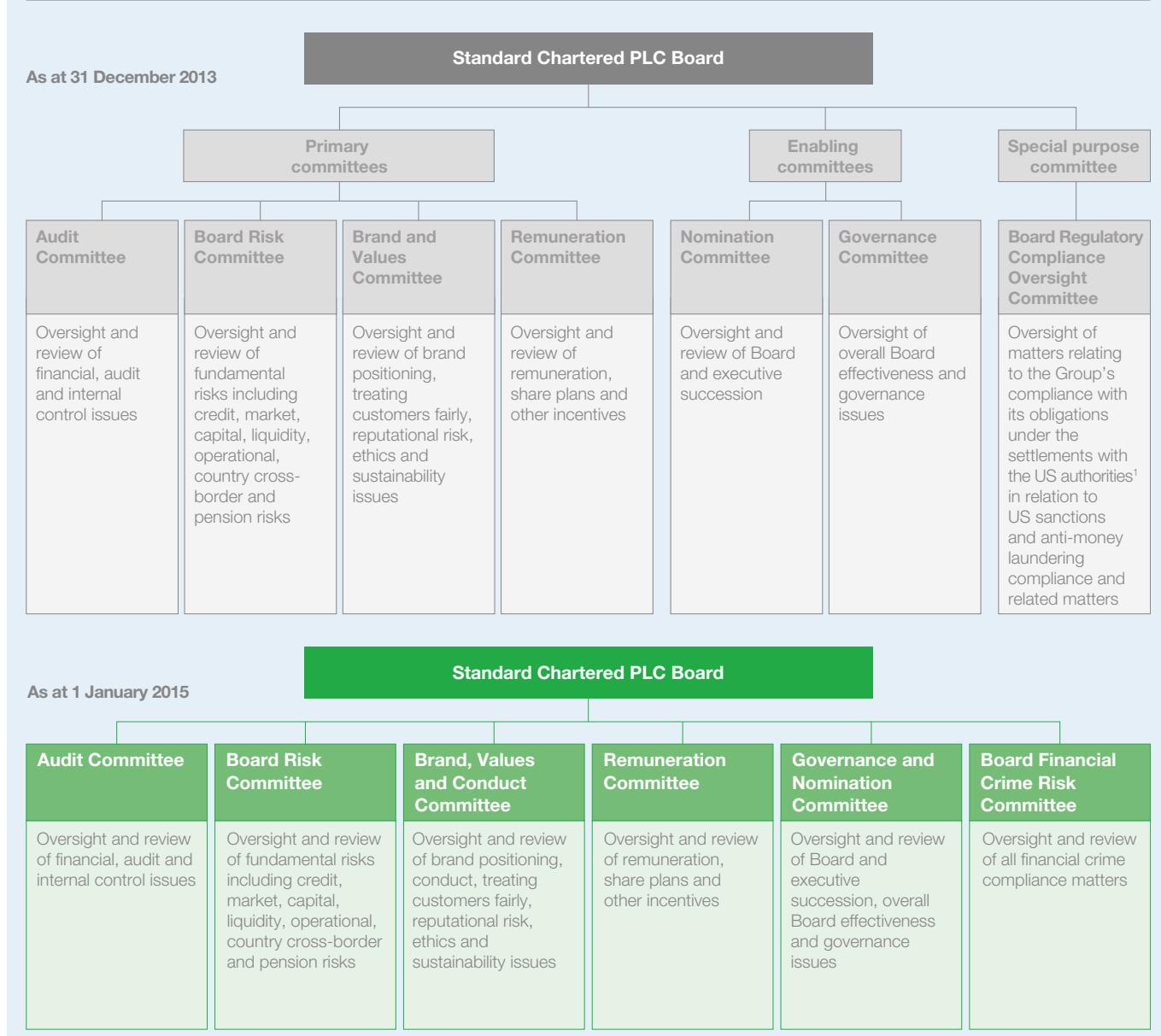
The Group confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by Appendix 10 of the Hong Kong Listing Rules. Having made specific enquiry of all directors, the Group confirms that all directors have complied with the required standards of the adopted code of conduct.

Our Board and its committees

The Board delegates certain responsibilities to its committees to assist it in carrying out its function of ensuring independent oversight. The Board agreed a number of changes to its committee structure during 2014 to ensure it is more effectively aligned to support the work of the Board, reflects our drive to raise the bar on conduct and provides a more comprehensive framework of oversight. With the exception of the Governance and Nomination Committee which, in keeping with the provisions of the UK Corporate Governance Code, is chaired by the Group Chairman, all of the Board committees are made up of independent non-executive directors and play a key role in supporting the Board. In addition to five independent non-executive directors, the Board Financial Crime Risk Committee also comprises three independent advisors.

 A list of individual directors and their biographies are set out on pages 128 to 131

How the Group Board committee structure has changed



1. The US authorities comprise the New York Department of Financial Services (NYDFS), the Board of Governors of the Federal Reserve System (FED), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Office of Foreign Assets Control (OFAC).

Directors' remuneration overview

Restoring confidence through transparency and alignment of pay with sustained performance

In this extract from the Directors' remuneration report, we summarise the 2014 remuneration decisions in relation to Group total variable compensation (TVC) and the executive directors. We also outline the enhancements to the way we manage executive directors' remuneration both in 2014 and 2015.

 More details can be found in the Directors' remuneration report on pages 170 to 209

The feedback received from shareholders following the annual general meeting (AGM) in May 2014, together with the Group's disappointing financial performance, have been reflected in the Committee's decisions in terms of TVC for the Group and for executive directors.

Making the right decisions in relation to Group TVC

Performance for shareholders has been below expectations for 2014. The Remuneration Committee (the Committee) was clear that Group TVC should be lower than in 2013. The final judgement made by the Committee was that Group TVC for 2014 should be \$1,098 million, which is 9.1 per cent lower than in 2013.

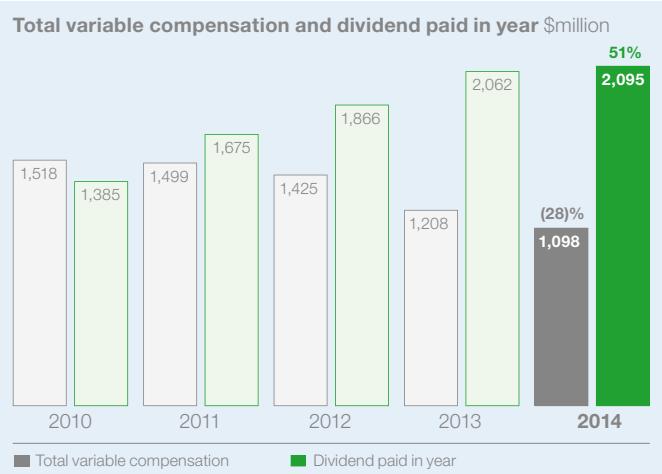
For several years, the Committee has reflected on the share of earnings between shareholders and employees. As the graph opposite illustrates, the 2014 Group TVC is 28 per cent lower than in 2010, while over the same period dividends paid grew by 51 per cent.

In deciding on TVC levels for 2014, the Committee ensured risk and control matters were fully considered. This included the remuneration-related matters arising from the settlement in August 2014 with the New York Department of Financial Services.

In the light of the disappointing performance of the Group, those executive directors who had been on the Board throughout the year came to the conclusion that they should show leadership by indicating that they would not be seeking TVC awards for the year. Consequently the Committee decided to make no TVC awards to Peter Sands, Mike Rees, Jaspal Bindra and V Shankar.



- 2014 Group TVC is \$1,098 million, down 9.1 per cent from 2013
- Since 2010, Group TVC has fallen by 28 per cent compared to a fall in underlying profits of 15 per cent
- No TVC award in 2014 for the Group Chief Executive and five other current and former executive directors
- Percentage of directors' TVC subject to long-term performance conditions increased from 25 per cent to 50 per cent
- Introduction of a new scorecard for 2015, linking executive directors' TVC with the achievement of key financial and other strategic priorities



Executive directors' TVC

TVC is based on an assessment of financial and strategic performance during the year. The Group has a clear, long-term performance culture, linking compensation to performance that drives sustainable growth and meets our values. Performance in 2014 has been challenging and the disappointing financial performance has been reflected in the executive directors' TVC awards, which are set out in the table below.

	P A Sands		A M G Rees		A N Halford		J S Bindra		V Shankar	
	2014 \$000	2013 \$000								
TVC	–	6,650	–	10,500	1,733	N/A	–	3,660	–	4,040
TVC as % maximum	–	57	–	54	58	N/A	–	52	–	56

The impact of these TVC decisions on the executive directors' total remuneration is set out in the table below.

	P A Sands		A M G Rees		A N Halford		J S Bindra		V Shankar	
	2014 \$000	2013 \$000								
Single total figure of remuneration	5,108	6,842	6,951	9,465	4,236	N/A	2,953	4,415	2,590	3,776
Single total figure of remuneration (excluding pension and buy-out)	3,604	5,968	3,003	8,949	2,056	N/A	2,542	3,933	2,242	3,428
Year-on-year movement of remuneration (excluding pension and buy-out)	(40)%		(66)%		N/A		(35)%		(35)%	

Aligning remuneration with the Group's new strategic priorities

At the AGM in May 2014, the directors' remuneration policy received the support of only 59 per cent of shareholders. Following a series of consultations with shareholders, the Committee understood the need to better align reward with long-term shareholder interests and provide greater transparency, as well as communicating its decisions more simply. This feedback, together with the Group's financial performance, has been reflected in how the variable compensation has been delivered in 2014 and how the remuneration policy will be implemented in 2015.

The Committee believes that these enhancements ensure that executive directors are incentivised and rewarded for the delivery of the strategy in a way that is aligned to long-term shareholder interests.

Summary of key features of existing policy, how 2014 TVC will be delivered and 2015 implementation

Key features of existing policy	How 2014 TVC will be delivered	Implementation of the policy in 2015
<ul style="list-style-type: none"> Maximum of 200 per cent of fixed compensation Zero cash element – all variable compensation is delivered in shares More than 80 per cent is deferred subject to malus, with 37.5 per cent deferred for a full five years 	<ul style="list-style-type: none"> Underpin share award, introduced as part of TVC, which has long-term performance conditions Increase in proportion of TVC subject to long-term performance conditions from 25 per cent to 50 per cent Reducing to 25 per cent the proportion of shares that vest for threshold performance under each of the three performance share award measures Resetting of targets for the performance share award measures to ensure they are stretching, yet realistic 	<ul style="list-style-type: none"> Balanced scorecard aligned to the Group's five strategic priorities to deliver on the new strategy Prospective disclosure of scorecard measures and weighting, and retrospective disclosure of outcomes Claw-back of cash and vested variable compensation introduced No ability to offer guaranteed variable compensation

Business environment

A year of transition

In 2014, the eurozone finally emerged from recession and growth in the US economy accelerated, but the recovery was slower than hoped, and China's slowdown continued. Standard Chartered's biggest markets in Asia, Africa and the Middle East once again proved to be the main engines of global growth.

Asia, excluding Japan, expanded GDP by 6.3 per cent, Africa grew by 5.0 per cent and the Middle East by 3.8 per cent. Despite its slowdown, China continued to be one of the fastest-growing economies in the world, expanding by 7.4 per cent in 2014. India also saw a pick-up in growth to 7.4 per cent in 2014 from 6.9 per cent in 2013.

China focused on rebalancing, with policymakers working to boost consumption and services relative to investment, manufacturing and construction. The US focused on normalising its monetary policy, ending its quantitative easing (QE) programme and preparing markets for the first interest rate hikes in 2015 since the global financial crisis. Despite the end of QE in the US, global monetary policy remained easy, with the Bank of Japan (BoJ), the European Central Bank (ECB) and the People's Bank of China (PBoC) all easing monetary conditions. This theme of divergence is likely to continue in 2015 as China's growth eases back to a slower pace and oil-exporting economies weaken, while developed economies accelerate.

The outlook for 2015

We expect global growth to improve in 2015, rising to 3.3 per cent from 3 per cent in 2014. Fiscal austerity, which held growth back in developed countries during 2011 to 2014, is set to be much less in 2015, removing a significant headwind to growth. Meanwhile, low oil prices, if sustained, will boost growth in all the major economies including the US, Europe, Japan, China and India. China is slowing but may still manage growth of around 7 per cent in 2015. India, having brought inflation and its current account deficit under control, could be a positive surprise in 2015. The eurozone, held back in 2014 by geo-political concerns, should improve moderately. We expect emerging Asia outside China to maintain solid growth, while the Middle East and Africa will slow, largely due to weaker commodity prices, including oil.

Although the world economy is improving, momentum is sluggish and confidence is fragile, especially in the industrial economies. This means that unanticipated shocks (geo-political or otherwise) can have bigger effects than in a stronger world economy. Moreover, while policy can improve growth dynamics, it can also be a significant source of risk. So far, the main policy lever for boosting growth has been monetary easing. Interest rates are already at very low levels and we expect the BoJ and PBoC to ease further. However, monetary easing has limitations, especially in countries where interest rates are already close to zero and where low market rates reflect weak confidence. We look for an improvement in business and consumer confidence to help cement growth prospects.

Meaningful economic reforms could help and there has been some progress in Europe, China, India, Indonesia and Mexico recently. Hopes are high for more reforms to boost productivity and open up new sectors for investment. This year could also see progress in liberalising world trade with the Bali Agreement (simplifying customs procedures) likely to be ratified, and there are hopes that the Trans-Pacific Partnership, the Transatlantic Trade and Investment Partnership, and the Regional Comprehensive Economic Partnership, led by China, could go forward. Progress on these would give a boost to world confidence.

Since mid-2009, growth in the US has averaged only 2.3 per cent, a lacklustre recovery after such a severe recession. We expect the US to finally break out of this phase in 2015, growing by 2.8 per cent. Although not spectacular, this would be a notable improvement. The dampening effects of the strong dollar and falling investment in shale oil on the US economy will be offset by the significant boost to US consumption growth from lower gasoline prices. The strong dollar provides support for many other countries by helping to boost profits and, over time, exports.

In response to higher growth and falling unemployment, the Federal Reserve (FED) is likely to proceed with its first interest rate hike in 2015. We expect this hiking cycle to be slow and the peak in interest rates to be low. We forecast a total of 50 basis points (bps) of hikes in 2015, starting in September. We see rates rising further to 1.75 per cent by the end of 2016, with the FED pausing its hiking cycle at 2.0 per cent. We maintain our view that rates will stay lower for longer, as the expected peak of 2.0 per cent is much lower than in previous hiking cycles.

We expect the eurozone economy to improve in 2015 compared with 2014, supported by ECB action and a more neutral fiscal stance after years of austerity. The main risks are that high unemployment brings political instability, damaging confidence, and that lack of progress on reforms, especially in France and Italy, depresses confidence and limits growth potential. In Japan, 'Abenomics' and its combination of fiscal and monetary stimulus have helped to push up growth. The recovery was interrupted in 2014 when fiscal stimulus was reversed and the sales tax was hiked. The decision to delay plans for another sales tax hike should be positive for 2015 growth. Lower oil prices are also a significant benefit to Japan, though the resulting lower inflation will delay progress towards the 2 per cent inflation target.

Asia

We expect a good, but not great, growth performance for the Asia region in 2015. After key elections in Indonesia and India in 2014, their governments now have room to implement reforms aimed at boosting potential growth and investment. The success of this reform push will determine the extent of the investment boost seen around the region. Foreign investors – both portfolio and foreign direct investment (FDI) – will discriminate between countries that do and do not deliver on reforms. China, India

Excluding Japan, the Asian economy expanded by 6.3 per cent in 2014, the largest increase of the Group's key markets



The Business environment report has been produced by our Global Research team. The forecasts for 2015 reflect their projections.

Growth in 2015 to remain resilient

China	South Korea	Hong Kong	UAE
7.0%	3.6%	3.0%	3.8%
2014: 7.4%	2014: 3.3%	2014: 2.2%	2014: 4.5%
India ¹	Indonesia	Singapore	Nigeria
7.7%	5.2%	3.5%	4.7%
2014: 7.4%	2014: 5.0%	2014: 2.9%	2014: 6.8%

1. India's financial year starts in April

and Indonesia have the greatest potential to see major changes in the coming years, in our view. Japan's reform agenda is moving forward very slowly, with only aggressive monetary easing and Japanese yen (JPY) weakness having supported the recovery so far. Across most of the region, we expect monetary policy to be tightened modestly by the end of 2015. The exceptions are China, India and Vietnam, which are likely to remain biased towards looser policy.

India is enjoying strong investor sentiment due to changes already made by its new government. We expect stronger growth and declining inflation in the coming years, a reversal of the prior period of stagflation. Policies are focused on boosting bureaucratic effectiveness, reducing food hoarding and encouraging the private sector to invest. Modi's 'Make in India' campaign aims to encourage foreign companies to set up manufacturing facilities in the country. An important litmus test of policy success will be growing FDI by global corporates. Deleveraging in the corporate sector will be another important enabler for a more decisive pick-up in India's growth. The new government has introduced measures to facilitate this, including helping to restructure corporate loans, but the deleveraging process is likely to extend beyond 2015.

China's recent shift towards broad-based monetary policy easing is a response to several factors, in our view: weak wage growth combined with reported job losses beyond the manufacturing sector; still-soft confidence in the small and medium-sized enterprise sector; and rising disinflationary pressure. While slower credit growth may cause short-term pain to the economy, it is helping to rein in the rise in debt/GDP ratios. Worries over local government debt should also ease further; its growth rate slowed to low single digits in 2014, from above 20 per cent in 2009 to 2010, according to the National Audit Office. Also, the expansion of the so-called 'shadow banking' sector has slowed, reducing the risks in this area. We expect a gradual rise in China's non-performing loans in 2015 and beyond, but the authorities are expected to continue to monitor the financial system closely.

The rebalancing of China's economy away from investment towards consumption and services is a multi-year effort. We are awaiting key policies to boost labour mobility (reforming the hukou household registration system), lower the savings rate (bolstering the social security system), and reform the state-owned enterprises sector. The government's anti-

corruption drive can be seen as a stepping stone towards the reform objective, though it has had the side-effect of reducing consumption. The slowdown in housing construction has further to go, but demand for housing has picked up, supported by the government's easing of restrictions on house purchases and lower interest rates. Housing inventories are falling and we expect the market to normalise over the next one to two years.

Indonesia's reform push has made a slower start than India's as the newly elected Jokowi administration faces challenges, including a minority in parliament and the financing of the current account deficit once US rate hikes begin. Infrastructure development is critical to reducing inflation and boosting growth.

Regional tensions remain a risk, with territorial disputes between China and its neighbours unresolved. The risk of currency wars spreading to the region should also be monitored. Growth received a significant boost in 2014 from the exchange rate depreciation of 2013, but a spiral of competitive devaluations would be in no one's interest. JPY weakness is a key focus of other Asian economies, particularly since the surprise increase in the BoJ's monetary easing programme in October 2014. Asia's election schedule is much lighter in 2015 with the January elections in Sri Lanka already concluded; only elections in Thailand and Singapore seem likely.

The fall in oil prices will benefit most Asian economies, boosting growth, lowering inflation and improving current account positions. It is also reducing budget deficits in some countries, notably India and Indonesia, by cutting the cost of fuel subsidies. The boost to global consumer demand from lower oil prices is also expected to lead to stronger external demand for Asian exports, benefiting Hong Kong, South Korea and Taiwan in particular.

Sub-Saharan Africa (SSA)

Oil-exporting countries in SSA will be impacted by lower oil prices in 2015, though their ability to withstand sustained price volatility varies widely. We expect Gabon to manage best given its greater fiscal flexibility and its ability to quickly cut spending – notably capital expenditure – which should limit downside risks. Angola follows, thanks to its comfortable savings as a percentage of GDP. Nigeria, with lower oil savings, is more exposed. Nigeria's larger GDP, low public debt ratios and



With lower oil savings than its SSA counterparts, Nigeria's economy is more exposed to reduced oil prices



Higher global consumer demand on the back of lower oil prices should raise demand for Asian exports

greater capital market depth arguably give it more room to increase borrowing than other SSA producers. But with foreign credit lines to Nigeria strongly correlated with oil price expectations, risks need to be managed carefully. Excessive foreign exchange market volatility poses some risk to the domestic banking system, which has increased its reliance on foreign borrowing in recent years. Nigeria will need to maintain tight monetary policy, even as it cuts fiscal expenditure, in order to accommodate lower oil prices.

Africa's oil-importing countries, largely in East and Southern Africa and including South Africa, will be significant beneficiaries of the lower oil price. Current account deficits – triggered in part by oil-price strength – should decline. Inflation profiles will also improve, and lower fuel prices should support consumption expenditure. For East African producers on the cusp of new hydrocarbon production, the main question is the extent to which weaker prices in the near term will alter the outlook. Softer oil prices will cut exploration spend in Africa, especially in more costly offshore fields. Resource taxation regimes will be a key theme in SSA in 2015, and the interplay with domestic politics will be closely watched. Besides Zambia and Nigeria, Tanzania and Côte d'Ivoire also go to the polls in 2015.

Middle East and North Africa (MENA)

We see four important themes for the region in 2015. First, the growth dynamics of the major oil exporters will be adversely affected, while we see positive growth signals from some oil importers that have implemented reforms and are benefiting from investment inflows. Second, as recent oil-price moves have shown, fiscal spending that is heavily dependent on the hydrocarbon sector cannot rise indefinitely. Third, reducing high energy subsidies in the MENA region may be crucial to giving economies the fiscal leeway needed to meet growing investment needs. Finally, regional conflicts could affect some countries.

The growth outlook for the major oil exporters in 2015 is challenging. Fiscal policy is likely to be tightened unless oil prices rebound quickly, and this will affect non-hydrocarbon growth. Further, OPEC may agree output cuts later in 2015, which will reduce headline GDP growth. In the wider MENA region, reforms implemented in Jordan and Egypt are leading to an improved outlook for 2015. Both countries have made significant efforts to reform energy subsidies under tense

domestic conditions; this is now paying off. Egypt has benefited from direct investments from the UAE and Saudi Arabia. We expect other MENA countries to benefit from similar investment flows in 2015 and beyond.

The recent decline in oil prices is a timely reminder that while there has been a strong push to diversify Gulf Cooperation Council (GCC) economies, government revenues remain heavily dependent on oil. In our view, diversifying sources of budget financing is a key step GCC countries can take to mitigate the impact of lower oil prices. We have long argued that the region should be pushing strongly to establish local-currency debt capital markets. This would provide financing for sovereigns and improve access to funding for local corporates and smaller businesses. As fiscal surpluses fall and the potential for deficits increases, 2015 should be a year of greater progress towards discipline and prioritisation of spending, including tackling subsidies.

Subsidies in the GCC range from a low of 5.5 per cent of GDP in Qatar to almost 11.5 per cent in Saudi Arabia. This places a burden on budgets, especially in an environment of falling oil prices. With GCC countries committed to improving infrastructure and diversifying their economies, energy-subsidy reform would free fiscal resources for more productive investments. Egypt and Jordan have already moved to reduce power and energy subsidies, and Abu Dhabi has announced higher utility tariffs as at 1 January 2015. In Saudi Arabia, policy makers are discussing the possibility of adopting smart tariffs that apply energy subsidies according to income brackets. While more needs to be done, these are steps in the right direction.

Conclusion

Better growth and low inflation are likely in 2015, which should be positive for financial markets. Stronger US growth and the resilience of emerging markets in Asia, Africa and the Middle East should provide support, but the absence of strong business and consumer confidence is sobering. Confidence is needed for the recovery to gain momentum.

People

Supporting the organisation through change

Our highlights in 2014

- Effectively transitioned from a two-business to a one-bank structure, successfully managing the impact on people
- Increased headcount to support the delivery of financial, regulatory, risk and compliance commitments
- Launched My Voice, a new employee engagement survey, to identify and benchmark the engagement drivers of our diverse, multi-generational workforce
- Deepened the focus on employee conduct and risk and control processes, in relation to performance and pay
- Strengthened and refreshed the senior leadership team to guide and navigate through change
- Continued to promote diversity and inclusion and launched a Flexibility Charter to encourage better work-life balance

Becoming one bank

The reorganisation in the first half of 2014 was a critical step to regaining our performance momentum and ensuring that we remain on track to achieve our aspirations. From 1 April 2014, we changed our organisation structure to drive operational efficiencies, collaboration and long-term employee engagement. Through the new regional and business structure we reiterated our commitment to operate as one bank. We also aligned our people priorities to deepen our organisational culture and strengths in conduct, values, leadership, and diversity and inclusion. These are key differentiators that will enable us to deliver on the Group's aspirations and brand promise.

People

At the end of 2014, we had a total workforce of more than 90,000 employees across 71 markets, representing 133 nationalities. The Group registered a headcount increase of 4,300, largely as a result of bringing our direct sales force in-house and strengthening capability in the areas of legal and compliance, and internal audit, as well as the operations in our Shared Services Centres to support the delivery of our financial, regulatory, risk and compliance commitments.

Our overall employee attrition rate has improved, with turnover rates declining year-on-year. We have established a framework that allows us to identify and proactively address areas where attrition is acute. This approach has proved successful in 2014 and we are confident that we can deploy this in areas where attrition is above acceptable levels.

Employee engagement

Having conducted an annual Group-wide Gallup employee engagement survey between 2001 and 2012, we decided to

refresh our approach. In 2014, we launched a new bespoke employee engagement survey aligned to our organisational aspirations.

The new My Voice survey provides greater insight into our engagement drivers across the Group. We will now also be able to run regular, smaller-scale 'pulse surveys' that allow us a more detailed understanding of engagement within specific groups.

Over 85 per cent of employees across 68 countries completed the survey in 2014. The survey measures both the engagement of employees and the importance they attribute to various engagement factors; by looking at the gap between the two we are able to identify opportunities to improve the experience of our employees. The current overall gap, calculated on a five-point scale, is 0.36.¹

Strong scores were registered for employee engagement with the Group's brand, strategy, and diverse and inclusive culture. There were also positive results across the Group on conduct and culture, as well as a high level of individual commitment and job engagement. Areas that need attention include collaboration, and clarity about growth opportunities and career paths.

More than 9,000 leaders and managers are currently working on actions to address the opportunities identified through the survey, building engagement and delivering on our Here for good brand promise to make Standard Chartered a great place to work.

Conduct

Raising the bar on conduct remains an important focus. At the end of 2014, 99 per cent of our employees reconfirmed their commitment to our Code of Conduct. My Voice survey results also indicated that 95 per cent of employees understand what the Code of Conduct means for them in their roles.

We continue to embed our six fair-accountability principles. These guide the way we act and make decisions when something goes wrong. Over the course of the year, we trained 3,500 managers on how these principles should be put into practice if a disciplinary situation arises.

We have also strengthened the way that conduct, risk and compliance matters are taken into consideration in assessment of performance and pay. Managers are now required to confirm that their employees have demonstrated a satisfactory level of conduct, and to specify any risk and compliance behaviours and events the manager has taken into account.

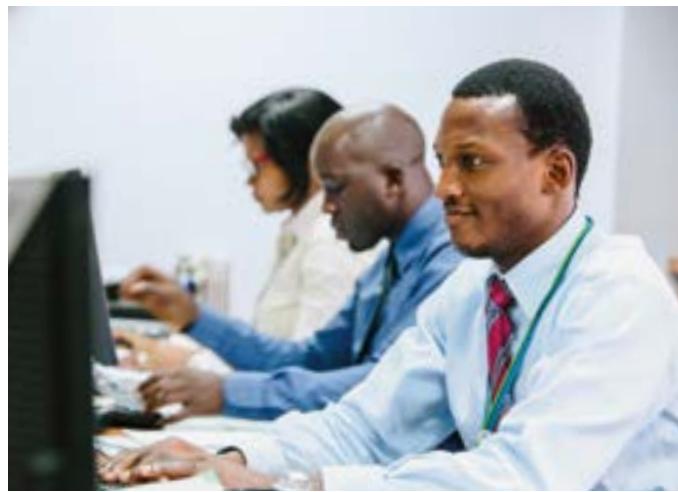
Building organisational capability

Our long history of successful growth is anchored in our ability to recruit diverse and talented people, and to invest in and retain the best and brightest employees.

Investing in leadership

Developing the next generation of business leaders is vital to our performance and remains a priority for the Group. We continue to invest in our employees at all levels to help them grow their careers. We have also reviewed our leadership development approach to equip our leaders for an increasingly complex operating environment.

1. The gap score represents the difference between the importance that our employees attribute to the employee experience across 40 different measures, and their perception of how well the Group is delivering in these areas. Maximum gap score five, with zero being the target.



In its inaugural year, over 85 per cent of employees completed our new employee engagement survey, My Voice

We have streamlined and aligned the content of our leadership programmes so that our leaders are equipped with a consistent skill set, knowledge and behaviour. To ensure we continue to build sufficient leadership capacity, we have doubled the number of leadership programmes that we run for middle management, and increased the frequency of other manager programmes.

We have strengthened and refreshed our senior leadership team across the organisation, increasing the number of senior executive positions.

Learning and development

To support consistent learning delivery, we upgraded our Learning Management System (LMS) this year. Our improved LMS allows the Group to target education more accurately and offers all line managers a simple and full view of their team's learning activity. In 2015, we will use the LMS to deliver and launch new learning.

We also refreshed our Group-wide on-boarding programme, Right Start Live. This provides a consistent programme for new joiners in each of the markets across our footprint. Right Start Live is now a half-day induction programme attended by most people within a few weeks of joining. The programme is highly interactive and focuses on our organisational culture and the importance of our values and appropriate conduct.

New joiners also receive support through Right Start Online, an on-boarding portal available to all new joiners from their first day in the office. This tool provides them with access to the Code of Conduct and information on our businesses, products and structure, as well as the Group's values. In addition to Right Start Live, FastStart, our core programme for recent senior joiners, remains central to the development of new senior leaders.

While these programmes are not mandatory, we highly recommend participation in order to learn about the Group's culture. Right Start Live reached 74 per cent of all new joiners in 2014. FastStart covered 80 per cent of the eligible population, with a session scheduled in the first quarter of 2015 for the remaining eligible population and new senior leaders to the Group.

This learning and development momentum will continue into 2015 when we will introduce SC Ready – a learning module that supports the alignment of our mid-level leaders to our culture,

Learning and development Graduate recruitment (number of hires)

Percentage of employees receiving training

94

Average spend on training per employee (\$)

764

Average training days per employee

3.2

Further information on our people can be found on pages 326 and 327

465

382

375

2012

2013

2014

leadership expectations, and risk management philosophy. In 2015, there are plans to hold 40 programmes globally, for over 1,000 mid-level leaders.

Building our talent pipeline

Graduate recruitment and development is a fundamental and long-standing part of the Group's talent strategy. Each year, we attract more than 120,000 applications to over 700 graduate and internship opportunities. Graduates apply from across the world, and our graduate programme is designed to offer each employee the opportunity to develop and apply their individual skills and strengths.

Following the reorganisation in April 2014, we launched a new integrated graduate programme, replacing our previous Consumer Banking and Wholesale Banking programmes. We will build on this development programme in 2015, and offer additional career support and acceleration opportunities for this highly valued group of junior employees.

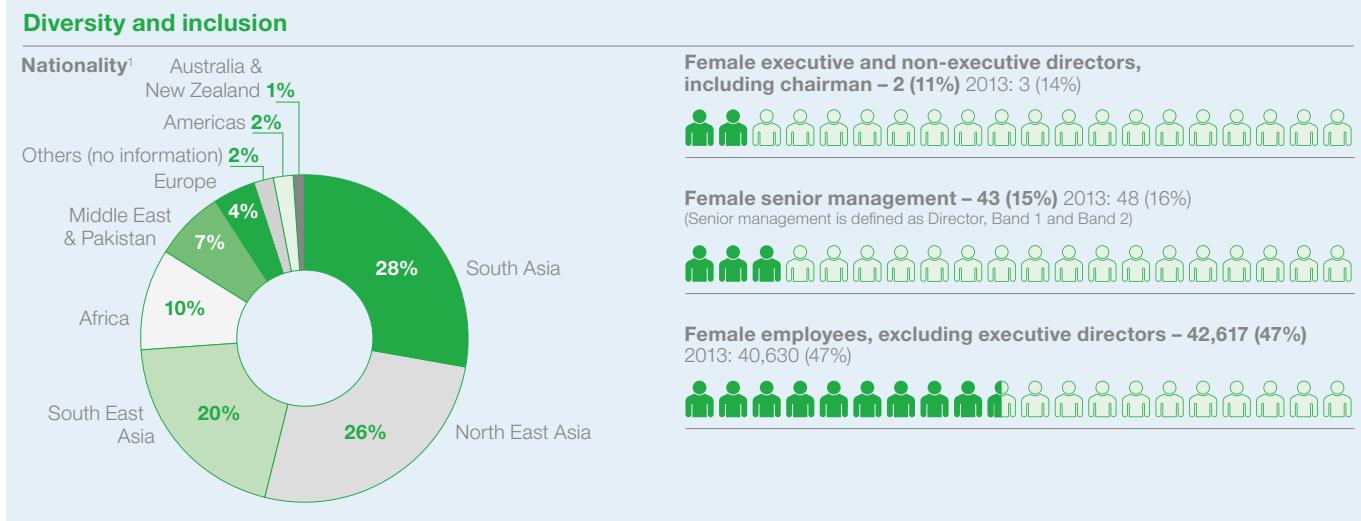
Embedding diversity and inclusion

The diversity of our people and our markets is a particular strength that sets the Group apart and allows us to appreciate and serve our clients' diverse needs.

Our goal is to create an inclusive environment where everyone can realise their full potential in contributing to our business success, free from bias. By building on the advantage of our natural diversity and making inclusion an organisational strength, we can create a sustainable competitive advantage that contributes to delivering superior business results.

In 2014, we:

- Celebrated International Day for People with Disabilities by holding a global webinar on the subject of disability in the workplace, encouraging senior leaders who have been affected by disability to share their stories
- Launched Project Employability to increase career opportunities for people with disabilities. Fourteen teams across eight countries reviewed 76 roles to remove barriers and create an inclusive environment for candidates with a self-disclosed disability
- Established a pilot disability internship programme in Singapore in conjunction with a local government agency



- Set up a forum for line managers who have team members with disabilities, developing their inclusive leadership capabilities and facilitating the growth of a supportive learning network of people managers
- Continued engagement with the communities in which we operate, for example conducting a workshop for students with disabilities in Ghana aimed at equipping them with job-market skills

Lesbian Gay Bisexual and Transgender (LGBT) inclusion continues to be a particular focus as we aim to increase understanding and create a safe and respectful environment, based on fair and equal treatment of our LGBT colleagues. Activities have included:

- The launch of a resource guide to raise awareness about LGBT-related topics, published to mark the International Day Against Homophobia and Transphobia
- The launch of the LGBT Allies Programme with videos and a panel discussion involving senior leaders, and a roundtable discussion on LGBT inclusion with peer organisations who also have significant presence in markets in Africa and the Middle East

We have maintained gender representation at key levels of leadership in 2014, with 15 per cent of senior executive levels being women. This includes female country chief executive officers in China, Hong Kong, Nigeria, Tanzania and Thailand. The activities we undertook included:

- Helping more than 500 women gain valuable leadership skills through participation in our Women in Leadership and Women's Development programmes
- Appointing male and female sponsors to these senior development programmes, recognising the role of men in effecting change
- Establishing a mentoring scheme in the UK aimed at helping young disadvantaged women in their careers

Health, safety and wellness

We are focused on providing a safe, secure and healthy working environment for our people and clients. We maintain high standards that are aligned with international best practice and regularly review the health and safety performance of our properties.

More than 80 per cent of our employees have access to an employee assistance programme, providing them with confidential advice and counselling on issues such as relationships, financial stress and legal concerns.

In 2015, we will drive greater awareness and understanding of wellness and health and safety through learning and education programmes.

Our priorities in 2015

- Raise the bar on conduct to ensure employees understand its criticality and are able to respond appropriately to the increasingly complex regulatory environment in which we operate
- Strengthen employee engagement and increase focus on delivering our network through even greater collaboration
- Continue to strengthen our leadership team so as to build capability and create credible succession plans
- Support our client-centric strategy with a review of enablers such as performance management, coaching, and career planning processes

1. The definition of nationality has been revised to reflect the passport of the employee

Sustainability

Promoting sustainable economic and social development

Our highlights in 2014

- \$318 million of lending provided to microfinance institutions (MFIs), benefiting more than 2.1 million people
- 99 per cent of staff recommitted to the Group Code of Conduct
- 2,477 staff trained on environmental and social risk management
- \$798.6 million of financing provided and supported for renewable energy and clean technology
- \$10 million raised for Seeing is Believing, with a cumulative total of \$79.4 million raised and 65.8 million people reached since 2003

"We continue to support the United Nations Global Compact and its 10 principles on human rights, labour standards, the environment and anti-corruption. This annual report sets out our progress in incorporating these principles into our business."

Peter Sands
Group Chief Executive

Sustainability and our business

Using our position as a leading financial institution, we are committed to promoting positive social and economic development in the countries where we operate.

Sustainability to us is not just about using less energy, or raising money for good causes, although we are proud of our efforts in both. Sustainability is embedded in our brand promise, Here for good, and affects every single thing we do: the way we make decisions, the contribution we make to local economies and the impact that we have when we bank the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East.

Our ambition is to be the world's best international bank. This means getting the basics right: being financially stable, continuously improving our governance and seizing the opportunities presented by our markets to provide and promote sustainable economic growth.

Our approach continues to focus on three key priorities: contributing to sustainable economic growth, being a responsible company and investing in communities.

Contributing to sustainable economic growth

Whether it is helping businesses to grow, supporting people to buy their own homes or providing clients with a full range of products to facilitate global trade and investment, we use our core business of banking to fuel economic activity in our markets.

In 2014, we provided \$289 billion in lending to our clients.

This funding enables businesses to diversify or expand and gives individuals the opportunity to invest and provide stability for future generations. By doing all of this responsibly and efficiently, we can have a positive effect on sustainable development in our markets, contributing to economic growth in the long term and enabling communities, businesses and people to thrive.

Access to financial services

As a bank, we are committed to providing products and services to individuals and companies driving local, regional and global economic development and job creation. We support trade, infrastructure and other key sectors of the economy that create the foundation for long-term sustainable growth. We actively share our expertise with clients, governments, regulators and communities to help deepen financial markets and strengthen the financial sector.

The markets where we operate continue to undergo rapid change, creating new opportunities for economic growth. We are helping countries realise these opportunities by providing dedicated financial services to the local entrepreneurs and businesses that are leading innovation and employment generation. In 2014, we provided \$15 billion of funding to our Commercial Clients, who are predominately local and regional mid-sized companies.

We continue to develop and expand our dedicated Islamic banking brand, Standard Chartered Saadiq. In 2014, we provided \$16 billion in Islamic financing. We acted as financial advisor and lead manager for Hong Kong's inaugural Sukuk (Shariah-compliant Islamic Bonds) issuance, the first dollar-denominated AAA-rated Government Sukuk.

We allocate capital to key sectors in the economy including agriculture, trade and infrastructure. In 2014, we financed \$30.9 billion through our Commodity Traders and Agribusiness portfolio. We supported Vietnam's agriculture sector by signing a \$70 million financing agreement with An Giang Plant Protection Joint Stock Company to fund a rice paddy field model that aims to provide a higher-quality product and financial security for farmers.

We retained our position as a leading trade bank. We supported the development of the China-UK trade corridor by becoming one of the first market-makers for direct trading between the renminbi (RMB) and the GBP on the interbank foreign exchange market in the China Foreign Exchange Trade System.

Many of our markets are hampered by unreliable infrastructure, which can impede economic growth. We have made a \$5 billion commitment to support Power Africa – a five-year multi-stakeholder partnership to help bolster investment in power generation across Sub-Saharan Africa – from 2013 to 2018. We are providing advisory, financing, debt-structuring services and policy framework development. Our efforts in 2013 and 2014 are expected to culminate in the creation of over 900 megawatts of additional generation capacity in Africa. Across our markets, we support the renewable energy and clean technology sector. We provided and supported financing of \$798.6 million to the sector in 2014.

We share our expertise to help countries raise funding, deepen capital markets and attract investment. In 2014, we continued our role as sovereign ratings advisor to 10 governments, supporting their economic development goals through enhanced credit positioning, investor relations and capital-raising strategies. For example, in 2014, we co-arranged the UK government's



Stakeholder engagement

We maintain ongoing dialogue with stakeholders and draw upon their feedback to develop our business strategy, identify new opportunities and manage risks.

Clients: we engage with our clients to ensure that the products and services we offer meet their personal and business needs. We seek to provide the highest levels of service and actively work to identify and resolve complaints. In 2014, we moved towards an online sampling method to assess client satisfaction.

Employees: we have continual dialogue with our employees for feedback on our role as an employer. In 2014, we launched My Voice, our new employee engagement survey, with participation from over 85 per cent of employees.

Communities: we work with local and international non-governmental organisations to understand the social, economic and environmental concerns of the communities where we operate and to deliver our community investment programmes. In 2014, we partnered with the Queen Elizabeth Diamond Jubilee Trust on four projects to help eliminate blinding trachoma in Africa.

Investors: we engage with investors and analysts through one-to-one meetings, roundtables and surveys on how to further integrate sustainability into our business. In 2014, we participated in the leading sustainability indices including the Dow Jones Sustainability Index, FTSE4Good and the Carbon Disclosure Project.

Regulators, governments and industry bodies: we take part in initiatives that engage regulators, governments and financial institutions to address sustainability issues in our markets. In 2014, we participated in industry discussions on financial inclusion through our membership of the World Economic Forum Financial Inclusion Steering Committee and Working Group. We also joined the Green Bond Principles and Climate Bonds Initiative to promote the green bond market.

 For more information on how we engage stakeholders on material issues, please refer to sc.com/SustainabilityStakeholders

landmark RMB bond issuance and Vietnam's first bond issuance in the international capital market since 2010.

We provide financial products and tools to help our clients reach individuals who lack access to banking services. In 2014, we rolled out capabilities to transact with mobile wallets in four markets. This technology allows clients such as non-governmental organisations to help pay their staff and other beneficiaries through mobile phones in areas with limited access to banking facilities. In addition, we provided \$318 million to 23 MFIs. We continue to promote transparency in the sector and conducted an independent review of the social performance of 28 of our MFI partners.

Environmental and social risk management

To achieve long-term sustainable development, we must responsibly manage environmental and social risks. We have well-established Position Statements that set out the standards we expect of clients and ourselves, including application of the Equator Principles.

In 2014, we revised our environmental and social risk assessment procedures and underlying templates. These procedures assess alignment with our Position Statements and are completed as part of our credit approval process for all clients and certain transactions. Potential issues are identified and referred to a specialist team for a more in-depth review. In 2014, over 350 client relationships and transactions were referred for further review. For all identified risks, we seek to develop effective mitigating measures. Where this is not possible, transactions have been, and will continue to be, turned down.

Being a responsible company

Our commitment to sustainability is about more than the economic activity we finance for our clients. It is also about how we develop our people and manage our business to create long-term value for our stakeholders and deliver on our brand promise, Here for good. In 2014, we continued to strengthen our corporate governance framework, made a significant investment in our financial crime remediation programmes and moved forward with additional external disclosure on country-by-country tax payments as set out in the European Union requirements.

Governance

Robust governance is the foundation for establishing trust and promoting engagement between a company and its stakeholders. We see governance as critical to our commitment to being a responsible company and continuously look for ways to strengthen our approach.

In 2014, the Brand and Values Committee, which oversees our sustainability agenda, was renamed the Brand, Values and Conduct Committee, to more accurately reflect the committee's focus on different aspects of conduct. The Brand, Values and Conduct Committee works to ensure that the right culture, values and behaviours are actively adopted and promoted at all levels within the organisation.

 Further details regarding the remit, role and responsibilities of the Brand, Values and Conduct Committee can be found on pages 161 to 165.

The Board Financial Crime Risk Committee became effective on 1 January 2015. Its role is to provide additional focus and oversight of all financial crime compliance matters.



Saving lives through Sukus

In 2014, we leveraged our expertise to help organisations and governments issue Sukus (Shariah-compliant Islamic Bonds), but none could match the life-saving impact of the Sukuk that we arranged for the International Finance Facility for Immunisation Company (IFFIm).

The IFFIm is a multilateral institution created to accelerate the availability of predictable, long-term funds for health and immunisation programmes. The three-year, \$500 million Sukuk was the IFFIm's first, with the proceeds set to fund immunisation programmes and health-system strengthening initiatives for children in some of the world's poorest countries, many of which are in our footprint.

As well as being the largest inaugural Sukuk issue from a supranational, this was also the first ever socially responsible Sukuk with funds to be utilised for vaccinations.

Acting as Sole Global Coordinator and Joint Lead Manager for this landmark transaction, we increased the deal size from \$300 million to \$500 million. Over 85 per cent of the order book comprised new, primarily Islamic, investors. This highlights investor confidence in the deal and our ability to access unique pools of liquidity for our clients.

The Sukuk gave investors the opportunity to help protect tens of millions of children from preventable diseases, and enabled us to use our expertise to demonstrate our commitment to being Here for good.

People and values

As part of our one-bank approach, we continue to embed our culture and values throughout the Group. We invest in our people through learning and development programmes with 94 per cent of employees receiving training in 2014. To further understand the views of our employees, in 2014 we launched a new employee engagement survey, My Voice, in which over 85 per cent of employees participated.

We respect human rights across our business. This includes our human resources policies and our procurement decisions as set out in our Supplier Charter. We consider human rights in our financing decisions, guided by our Position Statements, which address the rights of children, workers and communities in relation to specific industry-sector risks.

Financial crime prevention

Financial crime hinders economic progress and harms individuals and communities. We strive to have the most effective financial crime compliance programmes in order to protect our clients, employees and the places where we do business. Our goal is to prove that we are leading the way in combating financial crime, while providing a quality service for our clients. Over the past two years, the Group has dedicated substantial leadership attention, investment and training to financial crime compliance. In 2014, we more than doubled the staff working in Financial Crime Compliance and hired industry leaders into the function. Each year more than 80,000 employees complete training to prevent bribery, corruption and money laundering. While we have made progress, we still have more to do to ensure our own behaviours and processes are operating above regulatory standards. Our commitment to this work is absolute.

Responsible selling and marketing

Supporting the needs of our clients and delivering a high-quality client experience is a priority across the business. We focus on treating clients fairly and work closely with them to deliver

appropriate and suitable products. In 2014, we moved towards an online sampling method to assess client satisfaction and understand their needs. We have robust global policies and procedures in place to make sure that complaints are identified and resolved quickly. To support our continual focus on conduct, in 2014 we exited our engagement of third-party vendors as representatives of the Group for the sale of our retail products.¹

Environment

We seek to minimise the impact of our operations on the environment. In 2014, we reduced our energy use intensity by 4 per cent, our water use intensity by 3 per cent and our office paper use by 6 per cent per full-time employee. We remain broadly on track to meet our respective committed targets. To manage energy and water use across our properties, in 2014 we collaborated with landlords to make sure that 34 per cent of our new and renewed leases are green. In 2015, we will work with our new property management partner, Johnson Controls Inc, to accelerate energy and water savings across our property footprint.

Environment assurance

PwC is our independent third-party assurance provider for Greenhouse Gas (GHG) emissions. In 2014, our measured Scope 3 emissions were included as part of our assurance along with our measured Scope 1 and Scope 2 emissions to enhance the credibility of our GHG reporting.

 **For additional information, review the Independent Assurance Report on sc.com/EnvironmentalAssurance**

1. Except for the Philippines, which is currently under review

Suppliers

We made further progress in engaging our suppliers to meet leading environmental and social standards by joining the United Nations Global Compact (UNGC) Supply Chain Sustainability Workstream in 2014. In addition to adhering to our Supplier Charter established in 2012, we encourage our suppliers to adopt the 10 UNGC principles relating to issues such as human rights and labour.

Investing in communities

Promoting the social and economic development of communities is fundamental to our strategy supporting sustainable economic growth in our markets. In 2014, we invested \$64.2 million, or the equivalent of 1.06 per cent of our 2013 operating profit, in community programmes. Our programmes focus on health and education, with youth as a target demographic. We support emergency response efforts across our markets.

Community programmes

The economic prosperity of a community depends on a healthy and productive population. Seeing is Believing (SiB), our flagship community programme, provides funding to address avoidable blindness and promote quality eye health. Through fundraising and bank matching, we raised \$10 million in 2014. From 2003 to 2014, we raised more than \$79.4 million and reached 65.8 million people. In 2014, we awarded nine grants from the SiB Innovation Fund to promote and develop pioneering solutions to tackle blindness around the world.

Our Living with HIV (LwHIV) programme marked 15 years of providing education on HIV and AIDS to our staff and communities in 2014. We focused on 'Positive Living' initiatives across our markets, encouraging colleagues to get involved in reducing the fear and stigma associated with HIV and AIDS. Our employees delivered over 5,000 volunteering days for LwHIV in 2014, an increase of 15 per cent over 2013. We established a partnership with the MTV Staying Alive Foundation to provide funding to organisations delivering local education and awareness programmes on HIV and AIDS in several of our markets.

Education provides opportunities for individuals and communities. Goal, our leading education programme, combines sports with life-skills training to empower girls with the confidence, knowledge and skills they need to be integral economic leaders in their families and communities. We reached more than 50,000 girls across 24 markets in 2014. From 2006 to 2014, we empowered nearly 146,000 girls. In 2014, we expanded the employability component of the programme through a partnership with the International Youth Foundation to help prepare girls to enter the workforce.

Our global Financial Education for Youth programme trained over 13,100 young people across 15 markets in 2014. Alongside this, we expanded our Education for Entrepreneurs training programme by developing a training toolkit enabling staff volunteers to deliver sessions on financial management to micro and small businesses in our communities. In 2014, the programme ran in eight markets and reached 835 entrepreneurs.

We provide emergency response and support reconstruction efforts across our markets. In 2014, we contributed more than \$700,000 to relief efforts focusing on flood recovery in several countries in Asia and the Ebola Virus Disease (EVD) in West Africa. To support the local and international EVD response, we are utilising our local banking network to open accounts for aid

organisations and to process payments for health workers. We also joined together with other private sector companies and signed the UN Business Action Pledge on Ebola Elimination.

Employee volunteering

Our staff are highly engaged in employee volunteering. Every employee is entitled to three days of paid volunteering leave annually. We integrate volunteering into our community programmes and encourage skills-based volunteering. In 2014, we contributed over 86,900 volunteering days across our markets.

Our performance

Dow Jones Sustainability Index

We were included in the Dow Jones Sustainability Index (DJSI) World Index and Europe Index. We were noted for our strong performance in risk and crisis management, brand management, corporate citizenship, stakeholder engagement and financial inclusion.

FTSE4Good

We were listed in the FTSE4Good Index. The FTSE4Good measures the performance of companies that meet globally recognised corporate responsibility standards.

Carbon Disclosure Project

We were selected for the UK FTSE Carbon Disclosure Leadership Index and were included for the first time on the A List: The Carbon Disclosure Project (CDP) Climate Performance Leadership Index.

Our priorities in 2015

- Progress our Power Africa commitment to bolster investment in power generation
- Continue to train staff on our environmental and social risk procedures
- Continue to engage staff on our conduct agenda
- Promote our targets to improve energy efficiency across our properties
- Encourage skills-based volunteering to support the needs of local communities

Our business

Sharpening our focus and reshaping the business to better support our clients and deliver future growth



"We operate in some of the most attractive markets in the world, which will continue to represent huge opportunities for us"

Mike Rees
Deputy Group Chief Executive

Aligning to deliver our strategy

In 2014, the external environment remained challenging for the industry as a whole, with a number of structural shifts, such as prudential and conduct regulation and changing trade patterns, as well as cyclical headwinds, such as low interest rates, low volatility and commodity price fluctuations. Our performance was impacted by this environment as well as by a significant programme of restructuring actions, and operating income fell by 2 per cent to \$18.3 billion.

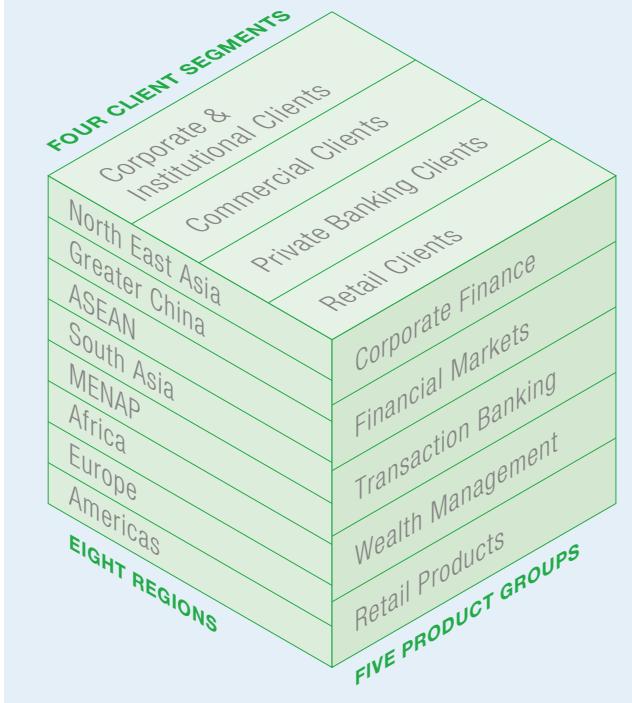
Operating profit fell by 25 per cent to \$5.2 billion, reflecting the impact of rising regulatory costs, an increase in loan impairments and actions taken to reshape and de-risk the business. We also made significant investments across the business to ensure exemplary conduct, including: training and development; recruitment processes and incentives; and specific programmes focusing on combating financial crime and money laundering.

We are committed to taking further action to get back on a track of sustainable, profitable growth, and we continue to make progress in a number of areas.

We understand and are responding to the challenges we face, re-orientating to place greater emphasis on the areas of our business that represent the greatest opportunities. The first thing we did in 2014, was to reorganise ourselves to align completely with the Group's strategic intent: banking the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East. This is about client relationships, products and geographic focus, and it is the foundation of everything we do. We are now organised to have four client segments, supported by five product groups across eight regions. We are one bank with one business.

The reorganisation also created greater alignment within the different areas of our business, allowing us to serve our clients better, grouping them logically and in line with their needs. It also enabled us to streamline our support structure and realise a number of cost efficiencies.

Our client segments, product groups and regions



Unlocking opportunities

We are well placed to capture the opportunities that exist within and between our client segments and product groups.

Across all client segments our aim is to build sustainable, long-term and trusted relationships with our clients. With the creation of Commercial Clients, our segment for mid-sized corporates, we are now better able to deliver on this, serving clients across different segments to meet their changing needs as they diversify, grow and prosper.

This approach also enables us to drive referrals between segments – banking both the personal and business needs of our clients – and draw on the capabilities from across the breadth of the business to bank the employees and supply chains of our clients.



Deepening our understanding of Africa to support our clients

Africa faces a lack of economic data compared to international markets, with many of the official statistics often being out of date.

The lack of good economic data contributes to uncertainty, increases the cost of doing business and creates challenges with the formulation of policies, business investment and economic expansion. It can also undermine the region's investment potential.

With the aim of addressing this issue, Standard Chartered partnered with two international research organisations – MNI Indicators and Premise Data Corporation – to launch two pioneering indicators: a Business Sentiment Indicator and a

Consumer Price Tracker. These have been rolled out across a number of key markets. The indicators increase the amount of private sector information that is available and they add to the availability of information between official data releases. They help to position us as a trusted go-to advisor on Africa.

In Kenya and Nigeria, 200 businesses, active in different segments of the economy, responded to our monthly survey, providing an insight into business conditions. Our Business Sentiment Indicators summarise, in a single number, how optimistic businesses feel about current conditions and provide a gauge of overall economic conditions in the country. The sub-indicators give us greater insight into what may be worrying the private sector.

Our Consumer Price Tracker uses 'crowd sourcing' and cutting-edge mobile technology to gather information on the pricing of local products. By analysing and comparing prices and the placement of everyday items, the Consumer Price Tracker delivers near real-time consumer price inflation data. Each month, hundreds of people in key Nigerian cities are engaged in capturing price information on their smartphones. Each week, price information on approximately 15,000 food and beverage products is captured, aggregated, and analysed.

The use of this technology to overcome the lack of availability of timely price data is relatively new. We are already using it to deepen our understanding of the Nigerian economy, and sharing that information with our clients.

In line with our brand promise of being Here for good, the information we now generate from our pioneering indicators stands to benefit governments, central banks, companies, investors, analysts and economists.

From a product perspective, we have moved from a model whereby product groups typically served either Consumer or Wholesale Banking, to one where each product group serves client needs across multiple segments. This allows greater sharing of our product and platform capabilities.

Reshaping the business

In 2014, in order to align more closely to the Group's strategic intent, we sharpened our business focus, using five tests that we established in 2013.

The tests involve asking questions such as: does this business bank the people, companies and institutions that shape our markets' future? Does this business drive investment, trade and the creation of wealth? Is the business aligned with our commitment to be Here for good? Does the business strengthen our position in Asia, Africa and the Middle East? And finally, does the business contribute to our earnings growth, returns and capital accretion trajectory, and is the business model sustainable?

How we conduct ourselves and our business is an integral part of how we execute our strategy and how we live up to our brand promise to be Here for good. It is about doing what we should, not what we can.

We have made some tough decisions and trade-offs. We found that there were some businesses that did not fit with our broader portfolio, such as our Consumer Finance businesses in Hong Kong, China and Korea which we are in the process of

exiting; our Retail Clients' businesses in Germany and Lebanon which we have sold; and our third-party sourcing channel for Retail Clients which we either discontinued or brought in-house¹, giving us greater oversight of training, ensuring that our Code of Conduct is adhered to, and that our standards around responsible selling and marketing are upheld. The overall impact on revenue from these actions is around \$450 million.

We also looked at where we needed to become more efficient, and in October 2014 announced a target of more than \$400 million in productivity improvements for 2015 across Retail Clients, Corporate & Institutional Clients and products and support functions.

In Retail Clients in particular, we are now executing the strategy at a much faster pace, with a greater focus on depth in key cities, digital and our affluent segments – Priority and Business Clients. We are focusing on creating greater efficiency, with increased centralisation and standardisation of systems and processes, and technology upgrades to drive an increase in straight-through processing and make better use of client data. We are also restructuring our branch network with a shift towards serving our clients when and where they need us through digital channels.

¹. Except for the Philippines, which is currently under review



Helping our clients seize renminbi opportunities

As the internationalisation of the renminbi (RMB) continues to accelerate, so too does its importance to our clients as they seek to expand and grow cross-border business.

We created the Standard Chartered Renminbi Globalisation Index (RGI) in 2012 to measure the pace of internationalisation of the RMB. The Index tracks RMB deposits, capital raising,

foreign exchange, and cross-border payment flows in seven eligible offshore centres. It provides us with greater insights and market knowledge to better help our clients understand and capitalise on the opportunities created by RMB internationalisation.

According to the RGI, as of November 2014, it took only 17 months for the offshore RMB market to double in size.

Using the data provided by the Index and working together across client segments, product groups and geographies, we have been able to provide greater support to our clients to meet their RMB needs. We have also supported the UK government in coordinating the first sales of UK government debt denominated in RMB.

We are deepening and building trusted relationships with our clients by advising on how they can better manage their treasuries and cross-border payments. We advised Jeju Air, a Korean budget airline, to centralise RMB collections in China and then make cross-border payments to its RMB deposit account in Korea, without foreign exchange conversion.

This is helping Jeju Air to reduce undue currency conversions from RMB to dollars and finally into Korean won. The airline's treasury staff can now decide to invest the RMB deposits or to exchange them into other currencies – an option they did not have before.

Growing with people and companies

Our goal is to deliver sustainable performance and grow with our clients. To help us achieve this, we revisited our client segment strategies to reaffirm and refresh our client-led approach.

Corporate & Institutional Clients: accounting for 55 per cent of client income, this segment serves our Financial Institution, and Global and Local Corporate Clients. Income for the segment as a whole fell by 2 per cent as a result of challenging market conditions and actions taken to reshape the business.

By simplifying our processes and ensuring that our systems are more efficient, we have freed up more time for our people to spend with clients, and this is yielding returns. Our focus on deepening relationships has resulted in the average number of products per client rising by 6 per cent, to 6.3, and the average number of markets per client rising 7 per cent, to 2.8. The percentage of clients generating 80 per cent of our income increased to 19.7 per cent, up from 17.7 per cent in 2013.

Commercial Clients: established in April 2014, Commercial Clients brought together the medium-sized enterprise component of small and medium-sized enterprises (SME) from Consumer Banking with the Middle Market segment from Wholesale Banking. This enabled us to sharpen focus on serving the needs of mid-sized local companies at an early stage of their lifecycle, leveraging our cross-border network capabilities to support their growth aspirations.

While we made excellent progress in establishing the segment, and improving our risk and controls, income fell by 22 per cent on a like-for-like basis. While external headwinds were challenging, a significant factor was the time and resource committed to client due diligence remediation, client exits and de-risking in the former SME business. As we look to change our growth trajectory, we will focus on growing our reach among those companies in our markets that are expanding internationally, enhancing our systems and platforms and investing in and strengthening our frontline staff.

Private Banking Clients: the reorganisation of our business sharpened the strategic profile of Private Banking by more effectively linking with the Commercial Clients opportunity and providing greater support from product groups such as Financial Markets, Transaction Banking and Wealth Management. With income growth of 4 per cent, which includes the impact of exits in Korea and Geneva, Private Banking achieved the highest revenue growth of all the client segments.

To better address our clients' specific needs, we reorganised our front office, fine-tuned our proposition as a private bank for entrepreneurs and strengthened our focus on the private banking of the families that own the companies making up the Commercial Clients segment.

Retail Clients: accounting for 33 per cent of income, the Retail Clients segment offers full retail banking services to over 10 million individual and business clients across 34 markets. Income rose by 2 per cent in 2014.

In 2014, we began to execute the Retail Clients strategy at a much faster pace and reorganised the entire sales force around our three client groups – Business Clients, Priority Clients and Personal Clients. We also sharpened our focus on Priority and Business Clients. With our cross-border reach and products designed to meet their needs, we are extremely well positioned to do more with these two affluent client groups. This is a strategy that puts our clients at the centre of what we do and positions us for strong growth. Our Employee Banking proposition (banking the employees of our clients) is a great example of this strategy in action, growing, in 22 markets, by 15.3 per cent year-on-year to now account for 24.3 per cent of Retail Clients' revenue.

Building better technology is another key element of our Retail Clients strategy and we continued to invest more in the digital and mobile channels that will deliver easy, convenient banking to our clients. We were pleased to be awarded the World's Best

Consumer Internet Bank Award at the Global Finance Awards for the fourth year running.

At the same time, we do face challenges. We need to become more cost-efficient, simplifying and standardising, to make the most of our franchise. To this end, we are freeing up resources today to invest in the technologies we need for tomorrow, in line with the evolving needs and preferences of our clients.

Our four client segments are supported by our five product groups. As we shifted to a model whereby each product group supports multiple segments, we reviewed and refined our product group strategies to align with and support the client segment strategies, helping us to build deep and trusted relationships.

Corporate Finance: our Corporate Finance business is mature and diversified. We remain well positioned to play a leading role in facilitating investment and deepening in financial markets. Income fell 1 per cent with significant market challenges and high liquidity resulting in increased repayment levels.

Financial Markets: the resilience of Financial Markets is underpinned by the diversity of our products, clients and geographies, as well as a stable and efficient business model. Increasing volumes were offset by global margin compression and a decline in own account income, resulting in a fall in overall income of 12 per cent.

Transaction Banking: offering cash management, trade and securities services, Transaction Banking recorded a fall in income of 3 per cent.

Income remains very well diversified across client type and region. Against tough market conditions, our franchise remains strong, having been voted Best Global Transaction Bank by *The Banker* and number one Transaction Bank in Asia by our

clients¹. We also remain well positioned as the leading foreign correspondent bank in China and were voted Best Renminbi Bank by *The Asset*, capturing the opportunity presented by the offshore renminbi market.

Wealth Management: we have a resilient franchise underpinned by diversified income streams and strong capabilities. As a result, Wealth Management has grown strongly year-on-year, with an increase in income of 17 per cent and growth in assets under management of 13 per cent.

In March, we signed a multi-year deal to extend our bancassurance partnership with Prudential in Asia, providing our clients with exclusive access to a wide range of products across nine markets, reflecting our aspiration to become a leader in growing and protecting our clients' wealth. This resulted in a growth in bancassurance income.

Retail Products: Retail Products is a key source of deposits for the Group and, with 88 per cent of Retail deposits coming from current account/savings accounts, it is critical for deepening long-standing client relationships. Income in Retail Products was down by 4 per cent due to de-risking actions, regulatory changes and adverse mortgage market conditions in certain markets. There is substantial opportunity to bank the growing affluent segments in key cities in our footprint.

Our footprint is a competitive differentiator and across the client segment and product groups we saw network income grow by 3 per cent in Corporate & Institutional Clients, contributing to 58 per cent of client income. Our largest originating regions are Europe, the Americas and South Asia. Collaborating and delivering more effectively on our network will remain a focus for us into 2015 and beyond.

1. East & Partners Asian Institutional Transaction Banking Study May 2014 Survey



Bolstering investment in power generation across Sub-Saharan Africa

We have made a \$5 billion commitment to support the Power Africa Initiative between the United States, six African governments and the private sector to help bolster investment in power generation and improve access to clean, reliable power across Sub-Saharan Africa from 2013 to 2018.

A pressing concern for social and economic development in Africa is the lack of access to a reliable and clean energy supply. The African subcontinent is underserved, accounting

for only 4 per cent of the world's power supply with the bulk of this concentrated in South Africa and the North African region. This means that two out of three Sub-Saharan Africans – or nearly 600 million people – lack access to electricity.

As part of our Power Africa commitment, we are providing advisory, financing, debt-structuring services and policy framework development. Through our participation, we expect to have a substantial impact by helping to add up to 7,500 megawatts of generation capacity to Africa's power grid in an effort to deliver electricity to more than 20 million new households and companies by 2018.

To ensure continued economic growth in Africa, large-scale investments in power generation are required to sustain momentum while creating better lives for people. Without this infrastructure in place, it will negatively impact competitiveness and hold back economic potential.

One of the projects under the initiative is the Azura-Edo Power Project in Nigeria, which will harness the country's domestic gas resources to generate 450 megawatts of additional power. The Okija Power Project is another example that will use domestic natural gas to generate 495 megawatts of capacity in south-eastern Nigeria.

Our participation in the Power Africa Initiative is a powerful example of how we are making a material difference in the communities where we operate, supporting the next stage of Africa's growth, and helping to transform the region's prospects.

2015 – a year of execution

We have a heritage of over 150 years across Asia, Africa and the Middle East. Our deep knowledge, trust and network of lasting relationships in these markets come from doing the right thing to provide opportunities for those we serve. We remain committed to helping our clients make greater contributions to the sustainability of economic growth in the markets in which they operate.

We recognise that we face pressures from external challenges and also from within our organisation and are taking action to address those that are within our control. The programme of change carried out during 2014 will continue into 2015. We are executing our strategy, including reprioritising investments, exiting non-core businesses, de-risking certain portfolios and reallocating capital. This restructuring of the underlying business will position us well for future growth. At the start of 2015, we announced the exit of our institutional cash equities business, which is no longer economical in our current environment.

Looking ahead to 2015 and to our medium- to long-term plans, there are a number of areas on which we will focus to ensure we get back on to the right performance trajectory, delivering returns above our cost of capital. These include performance, client relationships, organisational effectiveness, efficiency, and people, culture and conduct.

Specifically, we will ensure that we deliver on our performance commitments: place greater emphasis on collaboration across client segments, product groups, functions and geographies to maximise the opportunity presented by our network; and increase profitability through our Retail transformation. We will continue to drive cost and capital efficiency, and invest in our conduct agenda, doing what we should, not just what we can.

We operate in some of the most attractive markets in the world, which will continue to present huge opportunities for us. Our distinctive business model, superb client franchise and Here for good culture position us well to take advantage of this. We have refreshed our strategy, and in 2014, took steps to ensure that we are organised to support it. In 2015, we will execute our strategy to regain a trajectory of growth and our ambition to become the world's best international bank.

The Group in 2014

Accelerating management actions as a result of a challenging year



"We are taking action to address near-term performance challenges, prioritising organic capital accretion, increasing scrutiny on costs and returns, and assessing portfolio rationalisation options"

A Halford
Group Finance Director

Operational highlights in 2014

- Taken action on cost – on track to deliver more than the \$400 million committed in sustainable costs savings for 2015
- Simplified financial priorities – accrete capital to a Common Equity Tier 1 (CET1) ratio of between 11 and 12 per cent in 2015 and thereafter, and deliver return on equity of over 10 per cent in the medium term
- Actively de-risked Retail unsecured lending and commodity financing
- Reduced \$8.5 billion of low-returning risk-weighted assets (RWA) through 2014
- Maintained a strong balance sheet – diversified, strongly liquid, with good leverage and capital ratios

Group performance

2014 performance was disappointing, impacted by a challenging market environment and by the significant programme of restructuring and repositioning actions taken during the year. Reported profit before tax was down 30 per cent to \$4,235 million compared to 2013.

The Group's results have also been affected by the following items, which are less reflective of the underlying performance of the franchise:

- We have incurred restructuring costs of \$181 million in the year. Approximately a quarter relates to redundancy programmes in Korea, with the balance reflecting the realignment of the client segments and product groups under the new organisational structure, including a number of business exits

- The UK bank levy has risen a significant 56 per cent to \$366 million
- In August, the Group reached a settlement with the New York Department of Financial Services (NYDFS) of \$300 million. See page 103 for further details
- And more recently, the Group carried out a detailed review of the outlook for its Korean business. While we are encouraged by the Personal Debt Rehabilitation Scheme (PDRS) trends – and hence the opportunity to improve upon the business's recent disappointing financial performance – it is nonetheless currently loss-making and hence we are writing off the remaining goodwill of \$726 million – on top of the \$1 billion write-down in 2013. We have also impaired a further \$32 million of goodwill relating to the closure of the Group's cash equities business. These write-offs have no cash flow impact and do not affect Group capital ratios, as goodwill is already fully deducted for prudential purposes

The main normalising items are therefore the goodwill impairment, US settlement and the own credit adjustment.

On this basis, adjusted profit before tax for the year was \$5.2 billion, down 25 per cent.

Normalised earnings per share were down 28 per cent to 145.9 cents and normalised return on equity (RoE) was 7.8 per cent.

The balance sheet remains in good shape. Our Basel III transitional CET1 ratio of 10.5 per cent was flat in the second half of 2014 despite absorbing 30 basis points (bps) of headwinds, including model changes and the further foreseeable dividend. We have also taken greater provisions on our commodities exposure.

Performance summary

	2014 \$million	2013 \$million	Better/ (worse) %
Client income ¹	16,623	16,872	(1)
Other income	1,611	1,799	(10)
Operating income¹	18,234	18,671	(2)
Other operating expenses	(10,198)	(9,946)	(3)
Restructuring costs	(181)	(12)	nm ²
UK bank levy	(366)	(235)	(56)
Total operating expenses	(10,745)	(10,193)	(5)
Operating profit before impairment losses and taxation¹	7,489	8,478	(12)
Impairment losses on loans and advances and other credit risk provisions	(2,141)	(1,617)	(32)
Other impairment	(403)	(129)	(212)
Profit from associates and joint ventures	248	226	10
Profit before taxation (excluding goodwill impairment, civil monetary penalty and own credit adjustment)	5,193	6,958	(25)
Own credit adjustment	100	106	(6)
Civil monetary penalty	(300)	–	nm ²
Goodwill impairment	(758)	(1,000)	24
Profit before taxation	4,235	6,064	(30)
Normalised earnings per share (cents)	145.9	204.0	(28)
Dividend per share (cents)	86.00	86.00	–
Common Equity Tier 1 capital ratio on a transitional basis	10.5%	10.9%	–

1. Excludes \$100 million (2013: \$106 million) benefit relating to own credit adjustment

2. Not meaningful

Client segments income

Income and profit by client segment

	2014				
	Corporate & Institutional ¹ \$million	Commercial \$million	Private Banking \$million	Retail \$million	Corporate items ² \$million
Operating income ¹	10,431	1,182	612	6,009	–
Profit before taxation ¹	4,140	218	149	1,052	(366)

1. Excludes \$100 million relating to own credit adjustment

2. Relates to \$366 million in respect of UK bank levy

	2013				
	Corporate & Institutional ¹ \$million	Commercial \$million	Private Banking \$million	Retail \$million	Corporate items ² \$million
Operating income ¹	10,656	1,511	586	5,918	–
Profit before taxation ¹	5,257	647	173	1,116	(235)

1. Excludes \$106 million relating to own credit adjustment

2. Relates to \$235 million in respect of the UK bank levy

Notwithstanding decisions to de-risk the Group's portfolio in areas such as Retail unsecured lending and commodity financing, we restricted the reduction in the top line to 2 per cent. The biggest reduction in our year-on-year income performance was in the Commercial Clients segment, where income fell by \$329 million. This was driven by current year Private Equity valuation reductions relative to realised gains in the previous year, weaker demand for renminbi (RMB) products in Financial Markets, as well as exiting a significant number of relationships whose risk and return equation no longer met our requirements.

Income from Corporate & Institutional Clients was down 2 per cent, or \$225 million. Continued weakness in Financial Markets and management actions taken to optimise returns on the balance sheet offset gains on the exit of a number of Private Equity investments. The business has shown early

progress on the metrics set out in November 2014, with an improvement in the client-market ratio from 2.6 to 2.8 and the client-product ratio increasing from 5.9 to 6.3. Risk-weighted assets (RWA) increased by 10 per cent, primarily due to the impact of Basel III and to policy methodology and model changes. Excluding this impact, RWA were flat.

Income from Private Banking Clients was up 4 per cent, driven by a strong performance in Greater China. We have exited a number of subscale businesses during the year and, excluding the impact of these discontinued operations, income from Private Banking Clients was up 4 per cent, driven by net new money inflows of \$6 billion. The Group has also increased the number of relationship managers during the year and added 1,300 new clients, including early successes from the internal client referral programme.

Retail Clients' income of just over \$6 billion was up 2 per cent compared to 2013. Strong growth in income from the Priority segment, up 16 per cent, offset a decline in the Personal and Preferred segment income, which was down 5 per cent. This is consistent with our strategy to focus on more affluent segments

and de-risk our unsecured portfolios, particularly in Korea. We continue to reshape our business in Korea and during the year have exited 60 branches and almost 300 staff. Excluding Korea, Retail Clients' income was up 4 per cent.

Product income

	2014 \$million	2013 \$million	Better/ (worse) %
Transaction Banking	3,802	3,911	(3)
Financial Markets ¹	3,400	3,856	(12)
Corporate Finance	2,487	2,519	(1)
Lending and Portfolio Management	1,026	1,065	(4)
Wealth Management	1,701	1,449	17
Retail Products	4,840	5,046	(4)
Asset and Liability Management	653	548	19
Principal Finance	325	277	17
Total operating income¹	18,234	18,671	(2)

1. Excludes \$100 million (2013: \$106 million) relating to own credit adjustment

Transaction Banking income of \$3.8 billion was down 3 per cent year-on-year. Trade Finance, which accounts for just over half of Transaction Banking income, was down 5 per cent. Margins have remained broadly stable, though average assets were down 4 per cent in the second half of 2014, reflecting a slower trade environment and continued assertive management of low-returning RWA.

Cash Management and Custody, which accounts for the remaining Transaction Banking income, was flat year-on-year. Margins were driven lower by the significant liquidity that persists across our key markets, but this was offset by good growth in average balances and record clearing levels as we continue to win multi-country transaction banking mandates.

Income from Financial Markets was down \$456 million year-on-year. In Foreign Exchange, strong volume growth in Cash FX, up 47 per cent, and FX Options, up 89 per cent, has been offset by ongoing spread compression. In Rates, low volatility and low interest rates continue to impact both volumes and spreads.

Corporate Finance income was down 1 per cent year-on-year as high levels of liquidity resulted in increased repayment levels.

Lending and Portfolio Management income fell 4 per cent, reflecting lower average balances as we exited lower returning relationships.

Wealth Management income was up 17 per cent and is benefiting, in particular, from the Prudential bancassurance partnership as well as an accelerating shift towards servicing high net worth individuals in the Retail Clients segment.

Income from Retail Products was down 4 per cent or \$206 million year-on-year, impacted predominantly by the continued de-risking of the unsecured portfolio. Within this, income from Cards, Personal Loans and unsecured Lending was down 8 per cent, or \$212 million, year-on-year following a 14 per cent reduction in balances to \$20.5 billion. Income from Mortgages was down \$59 million or 6 per cent as property market cooling measures muted volume growth in a number of markets.

Asset and Liability Management income was up 19 per cent to \$653 million and benefited from more efficient deployment of surplus RMB customer deposits, the majority of which was recorded in the first half of 2014. Income of \$233 million is more reflective of the underlying performance during the second half of 2014.

Finally, Principal Finance income was up 17 per cent year-on-year. The gains on the exit of a number of Private Equity investments at positive multiples more than offset lower revaluations.

Expenses

	2014 \$million	2013 \$million	(Better)/ worse \$million	(Better)/ worse %
Staff costs (includes variable compensation)	6,653	6,558	95	1
Premises costs	910	877	33	4
General administrative expenses	1,996	1,797	199	11
Depreciation and amortisation	639	714	(75)	(11)
Other operating expenses¹	10,198	9,946	252	3
Staff numbers (average)	88,935	88,257		
Normalised cost-to-income ratio	58.9%	54.4%		

1. Excluding restructuring costs, UK bank levy and the civil monetary penalty

Other operating expenses of \$10.2 billion increased by less than 3 per cent. Within this, depreciation and amortisation benefited by \$121 million compared to 2013 due to a change in the period over which certain technology assets are depreciated.

During the year, we have faced further regulatory cost increases of \$237 million, without which costs would have been flat.

To offset these cost increases, as well as inflation of nearly \$400 million, the Group has delivered cost efficiencies in

2014 of some \$200 million which are now doubling to over \$400 million as our target for 2015. We are working on a pipeline of further sustainable productivity improvements in 2016 and 2017.

Taken as a whole, these represent a significant programme of initiatives that will deliver sustainable cost savings of some \$1.8 billion over the next three years.

Impairment

	2014 \$million	2013 \$million	(Better)/ worse \$million	(Better)/ worse %
Corporate & Institutional Clients	991	488	503	103
Commercial Clients	212	157	55	35
Private Clients	–	8	(8)	(100)
Retail Clients	938	964	(26)	(3)
Impairment losses on loans and advances and other credit risk provisions	2,141	1,617	524	32
Other impairment¹	403	129	274	212
Gross non-performing loans as a % of closing advances	2%	2%		
Loan impairment/average loan book	72bps	56bps		
Collateral held against impaired loans (\$million)	1,472	1,259		
Cover ratio	52%	54%		
Mortgage portfolio loan-to-value (LTV) ratio	49%	50%		
Retail secured/unsecured ratio	81%	79%		
Corporate & Institutional and Commercial maturity – due within one year	65%	64%		

1. Excluding goodwill impairment

Loan impairment was up \$524 million, or 32 per cent, to \$2.1 billion.

Over 40 per cent of this arises in the Retail Clients segment, which was 3 per cent lower, benefiting from improved PDRS trends in Korea.

The remaining \$1.2 billion of loan impairment arises in the Corporate & Institutional Clients and Commercial Clients segments, where further weakness in commodity markets has impacted a small number of exposures that were already on our watch list and that we have been closely monitoring for some time.

Other impairment, excluding goodwill, was \$403 million. The main increase in the year included the impairment on the China warehouse fraud and impairment of certain strategic and associate investments.

Commodities

Our total commodities exposure is \$55 billion, or 10 per cent of the Group's total net exposure. The vast majority of our commodities exposure is trade-related, evidenced by the short tenor of the book, with 74 per cent being less than one year. This allows us to react quickly to changes in the external environment. Our commodity portfolio was down \$6 billion in the second half of 2014 alone as we actively managed the portfolio.

When thinking about vulnerability to a sustained bear market, there are some important factors to consider:

- 60 per cent of our exposure is to global majors or large state owned enterprises (SOEs) or investment grade, which we expect will prove highly resilient, even through a sustained downturn

- A further 32 per cent is either short term or Trade Finance-related and less than one year in tenor – again highly resilient
- 4 per cent is to fund structured Project or Corporate Finance with a very high degree of collateral
- This leaves 5 per cent of the portfolio potentially more vulnerable to prolonged weakness in commodity prices

We have conducted an in-depth review of our Traders' portfolio and as a result, have exited 150 relationships since early 2013, reduced exposures since 30 June 2014 by \$2 billion, or 6 per cent, and focused on commodity traders with sound internal risk management capabilities and good access to other liquidity sources.

Two years ago, we identified which clients in our Producers' portfolio might be potentially vulnerable to a sharp correction in commodity prices. We have managed these names since, reducing exposure, taking additional collateral, and exiting relationships where necessary. While we have seen non-performing loan (NPL) formation reflecting the extremely low level of some commodity prices, refreshed stress tests have identified no new names to add to this list.

Oil represents around half of our commodities' exposure. 98 per cent of our oil-producer exposure is either to SOEs or to low cost of extraction companies which have a breakeven price below the current market price. When reviewing these we have conservatively allowed no slowdown in these companies' capital expenditure, no refinancing and no depletion of cash balances for a period of one year. We do not have exposures to higher cost of extraction parts of the industry.

The final point of context for our portfolio is that many of our markets benefit from lower commodity prices. Even oil-producing markets like Ghana are net importers of oil,

and markets such as India are receiving a real boost from lower prices. In conclusion, we have conducted a thorough review of our commodities' exposure and the main areas of potential vulnerability lie in a very small proportion of our portfolio, which we have been actively managing.

Portfolio credit quality

A number of observations about the credit quality of the portfolio overall are set out below:

- The book is becoming increasingly diverse: no industry accounts for more than 16 per cent of Corporate loans and advances to customers and our top 20 exposures have reduced as a percentage of CET1
- The book remains predominantly short-dated, with nearly two-thirds of Corporate & Institutional Clients and Commercial Clients exposure less than one year
- We are holding increased levels of collateral, up 4 per cent with high levels of collateralisation for longer-term and non-investment grade loans
- Over 40 per cent of the corporate portfolio is investment grade and this mix is improving

- While early alerts are not always the most accurate predictor of subsequent impairment, it is nonetheless encouraging that recent early alerts trends have been stable
- Delinquency rates in our retail book have started to improve following continued de-risking of the unsecured book and an improving PDRS trend in Korea
- Credit grade (CG) 12 accounts are stable compared to the half year
- While NPLs are up 4 per cent since the first half of 2014, the increase is related to accounts we have been actively managing for some time
- And finally, market risk is predominantly client-driven and remains low in absolute terms

In summary, the current elevated level of loan impairment reflects increases arising from India and China as well as our Commodity exposures in these and some other markets including Indonesia and Africa. We flagged these areas of risk early and have been proactively managing them for some time.

Summary Group Balance Sheet

	2014 \$million	2013 \$million	Increase/ (decrease) \$million	Increase/ (decrease) %
Total assets	725,914	674,380	51,534	8
Total equity	46,738	46,841	(103)	-
Loans and advances to customers	288,599	296,015	(7,416)	(3)
Deposits by banks	55,323	44,526	10,797	24
Customer deposits	414,189	390,971	23,218	6
Advances-to-deposits ratio	69.7%	75.7%		
Liquid asset ratio	32.2%	29.8%		

The balance sheet is in good shape, diversified, well structured, and highly liquid with total deposits up 8 per cent year-on-year, rising \$29 billion, or 6 per cent, in the second half of 2014. We already more than meet the minimum Basel III requirements for both the net stable funding ratio and the liquidity coverage ratio.

Loans and advances to customers are down \$16 billion, or 5 per cent, in the second half, driven by continued de-risking of the Retail unsecured portfolio, reducing exposure to the energy, mining and quarrying sectors, more assertive management of low-returning relationships, high levels of liquidity resulting in early repayments, and currency translation. On a constant

currency basis, loans and advances to customers are flat compared to 2013.

Our advances-to-deposits ratio is now below 70 per cent and our liquid asset ratio is 32.2 per cent.

Total assets rose 8 per cent compared to 2013, mainly from increased cash and balances with central banks, reflecting higher surplus liquidity.

In summary, we finished the year with our balance sheet in good shape.

Capital

Capital ratios and risk-weighted assets	2014	2013
Common Equity Tier 1 (CET1) transitional	10.5%	10.9%
Common Equity Tier 1 (CET1) full end point	10.7%	11.2%
Total capital transitional	16.7%	17.0%
Leverage ratio end point	4.5%	4.7%
Total risk-weighted assets transitional (\$million)	341,648	331,296

The Group's transitional CET1 ratio of 10.5 per cent is flat at the end of the second half of 2014 compared to the end of the first half of the year. This is after absorbing a combined 30 bps deduction for model, methodology and policy changes, and the foreseeable dividend, as well as other one-off items such as the settlement with NYDFS and the impact of the increased UK bank levy. This is a clear demonstration of the Group's strong

underlying organic equity generation of some 50 bps in the year, above our historical trend of 30 bps. Our end-point CET1 ratio of 10.7 per cent is 200 bps above our known minimum requirements, with capacity to absorb future add-ons such as the countercyclical capital buffer as it is phased in.

We have maintained a strong level of Total Loss Absorbing Capacity (TLAC), above 20 per cent, and our leverage ratio at 4.5 per cent, is significantly ahead of our 2019 requirement. We currently plan to issue Additional Tier 1 (AT1) capital in 2015 as we look to manage total capital efficiency and build our AT1 levels over time to amounts permitted by applicable regulations.

We are in an environment where we need to manage capital requirements dynamically over time, balancing them with growth, while delivering returns to shareholders.

Financial priorities

Our financial priorities are to accrete capital to a CET1 ratio of between 11 and 12 per cent in 2015 and thereafter, and to deliver RoE of over 10 per cent in the medium term.

These priorities replace the flexed financial framework set out in November 2013. They set out our objectives to organically strengthen the capital ratio in the short term and drive profitable growth that will build sustainable returns over the medium term.

The regulatory environment continues to evolve, typically requiring the industry to hold increasing levels of capital. Against this backdrop, the Group will prioritise actions that organically enhance the CET1 ratio while acknowledging there will be an impact on RoE. Based on our current best view of the regulatory outlook, we are very confident in our ability to reach a CET1 ratio of between 11 and 12 per cent in 2015 and thereafter.

Building the Group's RoE to an attractive level, sustainably over the cost of equity, is key to delivering long-term value to our shareholders, and remains our focus.

Summary

2015 will be about accelerating management action and executing the plans we set out in November 2014 for the four client segments.

- We are prioritising organic capital accretion through a series of planned asset disposals and business exits as well as continued management of low-returning relationships. We expect to release \$25 to 30 billion in RWA over the next two years
- To protect returns, we are targeting \$1.8 billion of sustainable cost savings over the next three years

Combined, these represent a significant programme of initiatives that will create a platform from which we can build returns to an attractive level.

While 2014 was a difficult year, we are determined to restore the Group's performance levels.



A Halford
Group Finance Director
4 March 2015

Financial review

Corporate & Institutional Clients

Corporate & Institutional Clients comprises Global Corporates, Local Corporates and Financial Institutions.

Operating profit was down 21 per cent, impacted by de-risking activities, challenging market conditions and increased impairments:

- Financial Markets income was down 11 per cent, impacted by challenging industry-wide conditions, RMB band widening and lower rates income in North East Asia
- Higher loan impairments and other impairments were due to commodity financing exposures in Greater China. Other impairment was also driven by write-downs on strategic investments in Europe
- De-risking of certain Local Corporate and correspondent banking clients resulted in a material drag to income but an improved risk profile for the business

Progress against strategic objectives

- Good progress on reshaping our business to address the challenges we face, in particular the de-risking of certain client portfolios which resulted in an improved risk profile
- Successful reallocation of resources to higher-returning businesses, including an \$8.5 billion risk-weighted assets (RWA) reduction on the target group of clients, delivering revenue and income return on risk-weighted assets (RoRWA)
- Continued strong cost management despite the impact of restructuring charges in the fourth quarter. Corporate & Institutional Clients is on track to deliver its target cost efficiencies in 2015
- The Investors segment achieved record performance, with income up 18 per cent from growth in Europe and Greater China
- Deeper and broader client penetration, with the average number of products per client up 6 per cent to 6.3 and average number of markets per client up 7 per cent to 2.8. The percentage of clients generating 80 per cent of our income increased to 19.7 per cent, up from 17.7 per cent in 2013

Financial performance

The following table provides an analysis of financial performance for Corporate & Institutional Clients:

	2014 \$million	2013 \$million	Better/ (worse) %
Transaction Banking	3,223	3,253	(1)
Financial Markets ¹	3,192	3,594	(11)
Corporate Finance	2,462	2,486	(1)
Lending and Portfolio Management	767	767	–
Asset and Liability Management	429	375	14
Principal Finance	358	181	98
Operating income¹	10,431	10,656	(2)
Operating expenses	(5,191)	(4,954)	(5)
Loan impairment	(991)	(488)	(103)
Other impairment	(307)	(113)	(172)
Profit from associates and joint ventures	198	156	27
Operating profit¹	4,140	5,257	(21)
Client income ¹	9,174	9,312	(1)
Customer loans and advances	157,970	160,906	(2)
Customer deposits	244,731	211,051	16
Risk-weighted assets	244,595	221,660	10
Return on risk-weighted assets	1.7%	2.4%	

1. Excludes \$100 million (2013: \$106 million) in respect of own credit adjustment

Corporate & Institutional Clients delivered a resilient income performance in 2014 despite the challenging market conditions and the impact of management actions to reshape the business, in particular the de-risking of certain client portfolios.

Operating income fell 2 per cent compared with 2013. Client income, constituting over 85 per cent of operating income, declined 1 per cent, or \$138 million, to \$9,174 million. Excluding the impact of de-risking, client income rose 1 per cent and operating income was flat.

Income from Financial Institution clients rose 9 per cent, driven by a record performance from our Investors segment. Local Corporates' income fell 3 per cent compared to 2013, impacted by de-risking actions. Excluding the impact of de-risking, income was resilient, up 2 per cent, led by growth in our aircraft leasing

business. Global Corporates' income fell 4 per cent, reflecting lower syndicated loan volumes and a reduced contribution from leveraged finance.

Own account income fell 6 per cent as higher Asset and Liability Management (ALM) and Principal Finance income was more than offset by lower Financial Markets' income.

Income from Transaction Banking was down by 1 per cent, reflecting lower global volumes in trade finance. Despite intense competition, we maintained Trade margins, while market share rose slightly. Income from Cash Management and Custody rose 3 per cent, with increased fee income reflecting record US dollar clearing volumes and strong growth in our Securities Services business.

Financial Markets' income fell 11 per cent compared to 2013, driven by low market volatility, leading clients to reduce hedging activity, and by a decline in capital market income. 2014 performance was also impacted by factors specific to our footprint, including RMB band widening and lower structured notes income in North East Asia. These factors were partially offset by strong growth in Cash FX volumes.

Corporate Finance income fell 1 per cent, with strong growth in Mergers and Acquisitions (M&A) advisory fees offset by increased levels of repayments.

Principal Finance income almost doubled compared to 2013, primarily as a result of increased levels of realised gains on investment exits. ALM income rose 14 per cent, driven by robust accrual income.

Operating expenses were up \$237 million, or 5 per cent, to \$5,191 million, driven by increased regulatory and compliance costs and restructuring charges in the fourth quarter of 2014. This was partially offset by a reduction in variable compensation costs.

Loan impairment increased by \$503 million, or 103 per cent, to \$991 million, driven by specific impairments in Greater China and ASEAN, largely in respect of lending secured by commodities. We are actively managing our commodity credit exposure and a detailed breakdown of our portfolio is presented on pages 61 to 63.

Other impairment was higher by \$194 million at \$307 million, largely due to commodity financing positions in Greater China and impairments against certain strategic investments within Europe.

Operating profit fell by \$1,117 million, or 21 per cent, to \$4,140 million.

Balance sheet

Customer loans and advances fell 2 per cent, impacted by declining commodity prices, lower market-wide trade levels and de-risking activities.

RWA increased by 10 per cent, primarily due to the impact of Basel III and policy, methodology and model changes. Excluding this impact, RWA were flat, with actions to manage RWA offsetting asset growth and the impact of credit migration. Operating profit return on RWA declined from 2.4 per cent to 1.7 per cent.

Customer deposits increased 16 per cent compared to 2013, largely reflecting increased term deposits and higher Cash Management balances, with an improved current and savings accounts (CASA) ratio.

Commercial Clients

The Commercial Clients' segment was established in 2014 and serves medium-sized businesses which are managed by dedicated relationship managers.

2014 was a year of transition with, significant management action taken to reposition the business, including an extensive client due diligence (CDD) remediation programme. Operating profit fell 66 per cent due to weaker income from Principal Finance and Financial Markets, the impact of client exits and from increased impairment:

- Principal Finance income fell due to lower mark-to-market valuations, while the decline in Financial Markets' income was driven by RMB band widening
- As we worked through our CDD remediation programme, we exited or moved clients to other client segments if their risk profile did not fit into the Commercial Clients model. We also exited our small and medium-sized enterprise (SME) business in the UAE in line with the New York Department of Financial Services order
- Total impairment rose 45 per cent, driven by a small number of specific loan impairments and a write-down on a strategic investment

Progress against strategic objectives

- We addressed potential operational and credit risk by de-risking the client base and upgrading our level of CDD. These de-risking actions included an extensive CDD remediation programme and a significant number of client exits
- As part of our ongoing commitment to raising the bar on CDD quality, we successfully migrated 74 per cent of our client base onto an electronic platform
- We began to build a globally consistent and enhanced operating platform, which included moving towards a globally consistent organisational model and appointing new Commercial Clients heads in all of our 20 countries
- These actions have impacted 2014 performance, but have created a more robust and competitively differentiated platform from which to grow the business going forward

Financial performance

The following table provides an analysis of financial performance for Commercial Clients:

	2014 \$million	2013 \$million	Better/ (worse) %
Transaction Banking	560	640	(13)
Financial Markets	208	262	(21)
Corporate Finance	25	33	(24)
Lending and Portfolio Management	259	298	(13)
Wealth Management	121	140	(14)
Retail Products	10	5	100
Asset and Liability Management	32	37	(14)
Principal Finance	(33)	96	(134)
Operating income	1,182	1,511	(22)
Operating expenses	(739)	(731)	(1)
Loan impairment	(212)	(157)	(35)
Other impairment	(35)	(13)	(169)
Profit from associates and joint ventures	22	37	(41)
Operating profit	218	647	(66)
Client income	1,128	1,321	(15)
Customer loans and advances	14,651	17,802	(18)
Customer deposits	22,787	33,705	(32)
Risk-weighted assets	24,652	25,696	(4)
Return on risk-weighted assets	0.9%	2.5%	

Operating income fell 22 per cent compared to 2013 and client income fell 15 per cent. Financial Markets' income fell 21 per cent as the RMB band-widening actions in the first half of 2014 reduced client demand for hedging, disrupting the flow of Foreign Exchange revenues in the Greater China region.

Income from both Transaction Banking and Lending declined 13 per cent, impacted by CDD remediation, de-risking and client exits as well by the weaker market-wide trade volumes.

Other income was down due to lower income from Principal Finance as a result of lower mark-to-market valuations and reduced levels of realisations compared to 2013.

Expenses rose 1 per cent, with increased costs from CDD remediation offset by a reduction in business volume-related costs.

Loan impairment increased by \$55 million to \$212 million, driven by a small number of exposures in Hong Kong and China. Other impairment rose \$22 million due to the impairment of an associate investment.

Operating profit fell by \$429 million, or 66 per cent, to \$218 million.

Balance sheet

Customer loans and advances decreased by 18 per cent as a result of client exits as a part of CDD remediation and lower Trade balances.

RWA fell 4 per cent as the impact of client exits during the year more than offset policy, methodology and model changes. Despite this fall, the RoRWA declined from 2.5 per cent to 0.9 per cent, primarily due to lower income performance.

Customer deposits fell 32 per cent, reflecting client exits, increased levels of competition in Hong Kong and Singapore and optimisation of our funding mix. Commercial Clients, however, remain a net liquidity generator for the Group.

Private Banking Clients

The Private Banking Clients segment is dedicated to providing high net worth clients with a highly personalised service and a comprehensive suite of products and services tailored to meet their financial needs.

Operating profit fell 14 per cent due to the exit of our Geneva and Korean businesses and an impairment of a strategic investment. Operating profit rose 11 per cent excluding these items, reflecting a strong underlying income performance in the Greater China and ASEAN regions, coupled with disciplined cost control.

Progress against strategic objectives

- In 2014, we set a new strategy for Private Banking, taking a number of actions to align the business to Standard Chartered's corporate client base and markets
- We exited peripheral Private Banking businesses, focusing the business on the international wealth centres of Hong Kong, Singapore and London. We increased the number of relationship managers, despite exiting our Geneva business

- We added 1,300 clients in 2014. We now have an internal referral pilot scheme in place, aimed at capturing client opportunities across the Private Banking, Commercial Clients and Corporate & Institutional Clients segments
- We deepened client relationships and saw improved investment product penetration up from 46 per cent to 51 per cent of assets under management (AUM). This will continue to be a focus in 2015
- In 2014, we defined and started to execute a three-year technology and operations programme to upgrade client experience and improve front-office productivity

Financial performance

The following table provides an analysis of financial performance for Private Banking Clients:

	2014 \$million	2013 \$million	Better/ (worse) %
Transaction Banking	1	3	(67)
Wealth Management	406	378	7
Retail Product	189	196	(4)
Asset and Liability Management	16	9	78
Operating income	612	586	4
Operating expenses	(447)	(407)	(10)
Loan impairment	–	(8)	100
Other impairment	(16)	–	nm ¹
Profit from associates and joint ventures	–	2	(100)
Operating profit	149	173	(14)
Client income	586	566	4
Customer loans and advances	18,056	17,159	5
Customer deposits	29,621	32,212	(8)
Risk-weighted assets	7,409	5,634	32
Return on risk-weighted assets	2.3%	3.0%	

1. Not meaningful

Operating income and client income rose 4 per cent compared to 2013 or 6 per cent excluding the impact of business exits in Korea (2013) and Geneva (2014).

The growth in income was driven by strong performances by the Greater China and ASEAN regions, with good growth in both AUM and lending. This was partly offset by client deleveraging in Europe and margin compression in deposits. 2014 saw good momentum in net new money, with AUM increasing 3 per cent to \$60 billion. Excluding the impact of business exits, AUM increased 8 per cent as a result of a refocused approach to client asset acquisition.

Expenses were up \$40 million, or 10 per cent, compared to 2013, primarily due to costs related to the exit of the Geneva business. Excluding these costs, expenses rose 3 per cent.

Other impairment increased to \$16 million following a write-down of an associate investment.

Operating profit fell by \$24 million, or 14 per cent, impacted by business exits and the other impairment charge.

Balance sheet

Customer loans and advances increased by 5 per cent, reflecting good growth in Wealth Management lending. Mortgages were broadly flat compared to 2013 due to client deleveraging.

RWA have increased by 32 per cent compared to 2013, primarily due to policy, methodology and model changes and growth in Wealth Management lending. Operating profit RoRWA fell to 2.3 per cent from 3.0 per cent.

Customer deposits fell 8 per cent as we exited higher-cost Time Deposit products, coupled with the impact of closing our Geneva business.

Retail Clients

Retail Clients serves Priority, Personal and Business Clients.

Operating profit fell by 6 per cent, with a 2 per cent growth in income offset by higher expenses:

- Retail Products' income fell 4 per cent as a result of continued de-risking of the unsecured lending portfolio
- Income from Wealth Management rose 26 per cent, benefiting from the renewal of a multi-country distribution agreement with Prudential
- Expenses were up 4 per cent, driven by restructuring charges

Progress against strategic objectives

- In 2014, Retail Clients reconfirmed its strategy of focusing on affluent clients
- The shift to the affluent segment accelerated, with the share of revenue from Priority and Business Clients increasing to 40 per cent in 2014 from 37 per cent in 2013
- A significant repositioning and restructuring programme was initiated to improve expense efficiency, and the business is on track to deliver its target efficiency savings in 2015
- Continued progress on de-risking the unsecured lending portfolio
- Strengthening of conduct continued to be a key focus. During 2014, Retail Clients exited its third-party sales force to improve controls

Financial performance

The following table provides an analysis of financial performance for Retail Clients:

	2014 \$million	2013 \$million	Better/ (worse) %
Transaction Banking	18	15	20
Wealth Management	1,174	931	26
Retail Products	4,641	4,845	(4)
Assets and Liability Management	176	127	39
Operating income	6,009	5,918	2
Operating expenses	(4,002)	(3,866)	(4)
Loan impairment	(938)	(964)	3
Other impairment	(45)	(3)	nm ¹
Profit from associates and joint ventures	28	31	(10)
Operating profit	1,052	1,116	(6)
Client income	5,735	5,673	1
Customer loans and advances	97,922	100,148	(2)
Customer deposits	117,050	114,003	3
Risk-weighted assets	64,992	69,261	(6)
Return on risk-weighted assets	1.6%	1.6%	

1. Not meaningful

Operating income rose 2 per cent to \$6,009 million, with client income up 1 per cent compared to 2013. Income growth during the year was impacted by continued de-risking of the unsecured lending portfolio in select markets. This was more than offset by strong growth in Wealth Management income.

Wealth Management income grew 26 per cent, with strong growth from bancassurance products, benefiting from the renewal of a multi-country distribution agreement with Prudential in the current year. Non-bancassurance revenue rose 9 per cent, with AUM up 11 per cent. Credit cards and personal loans (CCPL) income declined 8 per cent, or \$212 million, driven by regulatory changes, rate caps and continued de-risking of the personal lending portfolio, which impacted Korea and Thailand in particular. Income from Mortgages and Auto also declined, mainly due to property cooling measures in Hong Kong and Singapore and the continued run off of the auto financing book. Income from deposits increased with strong growth in CASA volumes and the exit of higher-cost Time Deposits.

Expenses were up 4 per cent at \$4,002 million, driven by restructuring costs.

Loan impairment was down 3 per cent at \$938 million due to lower levels of unsecured lending impairments in Korea as the level of Personal Debt Rehabilitation Scheme (PDRS) filings declined. This was partly offset by higher impairment charges in Thailand.

Other impairment rose \$42 million, primarily due to an impairment of an associate investment.

Operating profit fell by \$64 million, or 6 per cent, to \$1,052 million.

Balance sheet

Loans and advances to customers fell by 2 per cent, with the unsecured lending portfolio down \$2.2 billion compared to 2013, from continued de-risking of the personal lending portfolio, regulatory changes and currency translation impact. This decline was partly offset by the growth of mortgages in Korea and Hong Kong.

RWA fell by 6 per cent, reflecting the de-risking actions. Operating profit return on RWA was flat at 1.6 per cent.

Customer deposits rose 3 per cent, driven by growth in CASA funding, which was partly offset by a reduction in higher-cost Time Deposits.

Operating income by product and segment

Income by product and client segment is set out below:

	2014				
	Total \$million	Corporate & Institutional \$million	Commercial \$million	Private Banking \$million	Retail \$million
Transaction Banking					
Trade	3,802	3,223	560	1	18
Cash Management and Custody	1,956	1,635	302	1	18
Financial Markets	1,846	1,588	258	–	–
Foreign Exchange	3,400	3,192	208	–	–
Rates	1,321	1,166	155	–	–
Commodities and Equities	749	721	28	–	–
Capital Markets	495	482	13	–	–
Credit and Other ¹	437	434	3	–	–
398	389	9	–	–	–
Corporate Finance	2,487	2,462	25	–	–
Lending and Portfolio Management	1,026	767	259	–	–
Wealth Management	1,701	–	121	406	1,174
Retail Products	4,840	–	10	189	4,641
Cards, Personal Loans and Unsecured Lending	2,576	–	–	–	2,576
Deposits	1,222	–	10	132	1,080
Mortgage and Auto	938	–	–	56	882
Other Retail Products	104	–	–	1	103
Asset and Liability Management	653	429	32	16	176
Principal Finance	325	358	(33)	–	–
Total Operating income ¹	18,234	10,431	1,182	612	6,009
	2013				
	Total \$million	Corporate & Institutional \$million	Commercial \$million	Private Banking \$million	Retail \$million
Transaction Banking					
Trade	3,911	3,253	640	3	15
Cash Management and Custody	2,069	1,715	336	3	15
Financial Markets	1,842	1,538	304	–	–
Foreign Exchange	3,856	3,594	262	–	–
Rates	1,413	1,195	218	–	–
Commodities and Equities	917	900	17	–	–
Capital Markets	507	492	15	–	–
Credit and Other ¹	558	553	5	–	–
461	454	7	–	–	–
Corporate Finance	2,519	2,486	33	–	–
Lending and Portfolio Management	1,065	767	298	–	–
Wealth Management	1,449	–	140	378	931
Retail Products	5,046	–	5	196	4,845
Cards, Personal Loans and Unsecured Lending	2,788	–	–	–	2,788
Deposits	1,193	–	5	140	1,048
Mortgage and Auto	997	–	–	54	943
Other Retail Products	68	–	–	2	66
Asset and Liability Management	548	375	37	9	127
Principal Finance	277	181	96	–	–
Total Operating income ¹	18,671	10,656	1,511	586	5,918

1. Excludes \$100 million (2013: \$106 million) relating to own credit adjustment

Transaction Banking: income fell 3 per cent, with Trade income down 5 per cent and Cash Management and Custody income flat compared to 2013. Trade balance sheet volumes were lower as a result of management actions and the continuing slow trade environment, which saw overall market volumes decline. This was in part offset by a marginal increase in Trade net interest margin. Cash volumes were up year-on-year, driven by record clearing levels, supporting fee growth. Custody income benefited from the continued roll out of our global platform and, to a lesser extent, the acquisition of a custodial business in South Africa in the second half of 2013.

Financial Markets: income decreased 12 per cent compared to 2013, driven by low market volatility, leading clients to reduce hedging activity, and by the impact of RMB band widening in the first quarter of the year.

Rates income fell 18 per cent, reflecting lower levels of client hedging due to the continuing low interest rate environment which impacted structured products in particular.

Foreign Exchange income fell 7 per cent year-on-year due to lower spreads, reflecting low levels of volatility across our markets, although pockets of volatility returned in the second half of the year. Volumes remained strong, however, and Cash FX notional increased by 47 per cent compared to 2013. Income from FX Options was adversely impacted by the RMB band widening, which reduced client demand for hedging.

Capital Markets' income fell 22 per cent, impacted by margin compression, lower fees and negative mark-to-market movements on syndicated loans.

Corporate Finance: income fell 1 per cent, with significant market challenges and high liquidity resulting in increased repayment levels. This was partially offset by a significant rise in M&A advisory fees and increased origination activity in our financing businesses.

Performance by geography

The following tables provide an analysis of operating profit by geographic regions:

	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Operating income ¹	5,446	1,459	1,855	3,716	1,843	1,829	861	1,225	18,234
Operating profit/(loss) ^{1, 2}	2,101	(125)	806	916	769	673	171	(118)	5,193
2013									
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Operating income ³	5,198	1,639	2,040	4,011	1,865	1,751	858	1,309	18,671
Operating profit/(loss) ^{3, 4}	2,331	(3)	897	1,620	858	619	311	325	6,958

1. Excludes \$100 million in respect of own credit adjustment (Greater China \$94 million, ASEAN \$(3) million and Europe \$9 million)

2. Excludes \$300 million civil monetary penalty in Americas, \$32 million for goodwill impairment charge in Greater China and \$726 million goodwill impairment charge in North East Asia

3. Excludes \$106 million in respect of own credit adjustment (Greater China \$(1) million, North East Asia \$2 million, ASEAN \$45 million and Europe \$60 million)

4. Excludes \$1 billion relating to goodwill impairment charge on Korea business in North East Asia

Lending and Portfolio Management: income fell 4 per cent, reflecting lower average balances as we exited lower-returning relationships.

Wealth Management: income growth of 17 per cent, driven by strong growth in bancassurance income, which benefited from the renewal of a strategic multi-year bancassurance partnership in the second half of the year. AUM also grew strongly, primarily in Hong Kong and Singapore, due to a stronger value proposition and favourable market conditions in the first half of the year. This was partly offset by lower income from structured products, which were impacted by low levels of volatility.

Retail Products: income fell 4 per cent compared to 2013 due to de-risking actions, regulatory changes and adverse mortgage market conditions in certain markets. De-risking actions included the exit of personal loans originations in riskier segments in Korea and Thailand and the replacement of third-party sales channels with internal staff. Mortgage transactions were lower due to property cooling measures by the government in Hong Kong and Singapore. Deposits income increased 2 per cent as we replaced higher-cost Time Deposits with higher-margin CASA products.

Asset and Liability Management: income rose 19 per cent reflecting improved accrual income, which more than offset lower income from securities sales.

Principal Finance: income was up 17 per cent benefiting from increased levels of realised gains from investment exits, partially offset by lower mark-to-market valuations. The majority of the realisations in 2014 benefited the Corporate & Institutional Clients segment compared to the Commercial Clients segment in 2013.

Greater China

The following table provides an analysis of performance in the Greater China region:

	2014 \$million	2013 \$million	Better/ (worse) %
Client income ¹	5,029	4,846	4
Other income	417	352	18
Operating income¹	5,446	5,198	5
Operating expenses	(2,911)	(2,772)	(5)
Loan impairment	(469)	(242)	(94)
Other impairment ²	(142)	1	nm ³
Profit from associates and joint ventures	177	146	21
Operating profit	2,101	2,331	(10)
Net interest margin (%)	1.7	1.8	–
Customer loans and advances ⁴	89,646	89,846	–
Customer deposits ⁴	151,644	145,282	4
Risk-weighted assets	66,585	63,284	5

1. Excludes \$94 million (2013: \$(1) million) in respect of own credit adjustment

2. Excludes \$32 million goodwill impairment in 2014

3. Not meaningful

4. Based on the location of the customers rather than booking location

Income in Greater China was up \$248 million, or 5 per cent, to \$5,446 million.

Income growth remains broad-based and resilient across most client segments as well as across major product categories. In Retail Clients, income grew 10 per cent; in Private Banking Clients, income was up 18 per cent; in Corporate & Institutional Clients, income grew 7 per cent; while in Commercial Clients, income was lower by 26 per cent year-on-year.

There was strong growth in AUM, driving Wealth Management income up compared to 2013. Income from Retail deposits also grew strongly, benefiting from improved spreads as well as good growth in balances. This was partly offset by a decline in CCPL income as we de-risked the portfolio.

Income from Corporate Finance increased, driven by the continued expansion of the leasing portfolios. Good growth was also achieved in Capital Markets from higher deal flows.

Financial Markets' income rose marginally, with good growth achieved in own account, particularly ALM, offsetting lower derivatives sales' income. Derivatives sales' income had been affected by low market volatilities, resulting in spread compression affecting Rates and Foreign Exchange, while volumes remained good. The RMB band widening in the first quarter of 2014 also resulted in lower income from FX Options compared to 2013 as client hedging reduced.

Corporate lending income rose as volumes increased.

Cash Management income increased, with slight improvements in margins. In Trade, however, income declined due to lower volumes as trade flows slowed although margins improved.

Costs remain well managed and operating expenses grew 5 per cent. Excluding the impact of higher depreciation from our leasing business, expenses rose 4 per cent. We continued to invest to improve our infrastructure and opened a flagship wealth management centre in Hong Kong. We expanded our workforce, increasing the number of staff on the front line as well as in compliance areas.

Loan impairment was \$227 million higher at \$469 million, and other impairment rose \$143 million to \$142 million. Loan impairment rose primarily due to higher provisions taken on the corporate exposures in China, and also included provisions on commodities financing transactions. Other impairment primarily relates to charges against commodities transactions.

As a result of higher impairment charges, operating profit fell \$230 million, or 10 per cent, to \$2,101 million.

Balance sheet

Customer loans and advances were flat compared to 2013. Growth in Retail Clients' balances was offset by lower lending to Commercial Clients as we de-risked the portfolio.

RWA rose 5 per cent.

Customer deposits rose 4 per cent as we grew CASA balances across the region, with reduced reliance on higher-cost structured deposits.

North East Asia

The following table provides an analysis of performance in the North East Asia region:

	2014 \$million	2013 \$million	Better/ (worse) %
Client income ¹	1,323	1,462	(10)
Other income	136	177	(23)
Operating income¹	1,459	1,639	(11)
Operating expenses	(1,179)	(1,186)	1
Loan impairment	(394)	(427)	8
Other impairment ²	(11)	(29)	62
Operating loss	(125)	(3)	nm
Net interest margin (%)	2.0	2.1	
Customer loans and advances ³	29,582	30,618	(3)
Customer deposits ³	32,616	34,059	(4)
Risk-weighted assets	23,990	26,701	(10)

1. Excludes \$2 million benefit in respect of own credit adjustment in 2013

2. Excludes \$726 million (2013: \$1 billion) relating to goodwill impairment charge on Korea business

3. Based on the location of the customers rather than booking location

Income was down \$180 million, or 11 per cent, to \$1,459 million. Korea represents over 94 per cent of income within this region.

Client income fell 10 per cent, reflecting both difficult market conditions and the impact of management action to return the franchise to profitability. Retail Clients' income fell 10 per cent. The majority of this reduction was due to a loss of unsecured income as we continued to de-risk the personal lending portfolio in light of high credit losses. Corporate & Institutional Clients' income fell 14 per cent. The majority of the decrease came from reduced Financial Markets' income, driven by lower sales of structured products. Reduced client activity also impacted Transaction Banking, where Trade income fell due to lower volumes and Cash Management income was impacted by a reduction in the size and tenor of balances.

Income earned from Korean businesses elsewhere in the Group's network grew 3 per cent.

Expenses were marginally lower by 1 per cent at \$1,179 million. We have continued to progress an aggressive campaign of cost reduction, with two Special Retirement Plan exercises in Korea helping to drive headcount down to its lowest level since 2010 for a cost of \$52 million. In addition, a further 60 retail branches were closed in Korea during the year, reducing the network footprint from 343 to 293.

Loan impairment fell by \$33 million, or 8 per cent. In Retail Clients, loan impairment related to the PDRS filings fell, reflecting the impact of the maintenance of tightened credit underwriting criteria. In December 2014, the adverse impact of PDRS filings on the franchise as at its lowest level since December 2012 and reflects a sustained improvement.

The operating loss in the region increased by \$122 million compared to 2013, to a loss of \$125 million. However, there was a marked improvement in the second half of the year as the operating loss improved by \$107 million to a loss of \$9 million, compared to the first half. This reflects stronger second-half income, driven by increased Private Equity realisations and the fact that restructuring charges were predominantly phased into the first half of the year.

Balance sheet

Customer loans and advances reduced by 3 per cent, the continued decline in unsecured lending balances more than offsetting the growth in mortgage assets. These grew as we took advantage of a relaxation in regulatory restrictions on mortgage lending.

RWA fell 10 per cent, primarily due to the continuing de-risking actions on the unsecured portfolio.

Customer deposits fell 4 per cent, with increased CASA balances offset by reducing Time Deposits.

South Asia

The following table provides an analysis of performance in the South Asia region:

	2014 \$million	2013 \$million	Better/ (worse) %
Client income	1,725	1,770	(3)
Other income	130	270	(52)
Operating income	1,855	2,040	(9)
Operating expenses	(793)	(823)	4
Loan impairment	(183)	(215)	15
Other impairment	(73)	(105)	30
Operating profit	806	897	(10)
Net interest margin (%)	3.8	3.9	
Customer loans and advances ¹	22,859	25,608	(11)
Customer deposits ¹	15,533	16,128	(4)
Risk-weighted assets	26,522	26,721	(1)

1. Based on the location of the customers rather than booking location

Income fell \$185 million, or 9 per cent, to \$1,855 million. On a constant-currency basis, income fell 6 per cent. Around 78 per cent of the income in this region is from India, which continues to focus on partnering with global corporates to leverage the Group's network.

Client income was 3 per cent lower compared to 2013, primarily due to reduced income from Transaction Banking and Financial Markets' products. Transaction Banking income fell due to lower average balances across Trade and Cash Management, as we consciously reduced low-returning exposures. The fall in Financial Markets' income reflected lower spreads and reduced fee income due to a smaller number of deals in Capital Markets in the current year. This was partly offset by higher lending income as margins improved. Income from CCPL fell as margins and balances declined as we de-risked the unsecured portfolio. Own account income also fell due to lower de-risking activity in the current year and lower Principal Finance realisations.

Operating expenses across the region fell \$30 million, or 4 per cent, to \$793 million, as we continued to manage costs tightly.

Loan impairment fell \$32 million, or 15 per cent, to \$183 million and, though lower than last year, remains at elevated levels, reflective of the stress in the banking sector.

Other impairment fell 30 per cent to \$73 million due to reduced Private Equity impairments in the current year.

Operating profit fell \$91 million to \$806 million.

Balance sheet

Customer lending (which includes lending to India clients who are booked in other regions) fell 11 per cent compared to 2013. Onshore lending rose 3 per cent, with portfolio growth impacted by the current economic environment. Lending booked offshore fell 22 per cent due to maturities and lower deal origination.

Onshore RWA were flat compared to 2013 as de-risking actions offset portfolio growth.

Onshore customer deposits fell 4 per cent as there was a continued focus on generating low-cost CASA with higher-cost deposits being run off.

ASEAN

The following table provides an analysis of performance in the ASEAN region:

	2014 \$million	2013 \$million	Better/ (worse) %
Client income ¹	3,482	3,646	(4)
Other income	234	365	(36)
Operating income¹	3,716	4,011	(7)
Operating expenses	(2,078)	(2,075)	–
Loan impairment	(698)	(396)	(76)
Other impairment	(86)	2	nm
Profit from associates and joint ventures	62	78	(21)
Operating profit	916	1,620	(43)
Net interest margin (%)	1.8	1.8	
Customer loans and advances ²	78,541	82,852	(5)
Customer deposits ²	94,208	95,908	(2)
Risk-weighted assets	82,603	80,377	3

1. Excludes \$(3) million (2013: \$45 million) in respect of own account credit adjustment

2. Based on the location of the customers rather than booking location

Operating income was down \$295 million, or 7 per cent, to \$3,716 million.

Client income decreased by 4 per cent compared to 2013, due to difficult market conditions and regulatory headwinds, together with margin compression. Wealth Management income increased, benefiting from the renewed multi-year bancassurance partnership with Prudential and growth in secured lending. Transaction Banking income fell due to increased competition amidst market slowdown and soft commodities pricing. Financial Markets' income was also down, due to continued margin compression and a fall in Commodities business as a result of the global decline in oil prices. Corporate Finance income fell as higher income from the M&A advisory business was offset by high liquidity in the market. Income from Retail Products fell as regulatory measures impacted major ASEAN markets such as Singapore, Malaysia and Indonesia, and we took actions to de-risk our sales model in Thailand. Own account income was impacted by challenging market conditions of sustained low volatility and stable interest rate environment.

Operating expenses were flat at \$2,078 million, reflecting enhanced productivity and tight management of discretionary costs.

Middle East, North Africa and Pakistan (MENAP)

The following table provides an analysis of performance in the MENAP region:

	2014 \$million	2013 \$million	Better/ (worse) %
Client income	1,625	1,663	(2)
Other income	218	202	8
Operating income	1,843	1,865	(1)
Operating expenses	(984)	(960)	(3)
Loan impairment	(89)	(47)	(89)
Other impairment	(1)	–	nm
Operating profit	769	858	(10)
Net interest margin (%)	2.8	2.9	
Customer loans and advances ¹	22,775	23,535	(3)
Customer deposits ¹	22,447	22,520	–
Risk-weighted assets	29,775	29,402	1

1. Based on the location of the customers rather than booking location

Operating income fell \$22 million, or 1 per cent, to \$1,843 million. Client income fell 2 per cent across the region, primarily due to high levels of liquidity, the absence of market volatility and the resurgence of competition from regional banks. Strong performances in our markets across the region have largely offset a softer performance in the UAE.

Continued spread compression as a result of the low volatility, low interest rate environment offset good levels of customer activity in Foreign Exchange and Rates. Transaction Banking income rose slightly, as margin compression in Cash Management was offset by higher average balances. Income from Corporate Finance was lower, as deal flow slowed, and lending income was impacted by repayments and continued balance sheet optimisation as we adhered to our criteria for risk and return. Volumes in CCPL and Mortgages increased as market conditions improved, offsetting margin compression from competitive pricing and surplus liquidity.

Own account income rose due to lower income from commodities and emerging markets rates which was more than offset by higher income from de-risking activities in ALM.

Loan impairment was up by \$302 million, or 76 per cent, to \$698 million. Although impairment levels in Singapore fell, this was more than offset by higher provisions on a small number of corporate clients in Indonesia, Thailand and Malaysia, in part due to weaker commodity markets, and personal loan deterioration in Thailand and Indonesia.

Other impairment was up by \$88 million, to \$86 million, which relates primarily to the impairment of an associate investment.

As a result, ASEAN delivered an operating profit of \$916 million, down 43 per cent compared to 2013.

Balance sheet

Customer loans and advances fell 5 per cent, largely because we reduced exposures to low-returning clients and reflecting lower Trade balances.

RWA rose 3 per cent, largely due to policy and model methodology changes.

Customer deposits fell 2 per cent, with the proportion of CASA balances increasing as more expensive term deposits were rolled off.

Operating expenses in the region were \$24 million, or 3 per cent, higher at \$984 million, predominantly driven by incremental costs from our newly launched Iraq operations and restructuring provisions.

Loan impairment increased by \$42 million to \$89 million.

Operating profit was down \$89 million, or 10 per cent, to \$769 million.

Balance sheet

Customer loans and advances fell 3 per cent, primarily as a result of material repayments as origination activities were impacted by excess market liquidity.

RWA increased 1 per cent and customer deposits remained broadly flat as CASA outflows were offset by increased term deposits.

Africa

The following table provides an analysis of performance in the Africa region:

	2014 \$million	2013 \$million	Better/ (worse) %
Client income	1,539	1,560	(1)
Other income	290	191	52
Operating income	1,829	1,751	4
Operating expenses	(990)	(862)	(15)
Loan impairment	(175)	(270)	35
Other impairment	(1)	–	nm
Profit from associates and joint ventures	10	–	nm
Operating profit	673	619	9
Net interest margin (%)	4.7	5.6	–
Customer loans and advances ¹	13,103	13,122	–
Customer deposits ¹	11,224	11,686	(4)
Risk-weighted assets	20,289	19,729	3

1. Based on the location of the customers rather than booking location

Operating income in Africa grew 4 per cent to \$1,829 million, with client income falling 1 per cent. There was significant currency depreciation against the dollar across a number of markets during the year and, on a constant-currency basis, income rose 15 per cent and client income was up 8 per cent.

Transaction Banking income fell due to ongoing margin compression, currency depreciation and the impact of falling commodity prices which reduced overall trade average balances. This was partly offset by an increase in Cash Management volumes. Financial Markets' income rose, with strong volume growth partly offset by margin compression as competition intensified across the region. Corporate Finance income remains well diversified, with an increase in deals closed of 7 per cent year-on-year.

Retail Clients demonstrated good performance as income grew, largely driven by Wealth Management and Mortgages and Auto Loans. Growth in unsecured lending continued to focus on employee banking relationships, with margin compression partly offsetting volume growth.

Operating expenses in Africa were 15 per cent higher than 2013 (or 25 per cent higher on a constant-currency basis). The growth was primarily as a result of restructuring costs, flow through of prior year investments, investments in new markets and inflationary pressures.

Loan impairment fell \$95 million, or 35 per cent, mainly attributable to lower specific provisions in the Corporate & Institutional Clients segment.

Operating profit rose 9 per cent compared to 2013 to \$673 million. On a constant currency basis, operating profit grew 20 per cent.

Balance sheet

The overall shape of the balance sheet remains strong, with customer loans broadly flat compared to 2013.

RWA grew 3 per cent.

Customer deposits fell 4 per cent as we repositioned away from Time Deposits and increased the proportion of funding derived from CASA.

Americas

The following table provides an analysis of performance in the Americas region:

	2014 \$million	2013 \$million	Better/ (worse) %
Client income	802	799	–
Other income	59	59	–
Operating income	861	858	–
Operating expenses¹	(668)	(536)	(25)
Loan impairment	(21)	(11)	(91)
Other impairment	(1)	–	nm
Operating profit	171	311	(45)
Net interest margin (%)	0.6	0.7	–
Customer loans and advances ²	10,952	10,429	5
Customer deposits ²	34,019	15,406	121
Risk-weighted assets	13,692	12,454	10

1. Excludes \$300 million in respect of civil monetary penalty in 2014

2. Based on the location of the customers rather than booking location

Operating income was resilient at \$861 million, flat to 2013, with increased client activity and higher volumes in Trade and Cash Management and across Foreign Exchange products. Transaction Banking revenues were flat year-on-year as a strong increase in client business volumes was more than offset by lower margins due to excess liquidity and decreased spreads on cash liabilities due to low dollar interest rates. Lending income rose as a result of increased volumes and financing fees earned from clients. Corporate Finance income also increased as margins improved and pipeline deals were executed.

Own account income was impacted by low volatility and reduced bid-offer spreads, and lower commodity prices. This was offset by improved Foreign Exchange and Rates income as increased volumes helped offset spread compression and by improved ALM income on higher reinvestment yields.

Europe

The following table provides an analysis of performance in the Europe region:

	2014 \$million	2013 \$million	Better/ (worse) %
Client income ¹	1,098	1,126	(2)
Other income	127	183	(31)
Operating income¹	1,225	1,309	(6)
Operating expenses	(1,142)	(979)	(17)
Loan impairment	(112)	(9)	nm
Other impairment	(88)	2	nm
Profit from associates and joint ventures	(1)	2	nm
Operating (loss)/profit	(118)	325	(136)
Net interest margin (%)	0.8	1.0	
Customer loans and advances ²	21,141	20,005	6
Customer deposits ²	52,498	49,982	5
Risk-weighted assets	89,592	74,389	20

1. Excludes \$9 million (2013: \$60 million) in respect of own credit adjustment

2. Based on the location of the customers rather than booking location

Income was down \$84 million, or 6 per cent, to \$1,225 million. Client income declined \$28 million, or 2 per cent, to \$1,098 million, largely as a result of de-risking actions. Transaction Banking income was up on strong growth from Trade Loans to FI clients. Financial Markets' income increased as Foreign Exchange volumes grew strongly on the roll out of an e-commerce electronic trading platform and debt capital markets income increased on rising bond markets. Income from other Financial Market products declined as low levels of market volatility reduced client hedging requirements and investment opportunities. Corporate Finance income was down, reflecting net repayments, increased competition and margin compression. In the Advisory business, the volume of deals was broadly flat year-on-year, but average fees declined. Income from Wealth Management and Retail Products provided to Private Banking Clients was down due to lower advisory fees and real estate lending in a challenging investment and market trading environment.

Own Account income declined 31 per cent primarily due to low foreign exchange volatility, falling commodity prices and the impact of higher holdings of liquid assets.

Operating expenses were \$132 million, or 25 per cent, higher at \$668 million, primarily driven by increase of regulatory compliance costs. Staff costs also increased due to restructuring initiatives.

Operating profit fell \$140 million, or 45 per cent, to \$171 million.

Balance sheet

Customer loans and advances increased 5 per cent, with almost three-quarters of the portfolio having a tenor of less than one year.

Customer deposits increased strongly, primarily due to efforts to improve liability mix by growing corporate Time Deposits.

Operating expenses rose \$163 million, or 17 per cent, to \$1,142 million, driven by an increase in the UK bank levy of \$131 million to \$366 million and costs incurred in restructuring our presence in Europe through exiting the Private Banking operations in Geneva, selling the Retail business in Germany and closing the offices in Russia and Austria.

Loan impairment was higher by \$103 million to \$112 million, with higher provisions against commodity clients.

Other impairment increased \$90 million to \$88 million following provisions against strategic and associate investments and a share of a commodity fraud loss.

Operating profit fell by \$443 million to a loss of \$118 million.

Balance sheet

Customer loans and advances booked in the region increased 6 per cent as we continued to reduce exposures to low-returning clients and due to the impact of lower Trade volumes and Corporate Finance repayments.

RWA increased 20 per cent, primarily due to policy, methodology, and model changes coupled with credit migration.

Customer deposits rose 5 per cent as we continued to build our liquid assets.

Group summary consolidated balance sheet

	2014 \$million	2013 \$million	Increase/ (decrease) \$million	Increase/ (decrease) %
Assets				
Cash and balances at central banks	97,282	54,534	42,748	78
Loans and advances to banks ¹	87,500	86,169	1,331	2
Loans and advances to customers ¹	288,599	296,015	(7,416)	(3)
Investment securities ¹	129,347	124,277	5,070	4
Derivative financial instruments	65,834	61,802	4,032	7
Other assets	57,352	51,583	5,769	11
Total assets	725,914	674,380	51,534	8
Liabilities				
Deposits by banks ¹	55,323	44,526	10,797	24
Customer accounts ¹	414,189	390,971	23,218	6
Debt securities in issue ¹	80,788	71,412	9,376	13
Derivative financial instruments	63,313	61,236	2,077	3
Subordinated liabilities and other borrowed funds	22,947	20,397	2,550	13
Other liabilities ¹	42,616	38,997	3,619	9
Total liabilities	679,176	627,539	51,637	8
Equity	46,738	46,841	(103)	–
Total liabilities and shareholders' funds	725,914	674,380	51,534	8

1. Includes balances held at fair value through profit or loss

Balance sheet

The Group's balance sheet remains resilient and well diversified. We continue to be highly liquid and primarily deposit funded, with an advances-to-deposits ratio of 69.7 per cent, down from the previous year-end position of 75.7 per cent. We continue to be a net lender into the interbank market, particularly in Hong Kong, Singapore and within the Americas and Europe regions. The Group's funding structure remains conservative, with limited levels of refinancing over the next few years.

The Group remains well capitalised, although our Common Equity Tier 1 ratio (on a transitional basis) fell to 10.5 per cent from 10.9 per cent at the year end, primarily due to the timing of dividend payments and higher RWA.

The profile of our balance sheet remains stable, with over 71 per cent of our financial assets held at amortised cost, and 59 per cent of total assets have a residual maturity of less than one year. The Group continues to have low exposure to problem asset classes.

Cash and balances at central banks

Cash balances rose by \$43 billion reflecting higher surplus liquidity, which was held primarily in Europe and the Americas.

Loans and advances to customers and banks

Loans to customers and banks fell by \$6.1 billion.

Loans to Corporate & Institutional Clients and Commercial Clients remain well diversified by geography and client segment. During 2014, we continued to reshape the portfolio, de-risking and exiting low-returning clients, which contributed to the reduction in loan balances compared to 2014. This was primarily concentrated in the ASEAN region where lending fell \$6.1 billion, and across the energy, mining and quarrying, and transport, telecoms and utilities sectors.

Retail Clients' lending fell 2 per cent, with unsecured lending falling \$2 billion as we de-risked the portfolio, primarily impacting Korea and Thailand. This was partly offset by an increase in secured Wealth Products across the ASEAN region. Mortgages rose 1 per cent, with property cooling measures across a number of markets impacting growth.

Loans to banks increased by 2 per cent, with strong growth in the ASEAN region offset by lower balances in Europe as we repositioned liquidity across our footprint markets.

Investment securities

Investment securities rose by \$5 billion as we re-positioned our liquid assets, reducing holdings of treasury bills and increasing investments in highly rated corporate debt securities in line with the eligibility criteria for liquid asset buffers. The maturity profile of these assets is largely consistent with prior years, with just under 40 per cent of the book having a residual maturity of less than 12 months. Equity investments also reduced as we realised a number of Principal Finance investments.

Derivatives

Customer appetite for derivative transactions has reduced, reflecting low levels of volatility in the market, which has reduced client hedging needs. Notional values increased since the last year end, reflecting a higher volume of short-dated transactions with financial institutions as a result of lower levels of volatility. Unrealised positive mark-to-market positions were \$4 billion higher at \$66 billion. Our risk positions continue to be largely balanced, resulting in a corresponding increase in negative mark-to-market positions. Of the \$63 billion mark-to-market positions, \$44 billion was available for offset due to master netting agreements.

Deposits

Customer accounts rose 6 per cent while deposits by banks rose 24 per cent, largely due to higher clearing balances. During the year, we focused on building up the proportion of CASA customer deposits, and exiting or replacing higher-cost Time Deposits across a number of markets. CASA continues to be core to the customer deposit base, constituting over 50 per cent of customer deposits.

Debt securities in issue, subordinated liabilities and other borrowed funds

We continued to see good demand for our name across debt instruments. Subordinated liabilities rose \$2.6 billion as we replaced maturing debt. Debt securities in issue grew by \$9 billion, primarily in short-dated certificates of deposit.

Equity

Total shareholders' equity was \$0.1 billion lower at \$47 billion, reflecting profit accretion for the year, which was offset by dividend payments (net of scrip) of \$1.5 billion and the negative impact of foreign currency translation of \$1 billion.

Our Strategic report from pages 2 to 55 has been reviewed and approved by the Board.



Peter Sands
Group Chief Executive
4 March 2015

Standard Chartered has been in Vietnam since 1904 and was one of the first foreign banks to establish a presence in the country



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The following parts of the Risk and Capital review form part of the financial statements and are audited:

- From the start of Risk profile on page 64 to the end of the ‘Pension risk’ section on page 100, excluding:
 - Asset backed securities, page 85
 - Market risk changes – backtesting, page 90
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- ‘Risk of fraud and other criminal acts’ and ‘Regulatory compliance, review, requests for information and investigations’ on pages 101 to 103
- From the start of ‘CRD IV capital base’ on page 119 to the end of ‘Movement in total capital’ on page 120, excluding capital ratios and risk-weighted assets (RWA) amounts

The Risk and Capital review is divided into the following five sections:

- **Risk overview** is an update on the key risk themes of the Group
- **Risk profile** provides an analysis of our risk exposures across all major risk types
- **Principal uncertainties** sets out the key external factors that could impact the Group in the coming year
- **Risk management approach** details how we control and govern risk
- **Capital** provides an analysis of the Group's capital ratios and movements in capital requirements

Risk overview

In 2014, the Group continued to face external challenges, such as slower economic growth in its core markets of China and India and a sustained fall in the prices of a number of commodities. These are, in effect, a continuation of themes from 2012 and 2013. The Group has been disciplined in its approach and in taking risk mitigation actions during this period in anticipation of a potential sustained downturn or dislocation in these markets.

The Group's loan impairment has increased by \$524 million, or 32 per cent, to \$2.1 billion. Over 40 per cent of the Group's loan impairment arises in the Retail Clients segment, which has shown signs of stabilisation through 2014 and, while still elevated, is 5 per cent lower in the second half of the year. Korea loan impairment represents over 30 per cent of Retail loan impairment and is benefiting from management actions to tighten underwriting standards during 2013 and 2014, and was down \$47 million, or 13 per cent.

The loan impairment charge in the Corporate & Institutional Clients and Commercial Clients segments increased by \$558 million to \$1.2 billion, compared to 2013. This represents 67 basis points (bps) (2013: 36 bps) of average loans and advances to customers and banks, an elevated level for 2014 in the context of a prolonged slowdown in the Group's core markets of China and India, and in Commodities. Of the \$1.2 billion of loan impairment, \$565 million relates to commodity clients, which is predominantly due to a small number of commodity exposures that were already, since 2013, on our watch list and have been negatively impacted by the further decline in commodity prices. Most of these clients are in mining sectors such as coal, copper and iron ore, which experienced a fall in prices in 2014. Of the remainder, \$76 million is related to the commodity fraud in China (part of the total of \$215 million including other impairment).

Net non-performing loans (NPLs) are higher by \$585 million compared to 2013. This increase is primarily in the Corporate & Institutional Clients and Commercial Clients segments and is driven by a small number of exposures in the metals and mining sector.

Prices of certain commodities (notably coal, iron ore and oil) have dropped significantly in 2014. This has not highlighted any additional material vulnerability over and above that identified through the Group's stress-testing programme in 2013. However, the risks have heightened on the relatively small parts of our portfolio that we had identified as vulnerable in previous stress tests and this has manifested itself in the increased loan impairment referred to above. The Group has continued to successfully take risk mitigation actions with respect to these

vulnerabilities throughout 2014. Portfolio trends in the second half of 2014 were stable over the first half of 2014 (see portfolio indicators on page 61).

The Retail Clients segment is focused on secured lending and wealth management. The new client acquisition for unsecured business is focused on the Priority, High Value customer and Employee banking segments, and clients with low indebtedness. This is in line with the Group's strategic priorities and is expected to reduce loan impairment volatility going forward. The portfolio indicators on bankruptcy filings under the Korean government's Personal Debt Rehabilitation Scheme (PDRS) are stabilising and showing some improvement.

An overview of our Corporate & Institutional Clients and Commercial Clients segments are presented together, as these segments have similar risk characteristics.

The Corporate & Institutional Clients and Commercial Clients section covers the following:

- Portfolio indicators
- Commodities
- Oil and gas and related exposures
- China
- India
- Europe

The Retail Clients section covers the following:

- Mortgage portfolio and rising interest rates
- Unsecured portfolio
- Korea PDRS

Corporate & Institutional Clients and Commercial Clients

Exposures to Corporate & Institutional Clients and Commercial Clients are presented in this Risk overview section on a net exposure (unless stated otherwise), which comprises loans and advances to customers and banks, investment securities, derivative exposures after master netting agreements, cash and balances at central banks, contingent liabilities and documentary credits. This represents a comprehensive view of risk exposures for Corporate & Institutional Clients and Commercial Clients segments. As at 31 December 2014, the net exposure for Corporate & Institutional Clients and Commercial Clients segment was \$572 billion (2013: \$525 billion), of which loans and advances to customers and banks was \$260 billion (2013: \$265 billion). The year-on-year increase in net exposure resulted principally from an increase in cash and balances at central bank to \$97 billion (2013: \$55 billion) and investment securities to \$129 billion (2013: \$124 billion).

	31.12.14 \$billion	30.06.14 \$billion	31.12.13 \$billion	30.06.13 \$billion
Net exposure	572	547	525	510
Loans and advances to customers and banks	260	277	265	251

Geographic analysis presented in this section is based on country of credit responsibility. This differs from the financial booking location, in that all global exposures to a client group are reported in the primary country of the parent entity. This represents a more complete view of credit risk exposure to client groups from a particular country and is aligned to our credit risk management approach. This differs from the geographic analysis in Risk profile (see page 66), in which loans and advances are reported based on the financial booking location.

Portfolio indicators

Throughout 2014 our Corporate & Institutional Clients and Commercial Clients portfolio remained diversified across industry sectors and geographies. There has been a slight increase in the proportion of Corporate & Institutional Clients and Commercial Clients exposures, which are short term, to 65 per cent (2013: 64 per cent). The collateralisation level for Corporate and Non Bank Financial Institutions has increased by 2 per cent. The collateral in absolute terms for these segments has increased by 4 per cent.

We have a structured approach to portfolio analysis and stress testing to ensure we regularly take a view of likely economic downside risks that could manifest themselves in the next 12 to 18 months, and take proactive actions to limit potential vulnerabilities within our portfolio.

Although the Corporate & Institutional Clients and Commercial Clients impairments are at an elevated level, which is mainly related to a few accounts that have been on our watch list, the portfolio indicators have stabilised since H1 2014, with some portfolios showing an improving trend.

Corporate & Institutional Clients and Commercial Clients portfolio	31.12.14 \$billion	30.06.14 \$billion	31.12.13 \$billion	30.06.13 \$billion
Percentage of customers that are investment grade	42%	40%	40%	38%
Percentage of loans and advances to customers that are investment grade	38%	38%	35%	39%
Early alert ¹ (net exposure)	9.2	9.0	11.3	12.9
Credit grade 12	4.7	5.3	2.0	1.7
Past due but not impaired	2.3	3.4	3.8	1.4
Performing Other renegotiated, forborne loans	4.9	5.6	5.3	4.8
Gross NPLs	6.6	6.2	5.5	4.7

1. See description of early alerts in credit monitoring on page 109

Commodities

The commodities credit exposure arises from the pursuit of our strategy in our core markets, where commodities form a very significant proportion of the trade flows within and to our footprint countries. The commodities portfolio of \$54.9 billion represented 10 per cent of the Corporate & Institutional Clients and Commercial Clients net exposure. Of the \$54.9 billion net exposure, \$41 billion was loans and advances. We have been actively managing this portfolio in light of a sustained fall in the prices of a number of commodities, reducing our net exposure to the commodities sector, primarily in the commodity producers credit portfolio, by \$6.9 billion, or 11 per cent, in 2014. The tenor profile of the portfolio remains short, with 74 per cent having a remaining maturity of less than one year, which provides us further flexibility to rebalance or reduce our exposure to clients or sectors that are particularly vulnerable.

Derivative trades in commodities are undertaken in support of client hedging and commodities-related market risk continues to be very low.

Commodities credit portfolio	31.12.14 \$billion	30.06.14 \$billion	31.12.13 \$billion	30.06.13 \$billion
Commodity producers	24.3	28.1	30.1	30.4
Commodity traders	30.6	32.6	31.7	27.3
Net exposure	54.9	60.7	61.8	57.7
Tenor < 1 year	74%	76%	75%	74%

Overall, the quality of the commodities portfolio remains good as 60 per cent of the exposures are attributable either to investment grade clients or to global majors or large state owned enterprises (SOEs). A further 32 per cent are short term in nature and hence give us the flexibility to respond promptly to events and rebalance or reduce our exposure to clients or vulnerable sub-sectors where necessary. A further 4 per cent are tightly structured second project and corporate finance exposures.

The commodity producers and commodity traders credit portfolios are further analysed below:

Commodity producers credit portfolio: 63 per cent of the net exposure of \$24.3 billion was attributable to clients that were rated either investment grade or are global majors or large SOEs. Of the remaining portfolio, 21 per cent is short-term trade related and 9 per cent is tightly structured and secured project and corporate finance exposure. The Group holds \$3.9 billion of collateral and third-party guarantees against the exposures attributable to non-global majors and non-large SOE clients.

Energy, primarily oil and gas, constitutes 54 per cent of the commodity producers credit portfolio (see oil and gas producers on page 62). The exposure to metals that have had significant price falls is very small – copper producers is 0.5 per cent and iron ore is 0.3 per cent of Corporate & Institutional Clients and Commercial Clients net exposure respectively. 73 per cent of these exposures are to clients that are either investment grade rated or are low-cost producers and part of diversified groups.

Commodity producers credit portfolio	31.12.14	30.06.14	31.12.13	30.06.13
Net exposure (\$billion)	24.3	28.1	30.1	30.4
Investment grade/global majors/large SOEs (%)	63%	66%	61%	66%
Rest of the portfolio with tenor < 1 year	21%	20%	24%	22%

Commodity traders credit portfolio: 58 per cent of the net exposure of \$30.6 billion was attributable to clients that are either rated investment grade or are global majors or large SOEs. 88 per cent of the net exposures are short term. 93 per cent of the exposures to sub-investment grade non-global majors/non-large SOE clients are short-term trade exposures liquidated by underlying transaction flows.

Commodity traders credit portfolio	31.12.14	30.06.14	31.12.13	30.06.13
Net exposure (\$billion)	30.6	32.6	31.7	27.3
Investment grade/global majors/large SOEs (%)	58%	58%	57%	53%
Rest of the portfolio with tenor < 1 year	40%	39%	40%	43%

Owned inventory: in 2014, the Group incurred a write-down in the value of commodity assets of \$193 million (H1 2014: \$153 million) on account of a warehouse fraud in China. Of this, \$139 million was related to structured inventory product (SIP) assets, which were reported as ‘other impairment’. Under the SIP, the Group provides financing to clients by purchasing commodities from them while agreeing to sell them back at a fixed price in future. The Group owns the commodities inventory and the price risk is hedged. In this portfolio of \$3.1 billion (H1 2014: \$3.9 billion), the Group takes neither credit risk on the client nor market risk on the price of commodities.

24 per cent of the owned inventory portfolio is stored in warehouses in China. The Group has now inspected all warehouses other than those that were locked down by the authorities in China in response to the fraud, and no new issues have emerged. In some cases we have transferred commodities to more secure warehouses. 74 per cent of the value of our SIP inventory is either in exchange-controlled locations, such as London Metals Exchange warehouses, or in low risk jurisdictions such as the US, Western Europe, Singapore and Hong Kong.

Oil and gas and related exposures

As at 31 December 2014, the Group's net exposure to oil and gas and related sectors was \$28.6 billion. This comprises oil and gas producers (45 per cent), refineries (22 per cent), supporting activities (28 per cent) and other corporate clients with oil and gas-related hedges (5 per cent).

Oil and gas producers: as at 31 December 2014, the oil and gas producers' exposure was \$12.9 billion (\$11.1 billion direct, \$1.8 billion to traders whose parent Group is an oil producer). 98 per cent of this (\$12.6 billion) was to clients with either a breakeven oil price below \$50 per barrel or to large SOEs. The breakeven prices have been calculated on a debt service coverage ratio of 'one'. Debt service coverage ratio has been computed based on the amount of cash flow available to meet the annual interest and principal payments on debt if oil prices remain at the breakeven level for a period of up to 12 months. This analysis is conservative, as it does not take into consideration refinancing options available to clients or their ability to defer capital expenditure to conserve cash.

Petroleum refineries: as at 31 December 2014, the net exposure to petroleum refineries was \$6.4 billion. The profitability of refiners is driven by gross refining margins and is not directly related to the crude oil prices. The gross refining margins have held steady despite the fall in crude oil prices.

Support activities: as at 31 December 2014, the support activities portfolio consisted of \$4.2 billion in shipping finance (including operating leases) and \$3.7 billion related to oilfield equipment manufacturers and other service providers.

The shipping finance portfolio consisted of tankers (\$1.6 billion), offshore support vessels (\$0.7 billion), rigs and drill ships (\$1.2 billion) and floating production storage and offloading (\$0.7 billion). The net exposures to these sub-sectors are either to investment grade clients or backed by strong balance sheet or corporate guarantees. The exposures have high levels of collateralisation in the form of new/young vessels. 70 per cent of the exposures to oilfield equipment manufacturers and service providers are investment grade.

Corporate clients with oil-related hedges: the Group's counterparty credit risk exposure to corporate clients with oil-related hedges has increased to \$1.5 billion from \$0.4 billion as oil prices have dropped over the last six months.

Approximately 70 per cent of that increase is accounted for by six investment grade clients. All clients have continued to meet their trade settlement and collateral obligations as per the Credit Support Annex (CSA) to the International Swaps and Derivatives Association (ISDA).

China

The Group's total net exposure to China is \$71 billion, down 10 per cent from 2013, of which \$24 billion is financially booked in China and \$47 billion in other locations. Of the total net exposure of \$71 billion, \$50 billion is loans and advances to

customers and banks. 56 per cent of the total net exposure is attributable to financial institutions and 14 per cent is to the central government.

China's economic growth continued to slowdown in response to the structural rebalancing of the economy towards consumption-driven growth. The Group's growth in China over the last five years has focused on financial institutions as a result of the internationalisation of the renminbi. This has driven the growth in interbank placements and trade exposures (approximately 65 per cent of the exposure). The portfolio is short-dated with 84 per cent having tenor of less than one year.

98 per cent of the financial institutions exposure is investment grade, while 71 per cent is to the top five Chinese banks. The Group has internal caps on its exposure to Chinese banks and keeps the portfolio tenor short-dated (80 per cent, exposure to banks has a tenor of less than six months) and highly rated.

The corporate portfolio in China represented 34 per cent of total net exposure as at 31 December 2014 and has shown a modest deterioration in the weighted average credit grade of the portfolio given the slowdown in the economy. This deterioration was driven by credit migration of only 1.5 per cent of the corporate portfolio to the lowest-performing credit grade (grade 12), which is spread across 16 clients and 10 industries.

The following section presents details of the China commodity portfolio, for which the Group has been proactive in managing its exposures. We reduced exposures for the clients that are sub-investment grade and are non-global majors or non-large SOEs. Further, we have performed stress tests on our commercial real estate portfolio and non-SOE portfolio and initiated actions to exit some clients in the process.

China commodities credit portfolio

Commodity exposures in China continue to be actively managed in response to a slowdown in China and a sustained fall in commodity prices. Our portfolio management actions were focused on the metals and mining sector, where 23 client relationships have been exited and the net exposure reduced to \$1.7 billion in the last 12 months (\$2.5 billion in 2013).

China commodities credit portfolio	31.12.14 \$billion	30.06.14 \$billion	31.12.13 \$billion	30.06.13 \$billion
Commodity producers	4.1	5.1	4.9	6.0
Commodity traders	5.3	6.6	6.1	4.8
Net exposure	9.4	11.7	11.0	10.8
Tenor < 1 year (%)	94%	96%	89%	93%

China commodity producers credit portfolio: 79 per cent of the net exposure of \$4.1 billion was attributable to clients who were either rated investment grade or were global majors or large SOEs. 97 per cent of the remainder had a tenor less than one year, with the balance being accounted for by tightly structured secured project and corporate finance exposures.

China commodity producers portfolio	31.12.14	30.06.14	31.12.13	30.06.13
Net exposure (\$billion)	4.1	5.1	4.9	6.0
Investment grade/global majors/large SOEs (%)	79%	70%	66%	68%
Rest of the portfolio with tenor < 1 year	20%	28%	28%	26%

China commodity traders credit portfolio: 43 per cent of the net exposure of \$5.3 billion was to clients that are either investment grade or to global majors and to large SOEs. 93 per cent of the

remainder had a tenor of less than one year. This sub investment portfolio is collateralised with cash \$1.3 billion and third-party guarantees \$0.5 billion.

China commodity traders credit portfolio	31.12.14	30.06.14	31.12.13	30.06.13
Net exposure (\$ billion)	5.3	6.6	6.1	4.8
Investment grade/global majors/large SOEs (%)	43%	51%	49%	41%
Rest of the portfolio with tenor < 1 year	53%	48%	48%	55%

India

India has faced a slowdown in economic growth since 2012, relative to the higher rates of previous years, combined with high indebtedness in some corporate sectors and tighter market liquidity conditions. We have been actively managing our India Corporate & Institutional Clients and Commercial Clients portfolio and exposures have reduced significantly since 2012. Corporate & Institutional Clients and Commercial Clients exposure reduced by a further 17 per cent to \$35 billion over the course of 2014 (2013: \$42 billion).

Since the general elections in April and May 2014, the economic outlook in India has been more positive, as reflected by buoyant stock markets, an improving investment climate and increased demand for capital markets issuances. The drop in oil prices is also expected to provide a stimulus to the broader economy. However, the positive sentiment post the elections may take time to be reflected in client financials. Although we see no indication of further credit deterioration in our Corporate & Institutional Clients and Commercial Clients portfolios, we continue to closely monitor and reduce our exposure to weaker clients.

Europe

We have no material sovereign exposure (as defined by the European Banking Authority (EBA)) to Greece, Ireland, Italy, Portugal or Spain. Our net exposure in these countries was less than \$1.1 billion as at 31 December 2014, and was primarily to banks and related to trade finance and financial markets transactions. Our total net exposure to Greece was \$6 million and we continue to monitor and respond to the recent developments around the potential Greek exit from the eurozone. Additionally, we estimate minimal direct impact of the quantitative easing in the eurozone.

The direct exposures to Russian corporate clients are small, and are fully covered by export credit agency guarantees. Trading exposures denominated in Russian roubles are with major banks and are collateralised with dollar cash.

The appreciation of the Swiss franc in January 2015 did not have a significant effect on the Group's clients. There were no instances of failed margin calls or failed trades.

Retail Clients

The Retail Clients loans and advances portfolio remains diversified by geography and product. The portfolio composition remains unchanged over the year, with mortgages accounting for 64 per cent (2013: 63 per cent) of the Retail portfolio. 64 per cent of the portfolio has tenor greater than five years on account of mortgages. 80 per cent (2013: 78 per cent) of Retail loans are fully secured and the overall loan-to-value (LTV) ratio on our mortgage portfolio is 49 per cent (2013: 50 per cent).

Retail loan impairment is stable at 95 bps of average loans and advances (2013: 95 bps) in spite of continued high levels of bankruptcy filings under the government's PDRS in Korea. The portfolio indicators such as 30 days and 90 days past due are broadly stable.

Mortgage portfolio and rising interest rates in key markets

The Retail Clients mortgage portfolio is well-positioned in case of a fall in house prices or an increase in interest rates. In assessing prospective borrowers' ability to service debts, we assume stress interest rates well above prevailing rates. The average LTV ratio of the mortgage portfolio was less than 50 per cent, with only 5 per cent of the portfolio having an LTV greater than 80 per cent. The value of exposures with an LTV greater than 100 per cent is minimal, and relates mainly to old vintages in the UAE. The majority of the residential mortgage portfolio is for owner occupation. We have stress tested our portfolio for a drop in property prices ranging from 15 per cent (such as Korea, where prices have come off their peaks) to 30 per cent (Singapore and Hong Kong), and for a significant increase in interest rates in our key markets. The portfolio continues to remain resilient to these stress scenarios.

Unsecured portfolio

We are managing the Retail Clients unsecured portfolio against the backdrop of changes in the regulatory environment in key markets and in order to manage overall customer indebtedness. Overall portfolio growth slowed in 2014 as a result of de-risking actions taken across many markets, including Korea. The portfolio performance indicators are continuously monitored, with losses remaining stable.

The unsecured strategy is guided by a new decision framework to enable the new originations towards the Priority, High Value clients and Employee banking segments, and customers with lower indebtedness.

The factors that underpin our confidence about the Retail unsecured portfolio are:

- The credit card and personal loan portfolio is profitable on a standalone basis and is diversified across markets
- Our new strategic focus on high value client segments and deepening client relationships
- The implementation of the unsecured risk decision framework which aims to:
 - shape the business to deliver optimum risk-adjusted returns with a controlled level of volatility
 - enhance the resilience and sustainability of the portfolio in slowdown scenarios
 - leverage bureau data for enhanced credit decision-making and management with 94 per cent bureau coverage across our unsecured markets

Korea PDRS

Korea has been the biggest source of the Group's elevated Retail Client impairment in the last two years. Although the levels of PDRS applications remain high, the actions taken to tighten underwriting standards since the beginning of 2014 have resulted in considerably lower match rates of our portfolio with PDRS filings. During the last six months, after adjusting for seasonally expected reductions, there has been an improvement in the Group's PDRS-related impairment. The portfolio indicators are improving.

Risk profile

The balance sheet and income statement information presented within this section is based on the booking location of the instrument and not the location of its customer. Accordingly, where income statement information is presented by geographic region, the accounts will differ from the Financial review on pages 41 to 55, which is based on its customer location. The client segment by geographic region table on page 66 provides a split of loans and advances to customers and banks by both booking and customer location.

Credit portfolio

The following pages provide detail of credit exposure, split as follows:

- Overall exposure to credit risk, for on-balance sheet and off-balance sheet financial instruments, before and after taking into account credit risk mitigation (page 65)
- Loan portfolio overview, which provides analysis of the loan portfolio by client segment, by geographic region, by industry and retail product, and by loan maturity (pages 66 to 70)
- Credit risk mitigation, which provides analysis of collateral held by client segment and collateral type, and details of loan-to-value ratios and other forms of credit risk mitigation
- Credit quality, which provides an analysis of the loan portfolio by credit grade (pages 75 and 76)
- Problem credit management and provisioning, which provides an analysis of non-performing loans, impaired loans, renegotiated and forbearance loans (page 77 and pages 80 to 83)
- Selected portfolios, which provides further detail on debt securities and treasury bills, asset backed securities and selected European exposures (pages 84 to 87)

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group in accordance with agreed terms. Credit exposures arise from both the banking and trading books.

A summary of our current policies and practices regarding credit risk management is provided in Risk management approach on pages 105 to 111.

Our credit portfolio remains well diversified and predominantly short term, with high levels of collateralisation for longer-term and non-investment grade loans. We have consistently maintained our focus on chosen clients in our core markets and a disciplined approach to risk management.

Restatement of prior year

In January 2014, the Group announced a change to its organisation structure effective 1 April 2014. To aid historical comparisons the Group's results re-present segmental information for 31 December 2013 under the new client segments, global product groups and geographic regions. During the year, industry classifications for the Corporate & Institutional Clients and Commercial Clients segments were aligned to internal classification, resulting in a re-presentation for 2013. In addition, all the geographic disclosures from pages 66 to 68 are presented on a booking-location basis. Certain balances in 2013, which were presented on a customer-location basis, have been re-presented accordingly.

Maximum exposure to credit risk

The table on page 65 presents the Group's maximum exposure to credit risk for its on-balance sheet and off-balance sheet financial instruments as at 31 December 2014, before and after taking into account any collateral held or other credit risk mitigation. For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk generally represents the contractual notional amounts.

The Group's maximum exposure to credit risk is spread across its markets and is affected by the general economic conditions in the geographies in which it operates. The Group sets limits on the exposure to any counterparty, and credit risk is spread over a variety of different personal, commercial and institutional customers.

The Group's gross maximum exposure to credit risk has increased by \$44.1 billion when compared to 2013, mainly due to additional cash and balances held at central banks. Loans and advances to customers and banks have decreased by \$5.8 billion, reflecting the risk-mitigating actions to reduce exposures in key markets and sectors that are experiencing a prolonged slowdown. This has been offset by growth in the financing, non-bank and broking sector. Further details of the loan portfolio are set out on page 65. Contingent liabilities, mainly arising from trade finance exposures, decreased by \$4.5 billion, reflecting the slowdown in key markets in our footprint.

Investment securities increased by \$4.1 billion as the Group placed its excess liquidity mainly in the Americas, the UK and China. The Group's credit risk exposure before risk mitigation arising from derivatives increased by \$4 billion, reflecting increased market volatility when compared to 2013.

Maximum exposure to credit risk

	2014				2013			
	Credit risk management		Credit risk management		Credit risk management		Credit risk management	
	Maximum exposure to credit risk (gross) \$million	Collateral \$million	Master netting agreements \$million	Maximum exposure to credit risk (net) \$million	Maximum exposure to credit risk (gross) \$million	Collateral \$million	Master netting agreements \$million	Maximum exposure to credit risk (net) \$million
On-balance sheet								
Cash and balances at central banks	97,282	-	-	97,282	54,534	-	-	54,534
Total loans and advances to customers and banks ¹								
As per balance sheet	368,585				374,410			
Included within fair value through profit and loss	7,514				7,774			
	376,099	159,476	-	216,623	382,184	152,926	-	229,258
Investment securities ²								
As per balance sheet	104,238	-	-	104,238	102,716	-	-	102,716
Included within fair value through profit and loss	25,109	-	-	25,109	21,561	-	-	21,561
Less: Equity securities	(7,769)	-	-	(7,769)	(6,800)	-	-	(6,800)
	121,578	-	-	121,578	117,477	-	-	117,477
Derivative financial instruments ³	65,834	7,005	43,735	15,094	61,802	5,147	46,242	10,413
Assets held for sale	3,112			3,112	1,538			1,538
Other assets	10,493			10,493	8,234			8,234
Total balance sheet	674,398	166,481	43,735	464,182	625,769	158,073	46,242	421,454
Off-balance sheet								
Contingent liabilities	42,532	-	-	42,532	46,938	-	-	46,938
Undrawn irrevocable standby facilities, credit lines and other commitments to lend ⁴	65,080	-	-	65,080	65,313	-	-	65,313
Documentary credits and short-term trade-related transactions	7,911	-	-	7,911	7,409	-	-	7,409
Forward asset purchases and forward deposits	78	-	-	78	459	-	-	459
Total off-balance sheet	115,601	-	-	115,601	120,119	-	-	120,119
Total	789,999	166,481	43,735	579,783	745,888	158,073	46,242	541,573

1. An analysis of credit quality is set out on page 75. Further details of collateral held by client segment and held for past due and individually impaired loans are set out on page 80

2. Equity shares are excluded as they are not subject to credit risk

3. The Group enters into master netting agreements, which in the event of default results in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions

4. Excludes unconditionally cancellable facilities

Loan portfolio

This section provides qualitative and quantitative information on the Group's exposure to credit risk for loans and advances to customers and banks, including the impact of credit risk mitigation and problem credit management. Our credit portfolio remains well diversified and predominantly short term.

The loan portfolio is summarised by segment and by credit quality (neither past due nor impaired; past due; and impaired) on pages 75 and 76. The Group manages its loan portfolio between those assets that are performing in line with their contractual terms (whether original or renegotiated) and those that are non-performing. Corporate & Institutional Clients and Commercial Clients exposures are typically managed on an individual basis and consequently credit grade migration is a key component of credit risk management. In Retail, where loans are typically managed on a portfolio basis, delinquency trends are monitored consistently as part of risk management. In all three client segments, credit risk is mitigated to some degree through collateral, further details of which are set out on pages 70 to 72.

This section covers a summary of the Group's loan portfolio, broadly analysed by business and geography, along with an

analysis of the maturity profile, credit quality and provisioning of the loan book.

Geographic and client segmental analysis

Loans and advances to customers (net of individual impairment provisions (IIPs) and portfolio impairment provisions (PIPs)) decreased by \$7.4 billion since December 2013. This reduction was primarily within the Commercial Clients segment (\$3.2 billion) and the Corporate & Institutional Clients segment (\$2.9 billion) as a result of de-risking in key markets and sectors experiencing a prolonged slowdown. The growth in this period was largely in financing, insurance and business services.

The growth in loans to banks of \$1.3 billion since December 2013 was primarily across ASEAN (\$5.6 billion) and Greater China (\$0.8 billion), offset by a reduction in Europe of \$3.8 billion. This is mostly due to the liquidity management activity of the Group. Given the nature of the book, it is predominantly short term and the maturity profile remains consistent period-on-period.

The Private Banking Client segment grew by \$0.9 billion from December 2013, primarily through its operations in Singapore and Hong Kong.

Risk profile

For the Private Banking Clients and Retail Clients segments, client loans are analysed by product. The reduction in unsecured lending, which includes credit cards and personal loans (CCPL), was mainly in the North East Asia region. This was partly offset by growth in Mortgages, especially in Hong Kong, although regulatory cooling measures in several markets tempered the related growth opportunities.

Overall, the regional split of our loans and advances to customers is very similar to 2013 and our loan portfolio remains well diversified across our footprint countries, with our largest single country representing 22 per cent of loans and advances to customers and banks.

Client segment by geographic region

	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Corporate & Institutional Clients	37,253	7,882	8,093	37,419	12,136	5,894	10,964	38,657	158,298
Commercial Clients	5,395	3,176	2,036	2,234	1,106	669	—	74	14,690
Private Banking Clients	3,494	—	167	9,732	274	—	—	4,391	18,058
Retail Clients	41,408	18,633	4,272	27,220	4,869	1,845	—	2	98,249
Portfolio impairment provision	87,550	29,691	14,568	76,605	18,385	8,408	10,964	43,124	289,295
(98)	(75)	(56)	(201)	(78)	(47)	(9)	(9)	(132)	(696)
Total loans and advances to customers^{1,2}	87,452	29,616	14,512	76,404	18,307	8,361	10,955	42,992	288,599
Intra-segmental balance	2,194	(34)	8,347	2,137	4,468	4,742	(3)	(21,851)	—
Total loans and advances to customers^{1,3}	89,646	29,582	22,859	78,541	22,775	13,103	10,952	21,141	288,599
Total loans and advances to banks^{1,2}	28,758	5,997	488	12,388	1,603	940	12,661	24,665	87,500
	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Corporate & Institutional Clients	37,428	7,297	7,394	41,649	12,192	5,658	10,681	38,894	161,193
Commercial Clients	6,406	3,109	2,340	3,249	1,274	672	—	791	17,841
Private Banking Clients	3,003	33	131	9,020	250	—	—	4,723	17,160
Retail Clients	40,936	20,283	4,295	28,337	4,708	1,696	—	262	100,517
Portfolio impairment provision	87,773	30,722	14,160	82,255	18,424	8,026	10,681	44,670	296,711
(146)	(107)	(53)	(152)	(85)	(68)	(6)	(6)	(79)	(696)
Total loans and advances to customers^{1,2}	87,627	30,615	14,107	82,103	18,339	7,958	10,675	44,591	296,015
Intra-segmental balance	2,219	3	11,501	749	5,196	5,164	(246)	(24,586)	—
Total loans and advances to customers^{1,3}	89,846	30,618	25,608	82,852	23,535	13,122	10,429	20,005	296,015
Total loans and advances to banks^{1,2}	27,905	6,561	575	6,776	2,097	742	13,067	28,446	86,169

1. Amounts net of individual impairment provision and include financial instruments held at fair value through profit or loss (see note 15 on page 256)

2. The disclosures in the Risk profile section are presented on the basis of booking location and not customer location

3. The balances are based on the location of the customer

Industry and Retail Products analysis by geographic region

In the Corporate & Institutional Clients and Commercial Clients segments, our largest industry exposure remained energy, which constitutes 16 per cent of corporate loans and advances (2013: 17 per cent). The energy industry lending is spread across five sub-sectors and over 380 client groups, and 55 per cent mature within one year.

The manufacturing sector makes up 15 per cent of the Corporate & Institutional Clients and Commercial Clients customer loans and advances (2013: 16 per cent). The manufacturing industry group is spread across a diverse range of industries, including automobiles and components, capital goods, pharmaceuticals, biotech and life sciences, technology hardware and equipment, chemicals, paper products and packaging, with lending spread over 4,390 clients.

Lending to financing, insurance and non-banking clients is mostly to investment grade institutions and is part of the liquidity management of the Group.

The Group provides loans to commercial real estate (CRE) counterparties of \$16.1 billion (2013: \$16.9 billion), which represents less than 6 per cent of total customer loans and advances and less than 3 per cent of assets. Loans greater than five years are less than 10 per cent of the CRE portfolio.

In total, \$6.8 billion of this lending is to counterparties where the source of repayment is substantially derived from rental or sale of real estate and is secured by real estate collateral. The remaining CRE loans comprise working capital loans to real estate corporates, loans with non-property collateral, unsecured loans and loans to real estate entities of diversified conglomerates.

The unsecured portion of the Retail Products portfolio is down from 21 to 19 per cent of the Retail Products loans and advances and is spread across multiple products in over 30 markets. The decrease in North East Asia exposure was a result of de-risking portfolio management actions taken in Korea. There has otherwise been no significant change in the shape of our Retail Products portfolio.

Industry and Retail Products analysis by geographic region

	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Industry									
Energy	1,470	310	123	9,006	1,228	533	3,206	11,347	27,223
Manufacturing	9,456	2,419	2,452	4,337	2,239	1,031	1,031	3,838	26,803
Financing, insurance and non-banking	5,856	995	431	5,497	1,136	628	3,507	7,336	25,386
Transport, telecom and utilities	3,715	1,602	922	3,706	1,210	662	612	6,176	18,605
Food and household products	2,589	313	929	5,034	1,381	1,346	1,438	1,302	14,332
Commercial real estate	6,876	2,190	1,503	3,798	1,133	79	—	485	16,064
Mining and quarrying	3,383	649	922	2,186	512	764	273	4,123	12,812
Consumer durables	5,076	659	1,291	1,170	1,385	439	404	1,752	12,176
Construction	1,169	486	897	1,178	1,352	252	20	1,095	6,449
Trading companies and distributors	1,419	400	232	932	719	418	56	114	4,290
Government	536	368	5	1,206	230	19	220	165	2,749
Other	1,103	667	422	1,603	717	392	197	998	6,099
Retail Products									
Mortgages	34,381	12,918	2,366	20,724	1,853	345	—	1,320	73,907
CCPL and other unsecured lending	6,673	4,407	987	4,850	2,096	1,425	—	51	20,489
Auto	—	—	40	631	339	6	—	—	1,016
Secured Wealth Products	3,466	74	70	9,385	805	—	—	1,455	15,255
Other	382	1,234	976	1,362	50	69	—	1,567	5,640
	87,550	29,691	14,568	76,605	18,385	8,408	10,964	43,124	289,295
Portfolio impairment provision	(98)	(75)	(56)	(201)	(78)	(47)	(9)	(132)	(696)
Total loans and advances to customers¹									
Total loans and advances to banks¹	87,452	29,616	14,512	76,404	18,307	8,361	10,955	42,992	288,599

1. The disclosures in the Risk profile section are presented on the basis of booking location and not customer location

Risk profile

	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Industry¹									
Energy	1,999	356	160	10,491	1,496	345	3,434	12,260	30,541
Manufacturing	9,975	3,314	2,311	4,355	1,775	1,278	1,387	3,683	28,078
Financing, insurance and non-banking	5,087	402	152	2,136	1,543	344	1,966	3,942	15,572
Transport, telecom and utilities	3,814	1,199	912	4,751	1,123	475	880	7,152	20,306
Food and household products	3,243	302	808	8,538	1,109	1,608	1,386	1,553	18,547
Commercial real estate	6,743	2,097	1,426	3,954	1,302	89	—	1,318	16,929
Mining and quarrying	3,712	720	835	2,738	500	945	762	5,758	15,970
Consumer durables	5,344	637	1,432	1,338	1,358	230	529	2,137	13,005
Construction	1,198	478	955	864	1,803	178	20	777	6,273
Trading companies and distributors	1,167	354	321	2,739	706	419	124	109	5,939
Government	141	—	7	1,483	215	11	48	115	2,020
Other	1,411	547	415	1,511	536	408	145	881	5,854
Retail Products									
Mortgages	32,940	12,821	2,298	21,636	1,753	293	—	1,355	73,096
CCPL and other unsecured lending	7,672	5,586	1,161	5,617	2,102	1,399	—	271	23,808
Auto	—	1	44	914	321	4	—	—	1,284
Secured Wealth Products	2,821	105	63	7,721	603	—	—	1,537	12,850
Other	506	1,803	860	1,469	179	—	—	1,822	6,639
	87,773	30,722	14,160	82,255	18,424	8,026	10,681	44,670	296,711
Portfolio impairment provision	(146)	(107)	(53)	(152)	(85)	(68)	(6)	(79)	(696)
Total loans and advances to customers²	87,627	30,615	14,107	82,103	18,339	7,958	10,675	44,591	296,015
Total loans and advances to banks	27,905	6,561	575	6,776	2,097	742	13,067	28,446	86,169

1. During 2014, industry classifications for Corporate & Institutional Clients and Commercial Clients segments have been aligned to internal classifications, resulting in a re-presentation of industry classification for 2013

2. The disclosures in Risk profile are presented on the basis of booking and not customer location

Maturity analysis by client segment

The loans and advances to the Corporate & Institutional Clients and Commercial Clients segments remain predominantly short term, with 65 per cent of loans and advances to customers in the segments maturing in under one year, a marginal decrease compared to December 2013. Ninety-six per cent of the loans to banks mature in less than one year. Shorter maturity gives us the flexibility to respond promptly to events and rebalance or reduce our exposure to clients or sectors that are facing increased pressure or uncertainty.

The Private Banking Clients loan book also demonstrates a short-term bias typical for loans that are secured on wealth management assets.

The Retail Clients loan book continues to be longer-term in nature as Mortgages constitute the majority of the Retail Clients loan book, at 62 per cent (2013: 61 per cent). The slight increase in the tenor of retail products overall reflects the reduction in unsecured assets and the corresponding increase in the proportion of mortgages.

The following table presents the maturity profile by client segment:

	2014			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Corporate & Institutional Clients	184,880	48,542	12,378	245,800
– Loans to banks	83,845	3,587	70	87,502
– Loans to customers	101,035	44,955	12,308	158,298
Commercial Clients	11,905	1,436	1,349	14,690
Private Banking Clients	15,349	1,449	1,260	18,058
Retail Clients	16,877	18,610	62,762	98,249
Portfolio impairment provision	229,011	70,037	77,749	376,797 (698)
Total loans and advances to customers and banks				376,099

	2013			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Corporate & Institutional Clients	185,436	50,514	11,414	247,364
– Loans to banks	82,642	3,445	84	86,171
– Loans to customers	102,794	47,069	11,330	161,193
Commercial Clients	12,627	2,653	2,561	17,841
Private Banking Clients	14,664	1,145	1,351	17,160
Retail Clients	19,106	19,979	61,432	100,517
	231,833	74,291	76,758	382,882
Portfolio impairment provision				(698)
Total loans and advances to customers and banks				382,184

Maturity analysis by industry

By industry

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

Industry	2014			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Industry				
Energy	14,894	9,545	2,784	27,223
Manufacturing	19,984	5,813	1,006	26,803
Financing, insurance and non-banking	20,980	4,162	244	25,386
Transport, telecom and utilities	6,204	6,946	5,455	18,605
Food and household products	11,642	2,606	84	14,332
Commercial real estate	6,184	8,549	1,331	16,064
Mining and quarrying	9,104	2,517	1,191	12,812
Consumer durables	10,682	1,346	148	12,176
Construction	3,758	2,060	631	6,449
Trading companies and distributors	3,969	246	75	4,290
Government	2,612	56	81	2,749
Other	2,927	2,545	627	6,099
Retail Products				
Mortgages	4,733	8,786	60,388	73,907
CCPL and other unsecured lending	10,424	8,533	1,532	20,489
Auto	199	742	75	1,016
Secured Wealth Products	14,085	1,074	96	15,255
Other	2,785	924	1,931	5,640
	145,166	66,450	77,679	289,295
Portfolio impairment provision				(696)
Total loans and advances to customers¹				288,599

1. The disclosures in Risk profile are presented on the basis of booking location and not customer location

	2013			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Industry¹				
Energy	19,511	8,605	2,425	30,541
Manufacturing	21,021	6,130	927	28,078
Financing, insurance and non-banking	11,025	4,055	492	15,572
Transport, telecom and utilities	6,805	7,740	5,761	20,306
Food and household products	14,737	3,433	377	18,547
Commercial real estate	5,615	9,480	1,834	16,929
Mining and quarrying	11,364	3,879	727	15,970
Consumer durables	10,641	2,143	221	13,005
Construction	4,255	1,663	355	6,273
Trading companies and distributors	5,415	355	169	5,939
Government	1,767	167	86	2,020
Other	3,265	2,072	517	5,854
Retail Products				
Mortgages	4,528	8,828	59,740	73,096
CCPL and other unsecured lending	12,537	9,629	1,642	23,808
Auto	191	877	216	1,284
Secured Wealth Products	11,833	972	45	12,850
Other	4,681	818	1,140	6,639
	149,191	70,846	76,674	296,711
Portfolio impairment provision				(696)
Total loans and advances to customers				296,015

1. During 2014, industry classifications for Corporate & Institutional Clients and Commercial Clients segments have been aligned to internal classifications, resulting in a re-presentation of industry classification for 2013

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, credit derivatives and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor. See page 109 for our overall approach to credit risk mitigation.

Collateral

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decision.

As a result of reinforcing our collateralisation requirements, the fair value of collateral held has increased by 4 per cent since the end of 2013.

The collateral values in the table on page 71 are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation. Exposures for 53 per cent of the clients that have placed collateral with the Group are over-collateralised. The average amount of over-collateralisation is 42 per cent.

The unadjusted market value of collateral, in respect of Corporate & Institutional Clients and Commercial Clients, without adjusting for over-collateralisation, was \$212 billion (31 December 2013: \$190 billion).

We have remained conservative in the way we assess the value of collateral, which is calibrated to a severe downturn and backtested against our prior experience. On average across all types of collateral, the value ascribed is approximately half of its current market value.

The decrease of commodities from 6 per cent to 3 per cent of collateral balances is a direct result of our overall reduction in commodity-related exposure. The increase of reverse repurchase (repo) and securities collateral from 27 per cent to 36 per cent represents an increase in the deployment of liquidity by Asset and Liability Management (ALM) to Corporate & Institutional Clients and Commercial Clients.

The average loan-to-value (LTV) ratio of the commercial real estate portfolio has remained relatively stable at 39.9 per cent, compared with 41.1 per cent in 2013. The proportion of loans with an LTV greater than 80 per cent has remained below 1 per cent during the same period.

In the Retail Clients and Private Banking Clients segments, a secured loan is one where the borrower pledges an asset as collateral of which the Group is able to take possession in the event that the borrower defaults. The collateral levels for Retail Clients have remained stable compared to 2013.

For Retail Clients, 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. In total, 19 per cent of the Group's retail product exposures are unsecured, compared to 21 per cent in 2013.

 See details on page 72, which presents an analysis of loans to individuals by product, split between fully secured, partially secured and unsecured

For Mortgage loans, the value of property held as security significantly exceeds the value of mortgage loans. LTV ratios measure the ratio of the current mortgage outstanding to the current fair value of the properties on which they are secured. The overall LTV ratio on our mortgage portfolio is less than 50 per cent – relatively unchanged since the end of 2013.

Our major mortgage markets of Hong Kong, Korea and Taiwan have an average LTV of less than 50 per cent. Compared with December 2013, the proportion of the portfolio with LTVs in excess of 100 per cent, primarily within the MENAP region, has declined from 6.3 per cent to 4.1 per cent due to improving economic conditions, particularly in the UAE.

 See details on page 72, which presents an analysis of loan-to-value ratios by geography for the mortgage portfolio

For loans and advances to customers and banks (including those held at fair value through profit or loss), the table below sets out the fair value of collateral held by the Group, adjusted where appropriate in accordance with the risk mitigation policy as outlined on page 109 and for the effect of over-collateralisation.

	Collateral			Amount outstanding ¹		
	Of which		Individually impaired loans \$million	Of which		Individually impaired loans \$million
	Total \$million	Past due but not individually impaired loans \$million		Total \$million	Past due but not individually impaired loans \$million	
As at 31 December 2014						
Corporate & Institutional Clients ²	64,343	228	837	245,800	1,847	6,094
Commercial Clients	6,034	927	253	14,690	454	1,068
Private Banking Clients	12,905	220	40	18,058	140	91
Retail Clients	76,194	2,053	360	98,249	2,928	846
Total	159,476	3,428	1,490	376,797	5,369	8,099
As at 31 December 2013						
Corporate & Institutional Clients ²	61,484	623	642	247,364	3,331	5,018
Commercial Clients	6,422	454	156	17,841	519	963
Private Banking Clients	13,435	149	65	17,160	85	93
Retail Clients	71,585	2,305	396	100,517	3,360	898
Total	152,926	3,531	1,259	382,882	7,295	6,972

1. Includes loans held at fair value through profit or loss

2. Includes loans and advances to banks

Corporate & Institutional Clients and Commercial Clients

Collateral held against Corporate & Institutional Clients and Commercial Clients exposures amounted to \$70 billion (2013: \$68 billion).

Our underwriting standards encourage taking specific charges on assets and we consistently seek high-quality, investment-grade collateral. Forty-six per cent of collateral held comprises physical assets or is property-based, with the remainder held largely in cash and investment securities.

Non-tangible collateral – such as guarantees and letters of credit – may also be held against corporate exposures, although the financial effect of this type of collateral is less significant in terms of recoveries. However, this type of

collateral is considered when determining probability of default and other credit related factors.

Collateral taken for longer-term and non-investment grade loans continues to be high at 59 per cent (63 per cent in 2013).

Collateral is also held against off-balance sheet exposures, including undrawn commitments and trade-related instruments.

The proportion of highly rated securities of 24 per cent of collateral increased from 14 per cent compared to December 2013, due to higher levels of reverse repo transactions.

The following table provides an analysis of the types of collateral held against Corporate & Institutional Clients and Commercial Clients loan exposures:

	2014 \$million	2013 \$million
Property	16,438	18,490
Plant, machinery and other stock	5,498	6,059
Cash	12,594	13,444
Reverse repo and securities	25,641	18,353
AAA	4	45
AA- to AA+	17,188	9,651
BBB- to BBB+	3,062	2,758
Lower than BBB-	997	865
Unrated	4,390	5,034
Commodities	2,426	4,038
Ships and aircraft	7,780	7,522
Total value of collateral	70,377	67,906

Risk profile

CRE

The Group has lending to CRE counterparties of \$16.1 billion (2013: \$16.9 billion). Of this, \$6.8 billion is to counterparties where the source of repayment is substantially derived from rental or sale of real estate and is secured by real estate collateral. The remaining CRE lending comprises working capital loans to real estate corporates, loans with non-property

collateral, unsecured loans and loans to real estate entities of diversified conglomerates.

Retail Clients and Private Banking Clients loan portfolio

The following table presents an analysis of loans to individuals by product split between fully secured, partially secured and unsecured:

	2014				2013			
	Fully secured \$million	Partially secured \$million	Unsecured \$million	Total ¹ \$million	Fully secured \$million	Partially secured \$million	Unsecured \$million	Total ¹ \$million
Loans to individuals								
Mortgages	73,907	—	—	73,907	73,096	—	—	73,096
Credit cards and personal loans	4	—	20,485	20,489	5	—	23,803	23,808
Auto	1,016	—	—	1,016	1,284	—	—	1,284
Secured Wealth Products	15,255	—	—	15,255	12,850	—	—	12,850
Other	2,783	1,494	1,363	5,640	4,729	1,462	448	6,639
	92,965	1,494	21,848	116,307	91,964	1,462	24,251	117,677
Percentage of total loans	80	1	19		78	1	21	

1. Amounts net of individual impairment provision

Mortgage LTV ratios by geography

The following table provides an analysis of LTV ratios by geography for the mortgages portfolio:

	2014								
	Greater China %	North East Asia %	South Asia %	ASEAN %	MENAP %	Africa %	Americas %	Europe %	Total %
Less than 50 per cent	65.6	46.3	68.6	32.7	28.9	32.1	—	33.1	52.0
50 per cent to 59 per cent	12.3	22.0	13.0	21.0	18.7	13.5	—	40.3	17.0
60 per cent to 69 per cent	10.5	24.5	11.3	20.1	19.8	21.7	—	23.2	16.2
70 per cent to 79 per cent	7.1	4.7	5.6	17.7	17.7	23.3	—	3.4	9.5
80 per cent to 89 per cent	4.1	1.5	1.2	7.3	7.2	8.9	—	—	4.4
90 per cent to 99 per cent	0.4	0.6	0.1	1.0	3.6	0.2	—	—	0.6
100 per cent and greater	—	0.4	0.2	0.2	4.1	0.3	—	—	0.3
Average portfolio loan-to-value	44.0	50.0	38.7	56.4	61.4	58.2	—	51.5	49.3
Loans to individuals – Mortgages (\$million)	34,381	12,918	2,366	20,724	1,853	345	—	1,320	73,907
2013									
	Greater China %	North East Asia %	South Asia %	ASEAN %	MENAP %	Africa %	Americas %	Europe %	Total %
Less than 50 per cent	62.9	48.8	65.8	32.3	31.0	27.0	—	20.6	50.6
50 per cent to 59 per cent	14.7	22.7	13.5	22.0	16.3	13.6	—	32.2	18.5
60 per cent to 69 per cent	9.6	19.1	10.7	20.3	19.5	21.3	—	22.7	14.8
70 per cent to 79 per cent	6.4	5.6	7.1	18.5	16.1	22.4	—	24.6	10.0
80 per cent to 89 per cent	4.0	2.2	2.4	5.4	7.4	15.1	—	—	4.1
90 per cent to 99 per cent	2.3	1.1	0.4	1.1	3.4	0.2	—	—	1.7
100 per cent and greater	—	0.5	—	0.4	6.3	0.4	—	—	0.4
Average portfolio loan-to-value	45.6	49.3	40.5	56.0	62.1	64.3	—	57.8	49.9
Loans to individuals – Mortgages (\$million)	32,940	12,821	2,298	21,636	1,753	293	—	1,355	73,096

Collateral and other credit enhancements possessed or called upon

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

The carrying value of collateral possessed and held by the Group as at 31 December 2014 is \$20 million (2013: \$44 million).

Other credit risk mitigation

Other forms of credit risk mitigation are set out below.

Securitisation

The Group has transferred to third parties by way of securitisation the rights to any collection of principal and interest on client loan assets with a face value of \$31 million (2013: \$779 million). The Group continues to recognise these assets in addition to the proceeds and related liability of \$29 million (2013: \$502 million) arising from the securitisations. The Group considers the above client loan assets to be encumbered. Further details of encumbered assets are provided on page 95.

Credit default swaps

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of \$22.3 billion (2013: \$21.4 billion). These credit default swaps are accounted for as guarantees as they meet the accounting requirements set out in International Accounting Standards (IAS) 39. The Group continues to hold the underlying assets referenced in the credit default swaps and it continues to be exposed to related credit and foreign exchange risk on these assets.

Derivatives financial instruments

The Group enters into master netting agreements, which in the event of default results 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 \$43,735 million (2013: \$46,242 million).

In addition, we enter into credit support annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Cash collateral includes collateral called under a variation margin process from counterparties if total uncollateralised mark-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. With certain counterparties, the CSA is reciprocal and requires us to post collateral if the overall mark-to-market values of positions are in the counterparty's favour and exceed an agreed threshold. The Group holds \$3,484 million (2013: \$3,068 million) under CSAs.

Off-balance sheet exposures

For certain types of exposures, such as letters of credit and guarantees, the Group obtains collateral – such as cash – depending on internal credit risk assessments, as well as in

the case of letters of credit holding legal title to the underlying assets should a default take place.

Credit quality analysis

An overall breakdown of the loan portfolio by client segment is set out on page 75, differentiating between the performing and non-performing book.

Within the performing book, there is an analysis:

- By credit grade (CG), which plays a central role in the quality assessment and monitoring of risk as explained in pages 78 and 79
- Of loans and advances past due but not impaired: a loan is considered past due if payment of principal or interest has not been made on its contractual due date
- Of loans and advances where an impairment provision has been raised: these represent certain forbearance accounts which have complied with their revised contractual terms for more than 180 days and on which no loss of principal is expected

Non-performing loans are analysed, net of IIP, between what is past due but not impaired and what is impaired.

 **Further analysis of credit quality by geography, together with the related impairment charges and provisions, is set out on pages 78 and 79**

CG migration

Performing loans that are neither past due nor impaired constitute 97 per cent of customer loans and this is consistent with past periods (2013: 96 per cent). Overall credit quality has also remained stable, with the average CG of the corporate loan portfolio remaining at 8B, unchanged since 2013.

All loans are assigned a CG, which is reviewed periodically and amended in light of changes in the borrower's circumstances or behaviour. CG 1 to 12 are assigned to performing clients or accounts, while CG 13 and 14 are assigned to non-performing or defaulted clients.

 **Further details of our approach to credit rating is set out on page 108**

CG migration trends have also been stable across most countries, although there has been some deterioration in India and China, related to the slower economic growth in those countries (see details on pages 62 and 63). The increase in CG12 balances in 2014 is principally due to the downgrade of a small number of connected exposures. Excluding this, the CG composition across all client segments is consistent with the prior year. In respect of loans to banks, the credit quality composition is also consistent with prior periods, with most of the growth in this period being in CG 1 to 5.

Retail Clients credit quality composition remained stable over last year. The increase in CG 1 to 5 was mainly due to a re-rating of the mortgage portfolio in Hong Kong.

Performing loans and advances 'past due but not impaired' are \$1.9 billion lower than in 2013, with decreases across all categories. The past due balances arise substantially in the 'up to 30 days past due' category. In the Retail Clients segment, these primarily relate to loans where there is a temporary timing difference in payments. In the Corporate & Institutional Clients and Commercial Clients segments, across all past due

categories, approximately 74 per cent of the amounts past due were regularised by 31 January 2015.

Non-performing loans (NPLs)

NPLs (net of IIPs) are higher by \$585 million. This increase is primarily in the Corporate & Institutional Clients and Commercial Clients segments and is driven by a small number of large exposures financially booked in Europe, Greater China and ASEAN. Details and further analysis of gross and net NPLs by client segment and by geography are provided on pages 80 and 81.

An NPL is any loan that is more than 90 days past due or is otherwise individually impaired. This excludes loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected. These loans may have a provision reflecting the time value of money, and, if so, are reported as part of forborne loans. Renegotiated and forborne loans included in these amounts are consistent with the level seen as at 31 December 2013.

Other renegotiated and forborne loans have been relatively stable since 2013.

 **The definition and policies in respect of renegotiated and forborne loans are set out on page 111**

Loan impairment

The total loan impairment losses and other credit risk provisions charge for 2014 has increased by \$524 million, or 33 per cent, to \$2.1 billion compared to 2013. This represents 72 basis points (bps) of average customer loans and advances.

In Corporate & Institutional Clients and Commercial Clients, total individual loan impairment provisions on-balance sheet (excluding provisions against performing forborne loans) have increased by \$415 million, or 18 per cent, compared to 31 December 2013. The provision was concentrated to a few clients in Europe, ASEAN and Greater China. Loan impairment for Corporate & Institutional Clients and Commercial Clients represents 67 bps of average customer loans and advances.

In Retail Clients, total IIPs were marginally lower than 2013. Impairments from Korea PDRS filings remain broadly stable and there were modest improvements in some other markets. PIPs also reduced as we reduced high-risk personal loans exposure. We remain disciplined in our approach to risk management and proactive in our collection efforts to minimise account delinquencies.

Other impairment, excluding goodwill impairment, has increased by \$274 million to \$403 million, reflecting the write-down of commodity assets arising from a fraud in Greater China and certain strategic and associate investments.

PIP

A PIP is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in any loan portfolio. PIP balances have remained the same in 2014. The increase in PIP balances in the Corporate & Institutional Clients and Commercial Clients segments is offset by the decrease in the PIP balance for the Retail Clients segment, reflecting the impact of de-risking and classification of assets as held-for-sale. Further details around the policy and rationale underlying the determinant of the PIP are provided on pages 110 and 111.

Cover ratio

The cover ratio measures the proportion of total impairment provisions to gross NPLs, and is a metric commonly used in considering impairment trends. This metric does not allow for variations in the composition of NPLs and should be used in conjunction with other credit risk information provided, including the level of collateral cover.

The cover ratio before collateral for Retail Clients increased to 91 per cent (2013: 86 per cent). The cover ratio before collateral for Corporate & Institutional Clients was lower at 46 per cent compared to 2013. The cover ratios before collateral in the Commercial Clients and Private Banking Clients segment, also increased to 51 per cent and 67 per cent respectively since 2013.

The balance of NPLs not covered by IIPs represents the adjusted value of collateral held and the Group's estimate of the net outcome of any workout or recovery strategy. The cover ratio after taking into account collateral, but excluding PIPs, for Corporate & Institutional Clients is 55 per cent (2013: 56 per cent) and for Commercial Clients is 71 per cent (2013: 59 per cent).

As highlighted on page 70, collateral provides risk mitigation to some degree in all client segments and supports the credit quality and cover ratio assessments post impairment provisions. Details are provided on pages 80 and 81.

By client segment

	2014						
	Loans to Customers						
	Loans to banks \$million	Corporate & Institutional Clients \$million	Commercial Clients \$million	Private Banking Clients \$million	Retail Clients \$million		
Performing loans							
Neither past due nor impaired							
– Grades 1-5	79,001	65,551	775	3,115	65,467	134,908	
– Grades 6-8	6,456	61,863	5,413	14,648	14,472	96,396	
– Grades 9-11	1,871	20,879	7,377	120	14,050	42,426	
– Grade 12	28	4,545	126	3	944	5,618	
	87,356	152,838	13,691	17,886	94,933	279,348	
of the above, renegotiated loans	–	4,277	17	–	262	4,556	
Past due but not impaired							
– Up to 30 days past due	40	1,467	344	139	2,187	4,137	
– 31-60 days past due	–	183	60	1	400	644	
– 61-90 days past due	3	154	23	–	179	356	
	43	1,804	427	140	2,766	5,137	
of the above, renegotiated loans	–	106	10	–	61	177	
Impaired forbearance loans, net of provisions	–	479	–	–	153	632	
Total performing loans	87,399	155,121	14,118	18,026	97,852	285,117	
Non-performing loans							
Past due but not impaired							
– 91-120 days past due	–	–	2	–	96	98	
– 121-150 days past due	–	–	25	–	66	91	
	–	–	27	–	162	189	
Individually impaired loans, net of provisions							
of the above, forbearance loans	–	103	3,177	545	32	235	3,989
	–	1,072	48	–	225	1,345	
Total non-performing loans, net of individual impairment	103	3,177	572	32	397	4,178	
Total loans and advances	87,502	158,298	14,690	18,058	98,249	289,295	
Portfolio impairment provision	(2)	(328)	(39)	(2)	(327)	(696)	
Total net loans and advances	87,500	157,970	14,651	18,056	97,922	288,599	

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

	2014					
	Loans to Customers					
	Loans to banks \$million	Corporate & Institutional Clients \$million	Commercial Clients \$million	Private Banking Clients \$million	Retail Clients \$million	
Neither past due nor impaired						
– Grades 1-5						
– Grades 6-8	3,293	1,651	–	–	–	1,651
– Grades 9-11	317	1,415	–	–	–	1,415
– Grade 12	–	320	–	–	–	320
	–	100	–	–	–	100
	3,610	3,486	–	–	–	3,486
Past due but not impaired						
– Up to 30 days past due	–	–	–	–	–	–
Individually impaired loans	–	418	–	–	–	418

Risk profile

	2013				
	Loans to Customers				
	Loans to banks \$million	Corporate & Institutional Clients \$million	Commercial Clients \$million	Private Banking Clients \$million	Retail Clients \$million
Performing loans					
Neither past due nor impaired					
– Grades 1-5	73,862	61,425	1,326	3,709	54,141
– Grades 6-8	10,325	66,195	6,812	13,169	24,988
– Grades 9-11	1,825	25,614	8,348	87	15,236
– Grade 12	35	1,661	295	69	2,342
	86,047	154,895	16,781	17,034	96,707
of the above, renegotiated loans	–	4,208	26	–	388
Past due but not impaired					
– Up to 30 days past due	17	2,463	422	42	2,548
– 31-60 days past due	–	272	59	38	418
– 61-90 days past due	–	579	33	4	202
	17	3,314	514	84	3,168
of the above, renegotiated loans	–	583	–	–	–
Impaired forborne loans, net of provisions					
	–	474	1	–	150
Total performing loans	86,064	158,683	17,296	17,118	100,025
					293,122
Non-performing loans					
Past due but not impaired					
– 91-120 days past due	–	–	–	–	115
– 121-150 days past due	–	–	5	1	77
	–	–	5	1	192
					198
Individually impaired loans, net of provisions					
of the above, forborne loans	107	2,510	540	41	300
	–	801	61	–	461
					1,323
Total non-performing loans, net of individual impairment	107	2,510	545	42	492
					3,589
Total loans and advances	86,171	161,193	17,841	17,160	100,517
Portfolio impairment provision	(2)	(287)	(39)	(1)	(369)
Total net loans and advances	86,169	160,906	17,802	17,159	100,148
					296,015
The following table sets out loans and advances held at fair value through profit and loss, which are included within the table above.					
	2013				
	Loans to Customers				
	Loans to banks \$million	Corporate & Institutional Clients \$million	Commercial Clients \$million	Private Banking Clients \$million	Retail Clients \$million
Neither past due nor impaired					
– Grades 1-5	2,271	1,026	–	–	1,026
– Grades 6-8	196	3,321	–	–	3,321
– Grades 9-11	–	211	–	–	211
– Grade 12	–	25	–	–	25
	2,467	4,583	–	–	4,583
Past due but not impaired					
– Up to 30 days past due	–	405	–	–	405
Individually impaired loans					
	–	319	–	–	319

Renegotiated and forbearance loans

The table below shows an analysis of renegotiated and forbearance loans by region:

	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Other renegotiated loans	321	85	18	579	258	42	—	3,430	4,733
Loans subject to forbearance	212	114	75	417	550	75	—	534	1,977
Total renegotiated and forbearance loans	533	199	93	996	808	117	—	3,964	6,710

	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Other renegotiated loans	161	139	74	1,512	404	45	—	2,870	5,205
Loans subject to forbearance	296	225	58	315	688	42	—	324	1,948
Total renegotiated and forbearance loans	457	364	132	1,827	1,092	87	—	3,194	7,153

By industry

	2014									Movements in impairment		
	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individually impaired \$million	Individual impairment provision \$million	Total \$million	Individual impairment provision held as at 1 January 2014 \$million			Net impairment charge/(recovery) \$million	Amounts written off/other movements \$million	Individual impairment provision held as at 31 December 2014 \$million	
						Individual impairment provision held as at 1 January 2014 \$million	Net impairment charge/(recovery) \$million	Amounts written off/other movements \$million				
Industry												
Energy	26,568	293	503	(141)	27,223	109	43	(11)	141			
Manufacturing	25,609	360	1,140	(306)	26,803	217	243	(154)	306			
Financing, insurance and non-banking	24,708	27	985	(334)	25,386	474	11	(151)	334			
Transport, telecom and utilities	18,020	277	574	(266)	18,605	333	77	(144)	266			
Food and household products	13,860	263	545	(336)	14,332	247	124	(35)	336			
Commercial real estate	15,989	36	55	(16)	16,064	39	1	(24)	16			
Mining and quarrying	11,795	201	1,388	(572)	12,812	139	460	(27)	572			
Consumer durables	11,841	123	487	(275)	12,176	266	45	(36)	275			
Construction	5,769	270	509	(99)	6,449	76	35	(12)	99			
Trading companies and distributors	4,055	54	477	(296)	4,290	265	43	(12)	296			
Government	2,749	—	—	—	2,749	—	—	—	—			
Other	5,566	354	297	(118)	6,099	84	64	(30)	118			
Retail Products												
Mortgage	72,131	1,610	297	(131)	73,907	123	42	(34)	131			
CCPL and other unsecured lending	19,181	1,106	491	(289)	20,489	273	869	(853)	289			
Auto	935	80	1	—	1,016	1	(4)	3	—			
Secured Wealth Products	15,166	81	8	—	15,255	—	—	—	—			
Other	5,406	191	140	(97)	5,640	103	39	(45)	97			
Loans and advances to customers	279,348	5,326	7,897	(3,276)	289,295							
Individual impairment provision					—	2,749	2,092	(1,565)	3,276			
Portfolio impairment provision					(696)	696	38	(38)	696			
Total					288,599	3,445	2,130	(1,603)	3,972			
Loans and advances to banks	87,356	43	202	(99)	87,502	—	—	—	—			
Individual impairment provision					—	100	4	(5)	99			
Portfolio impairment provision					(2)	2	—	—	2			
Total					87,500	102	4	(5)	101			

Risk profile

	2013								
	Movements in impairment								
	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individually impaired \$million	Individual impairment provision \$million	Total \$million	Individual impairment provision held as at 1 January 2013 \$million	Net impairment charge/ (recovery) \$million	Amounts written off/ other movements \$million	Individual impairment provision held as at 31 December 2013 \$million
Industry¹									
Energy	29,088	1,167	395	(109)	30,541	113	5	(9)	109
Manufacturing	27,091	606	598	(217)	28,078	212	67	(62)	217
Financing, insurance and non-banking	14,804	93	1,149	(474)	15,572	440	7	27	474
Transport, telecom and utilities	19,377	468	794	(333)	20,306	310	66	(43)	333
Food and household products	18,067	204	523	(247)	18,547	80	198	(31)	247
Commercial real estate	16,823	66	79	(39)	16,929	30	13	(4)	39
Mining and quarrying	15,210	334	565	(139)	15,970	108	99	(68)	139
Consumer durables	12,337	241	693	(266)	13,005	177	114	(25)	266
Construction	5,655	378	316	(76)	6,273	89	29	(42)	76
Trading companies and distributors	5,751	51	402	(265)	5,939	256	12	(3)	265
Government	2,019	1	—	—	2,020	—	—	—	—
Other	5,454	224	260	(84)	5,854	66	26	(8)	84
Retail Products									
Mortgage	71,114	1,795	310	(123)	73,096	143	11	(31)	123
CCPL and other unsecured lending	22,341	1,258	482	(273)	23,808	192	887	(806)	273
Auto	1,156	128	1	(1)	1,284	1	1	(1)	1
Secured Wealth products	12,814	12	24	—	12,850	4	14	(18)	—
Other	6,316	252	174	(103)	6,639	109	49	(55)	103
Loans and advances to customers	285,417	7,278	6,765	(2,749)	296,711	—	2,330	1,598	(1,179)
Individual impairment provision					(696)	722	15	(41)	2,749
Portfolio impairment provision									696
Total					296,015	3,052	1,613	(1,220)	3,445
Loans and advances to banks	86,047	17	207	(100)	86,171	—	—	—	—
Individual impairment provision					(2)	103	(1)	(2)	100
Portfolio impairment provision						2	—	—	2
Total					86,169	105	(1)	(2)	102

1. During 2014, industry classifications for Corporate & Institutional Clients and Commercial Clients segments have been aligned to internal classifications, resulting in a re-presentation of industry classification for 2013

Credit quality by geographic region

The following tables set out an analysis of the loans to customers and banks between those loans that are neither past due nor impaired, those that are past due but not impaired, those that are impaired, the impairment provision and net impairment charge by geographic region:

Loans and advances to customers

	2014								
	Balance sheet ¹						Profit and loss		
	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individual impaired \$million	Individual impairment provision \$million	Portfolio impairment provision \$million	Total \$million	Net individual impairment provision \$million	Portfolio impairment provision/ (release) \$million	Net loan impairment charge ² \$million
Greater China	86,315	754	847	(366)	(98)	87,452	496	(25)	471
North East Asia	28,989	562	428	(288)	(75)	29,616	423	(34)	389
South Asia	13,129	754	1,135	(450)	(56)	14,512	149	5	154
ASEAN	74,059	1,859	1,137	(450)	(201)	76,404	477	54	531
MENAP	16,683	544	2,204	(1,046)	(78)	18,307	96	(7)	89
Africa	7,785	260	478	(115)	(47)	8,361	74	(15)	59
Americas	10,924	3	37	—	(9)	10,955	(2)	3	1
Europe	41,464	590	1,631	(561)	(132)	42,992	379	57	436
	279,348	5,326	7,897	(3,276)	(696)	288,599	2,092	38	2,130

1. The disclosures in Risk profile are presented on the basis of booking location and not customer location

2. Excludes impairment charges relating to debt securities classified as loans and receivables

	2013								
	Balance sheet ¹						Profit and loss		
	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individual impairment provision \$million	Portfolio impairment provision \$million	Total \$million		Net individual impairment provision \$million	Portfolio impairment provision/ (release) \$million	Net loan impairment charge ² \$million
Greater China	86,512	822	634	(195)	(146)	87,627	236	4	240
North East Asia	29,724	784	536	(322)	(107)	30,615	430	(2)	428
South Asia	12,670	854	1,023	(387)	(53)	14,107	198	5	203
ASEAN	79,502	2,232	883	(362)	(152)	82,103	376	19	395
MENAP	16,472	685	2,386	(1,119)	(85)	18,339	87	(39)	48
Africa	7,620	219	277	(90)	(68)	7,958	67	8	75
Americas	10,554	127	5	(5)	(6)	10,675	4	1	5
Europe	42,363	1,555	1,021	(269)	(79)	44,591	200	19	219
	285,417	7,278	6,765	(2,749)	(696)	296,015	1,598	15	1,613

1. The disclosures in Risk profile are presented on the basis of booking location and not customer location

2. Excludes impairment charges relating to debt securities classified as loans and receivables

Loans and advances to banks

	2014								
	Balance sheet ¹						Profit and loss		
	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individually impaired \$million	Individual impairment provision \$million	Portfolio impairment provision \$million	Total \$million	Net individual impairment provision \$million	Portfolio impairment provision/ (release) \$million	Net loan impairment charge \$million
Greater China	28,757	1	—	—	—	28,758	3	—	3
North East Asia	5,997	—	—	—	—	5,997	—	—	—
South Asia	485	3	—	—	—	488	—	—	—
ASEAN	12,297	5	165	(78)	(1)	12,388	—	—	—
MENAP	1,604	—	—	—	(1)	1,603	—	—	—
Africa	930	10	—	—	—	940	—	—	—
Americas	12,641	20	—	—	—	12,661	—	—	—
Europe	24,645	4	37	(21)	—	24,665	1	—	1
	87,356	43	202	(99)	(2)	87,500	4	—	4

	2013								
	Balance sheet ¹						Profit and loss		
	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individually impaired \$million	Individual impairment provision \$million	Portfolio impairment provision \$million	Total \$million	Net individual impairment provision \$million	Portfolio impairment provision/ (release) \$million	Net loan impairment charge \$million
Greater China	27,895	4	6	—	—	27,905	—	—	—
North East Asia	6,561	—	—	—	—	6,561	—	—	—
South Asia	575	—	—	—	—	575	—	—	—
ASEAN	6,677	13	165	(78)	(1)	6,776	—	—	—
MENAP	2,098	—	—	—	(1)	2,097	—	—	—
Africa	742	—	—	—	—	742	—	—	—
Americas	13,067	—	—	—	—	13,067	—	—	—
Europe	28,432	—	36	(22)	—	28,446	(1)	—	(1)
	86,047	17	207	(100)	(2)	86,169	(1)	—	(1)

1. The disclosures in Risk profile are presented on the basis of booking location and not customer location

Risk profile

Problem credit management and provisioning

NPLs by client segment

The table below presents the movement of the gross NPLs to customers and banks, together with the provisions held, for all segments and the respective cover ratios.

	2014				
	Corporate & Institutional Clients \$million	Commercial Clients \$million	Private Banking Clients \$million	Retail Clients \$million	Total \$million
Gross non-performing loans at 1 January	4,541	959	94	885	6,479
Exchange translation differences	(73)	(35)	(9)	(33)	(150)
Classified as non-performing during the year	1,981	469	28	606	3,084
Recoveries on loans and advances previously written off	32	–	–	2	34
Additions	2,013	469	28	608	3,118
Transferred to assets held for sale	(6)	(2)	–	(15)	(23)
Transferred to performing during the year	(232)	(30)	(17)	(142)	(421)
Net repayments	(230)	(155)	–	(124)	(509)
Amounts written off	(369)	(53)	–	(349)	(771)
Disposals of loans	(134)	(58)	(6)	(33)	(231)
Reductions	(971)	(298)	(23)	(663)	(1,955)
Gross non-performing loans at 31 December	5,510	1,095	90	797	7,492
Individual impairment provisions ¹	(2,230)	(523)	(58)	(400)	(3,211)
Net non-performing loans	3,280	572	32	397	4,281
Portfolio impairment provision (PIP)	(330)	(39)	(2)	(327)	(698)
Total	2,950	533	30	70	3,583
Cover ratio	46%	51%	67%	91%	52%
Collateral (\$million)	809	253	40	360	1,462
Cover ratio (after collateral)	55%	71%	nm ²	95%	62%
	2013				
	Corporate & Institutional Clients \$million	Commercial Clients \$million	Private Banking Clients \$million	Retail Clients \$million	Total \$million
Gross non-performing loans as at 1 January	3,788	720	95	935	5,538
Exchange translation differences	(105)	(45)	3	(23)	(170)
Classified as non-performing during the year	1,638	381	2	915	2,936
Recoveries on loans and advances previously written off	–	5	–	24	29
Additions	1,638	386	2	939	2,965
Transferred to assets held for sale	–	–	–	(111)	(111)
Transferred to performing during the year	(87)	(3)	–	(126)	(216)
Net repayments	(585)	(53)	–	(84)	(722)
Amounts written off	(28)	(36)	–	(558)	(622)
Disposals of loans	(80)	(10)	(6)	(87)	(183)
Reductions	(780)	(102)	(6)	(966)	(1,854)
Gross non-performing loans as at 31 December	4,541	959	94	885	6,479
Individual impairment provisions ¹	(1,924)	(414)	(52)	(393)	(2,783)
Net non-performing loans	2,617	545	42	492	3,696
Portfolio impairment provision (PIP)	(289)	(39)	(1)	(369)	(698)
Total	2,328	506	41	123	2,998
Cover ratio	49%	47%	56%	86%	54%
Collateral (\$million)	614	156	65	396	1,231
Cover ratio (after collateral)	56%	59%	nm ²	89%	62%

1. The difference to total individual impairment provision reflects provisions against performing forborne loans that are not included within non-performing loans as they have been performing for 180 days

2. Not meaningful

NPLs by geographic region

Gross NPLs have increased by \$1,013 million, or 16 per cent, since 2013. These increases were primarily driven by a small number of large exposures in Europe, ASEAN and Greater China.

The following tables set out the total NPLs to customers and banks on the basis of the geographic regions.

	31.12.2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Loans and advances									
Gross non-performing ¹	668	448	1,159	1,396	1,643	478	37	1,663	7,492
Individual impairment provision ²	(321)	(288)	(450)	(519)	(936)	(115)	–	(582)	(3,211)
Non-performing loans net of individual impairment provision	347	160	709	877	707	363	37	1,081	4,281
Portfolio impairment provision	(98)	(75)	(56)	(202)	(79)	(47)	(9)	(132)	(698)
Net non-performing loans and advances	249	85	653	675	628	316	28	949	3,583
Cover ratio	63%	81%	44%	52%	62%	34%	24%	43%	52%

	30.06.2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Loans and advances									
Gross non-performing ¹	515	644	1,131	1,230	1,733	471	1	1,460	7,185
Individual impairment provision ²	(244)	(353)	(397)	(481)	(1,113)	(90)	(1)	(377)	(3,056)
Net non-performing loans	271	291	734	749	620	381	–	1,083	4,129
Portfolio impairment provision	(142)	(105)	(65)	(174)	(70)	(65)	(6)	(107)	(734)
Total	129	186	669	575	550	316	(6)	976	3,395
Cover ratio	75%	71%	41%	53%	68%	33%	nm ³	33%	53%

	31.12.2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Loans and advances									
Gross non-performing ¹	460	574	1,040	1,117	1,935	291	5	1,057	6,479
Individual impairment provision ²	(149)	(322)	(386)	(435)	(1,105)	(90)	(5)	(291)	(2,783)
Non-performing loans net of individual impairment provision	311	252	654	682	830	201	–	766	3,696
Portfolio impairment provision	(146)	(107)	(53)	(153)	(86)	(68)	(6)	(79)	(698)
Net non-performing loans and advances	165	145	601	529	744	133	(6)	687	2,998
Cover ratio	64%	75%	42%	53%	62%	54%	nm ³	35%	54%

1. The disclosures in Risk profile are presented on the basis of booking location and not customer location

2. The difference to total individual impairment provision reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days

3. Not meaningful

Risk profile

IIPs and PIPs

The movement in IIP is discussed below. PIPs charge increased by \$23 million, largely in relation to Corporate & Institutional Clients based in Europe.

The following table set out the movements in total IIPs and PIPs.

	2014			2013		
	Individual impairment provisions \$million	Portfolio impairment provisions \$million	Total \$million	Individual impairment provisions \$million	Portfolio impairment provisions \$million	Total \$million
Provisions held as at 1 January	2,849	698	3,547	2,433	724	3,157
Exchange translation differences	(61)	(21)	(82)	(81)	(16)	(97)
Amounts written off	(1,517)	–	(1,517)	(1,173)	–	(1,173)
Releases of acquisition fair values	(5)	–	(5)	(3)	–	(3)
Recoveries of amounts previously written off	217	–	217	211	–	211
Discount unwind	(100)	–	(100)	(93)	–	(93)
Transferred to assets held for sale	(104)	(17)	(121)	(42)	(25)	(67)
New provisions	2,483	202	2,685	2,007	170	2,177
Recoveries/provisions no longer required	(387)	(164)	(551)	(410)	(155)	(565)
Net impairment charge against profit	2,096	38	2,134	1,597	15	1,612
Provisions held as at 31 December	3,375	698	4,073	2,849	698	3,547

By geographic region

The table below sets out the movement in total impairment provisions by geographic region:

	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Provisions held as at 1 January	341	429	440	593	1,205	158	11	370	3,547
Exchange translation differences	(6)	(13)	(10)	(11)	4	(15)	–	(31)	(82)
Amounts written off	(362)	(370)	(64)	(448)	(165)	(45)	(5)	(58)	(1,517)
Releases of acquisition fair values	(4)	–	–	–	(1)	–	–	–	(5)
Recoveries of amounts previously written off	59	26	17	80	26	7	2	–	217
Discount unwind	(15)	(9)	(31)	(15)	(24)	(2)	–	(4)	(100)
Transferred to assets held for sale	(23)	(89)	–	–	(9)	–	–	–	(121)
New provisions	593	512	198	691	155	90	3	443	2,685
Individual impairment provision	572	509	182	599	149	88	–	384	2,483
Portfolio impairment provision	21	3	16	92	6	2	3	59	202
Recoveries/provisions no longer required	(119)	(123)	(44)	(160)	(66)	(31)	(2)	(6)	(551)
Net impairment charge against profit	474	389	154	531	89	59	1	437	2,134
Provisions held as at 31 December	464	363	506	730	1,125	162	9	714	4,073

	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Provisions held as at 1 January	333	380	347	552	1,272	111	8	154	3,157
Exchange translation differences	(3)	7	(39)	(43)	(13)	(6)	–	–	(97)
Amounts written off	(276)	(339)	(59)	(366)	(97)	(27)	(2)	(7)	(1,173)
Releases of acquisition fair values	(1)	–	–	–	(2)	–	–	–	(3)
Recoveries of amounts previously written off	61	30	10	71	23	8	–	8	211
Discount unwind	(13)	(10)	(22)	(16)	(26)	(3)	–	(3)	(93)
Transferred to assets held for sale	–	(67)	–	–	–	–	–	–	(67)
New provisions	385	538	238	541	155	89	5	226	2,177
Individual impairment provision	330	521	227	491	148	81	4	205	2,007
Portfolio impairment provision	55	17	11	50	7	8	1	21	170
Recoveries/provisions no longer required	(145)	(110)	(35)	(146)	(107)	(14)	–	(8)	(565)
Net impairment charge against profit	240	428	203	395	48	75	5	218	1,612
Provisions held as at 31 December	341	429	440	593	1,205	158	11	370	3,547

Individually impaired loans by client segment

Individually impaired loans were lower in Retail Clients compared to 2013, at \$0.8 billion. Corporate & Institutional Clients gross individually impaired loans increased by \$1.1 billion, or 21 per cent, since 2013. IIP increases were primarily in Europe, Greater China and ASEAN, as a result of a small number of Corporate & Institutional Clients exposures.

The amounts written off primarily relate to Retail Clients, which generate a higher level of write-offs as unsecured lending balances are written off once they are more than 150 days past due.

The following table shows movement in individually impaired loans and provisions for each client segment:

	2014				
	Corporate & Institutional Clients \$million	Commercial Clients \$million	Private Banking Clients \$million	Retail Clients \$million	Total \$million
Gross impaired loans as at 1 January	5,018	963	93	898	6,972
Exchange translation differences	(63)	(41)	(8)	(40)	(152)
Transfer to assets held for sale	(6)	(2)	—	(15)	(23)
Classified as individually impaired during the year	2,215	469	28	656	3,368
Transferred to not impaired during the year	(234)	(30)	(17)	(133)	(414)
Other movements ¹	(836)	(291)	(5)	(520)	(1,652)
Gross impaired loans as at 31 December	6,094	1,068	91	846	8,099

	2014				
	Corporate & Institutional Clients \$million	Commercial Clients \$million	Private Banking Clients \$million	Retail Clients \$million	Total \$million
Provisions held as at 1 January	1,927	422	52	448	2,849
Exchange translation differences	(44)	(5)	—	(12)	(61)
Amounts written off	(417)	(97)	7	(1,010)	(1,517)
Releases of acquisition fair values	(4)	(1)	—	—	(5)
Recoveries of amounts previously written off	—	2	—	215	217
Discount unwind	(58)	(16)	—	(26)	(100)
Transferred to assets held for sale	(1)	—	—	(103)	(104)
New provisions	955	251	—	1,277	2,483
Recoveries/provisions no longer required	(23)	(33)	—	(331)	(387)
Net individual impairment charge against profit	932	218	—	946	2,096
Individual impairment provisions held as at 31 December	2,335	523	59	458	3,375
Net individually impaired loans	3,759	545	32	388	4,724

	2013				
	Corporate & Institutional Clients \$million	Commercial Clients \$million	Private Banking Clients \$million	Retail Clients \$million	Total \$million
Gross impaired loans as at 1 January	4,230	716	94	901	5,941
Exchange translation differences	(109)	(39)	2	(26)	(172)
Transfer to assets held for sale	—	—	—	(111)	(111)
Classified as individually impaired during the year	1,690	381	2	998	3,071
Transferred to not impaired during the year	(97)	(2)	—	(106)	(205)
Other movements ¹	(696)	(93)	(5)	(758)	(1,552)
Gross impaired loans as at 31 December	5,018	963	93	898	6,972
Provisions held as at 1 January	1,639	345	44	405	2,433
Exchange translation differences	(60)	(16)	—	(5)	(81)
Amounts written off	(82)	(52)	—	(1,039)	(1,173)
Releases of acquisition fair values	—	(2)	—	(1)	(3)
Recoveries of amounts previously written off	13	—	—	198	211
Discount unwind	(57)	(14)	—	(22)	(93)
Transferred to assets held for sale	—	—	—	(42)	(42)
New provisions	517	189	8	1,293	2,007
Recoveries/provisions no longer required	(43)	(28)	—	(339)	(410)
Net individual impairment charge against profit	474	161	8	954	1,597
Individual impairment provisions held as at 31 December	1,927	422	52	448	2,849
Net individually impaired loans	3,091	541	41	450	4,123

1. Other movements include repayments, amounts written off and disposals of loans

Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

	2014			2013		
	Debt securities \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Treasury bills \$million	Total \$million
Net impaired securities:						
Impaired securities	677	–	677	389	–	389
Impairment	(314)	–	(314)	(204)	–	(204)
	363	–	363	185	–	185
Securities neither past due nor impaired:						
AAA	31,549	5,569	37,118	23,772	4,455	28,227
AA- to AA+	23,131	13,621	36,752	23,274	19,226	42,500
A- to A+	19,489	640	20,129	21,392	1,087	22,479
BBB- to BBB+	10,140	3,393	13,533	5,913	4,238	10,151
Lower than BBB-	3,423	2,097	5,520	3,293	898	4,191
Unrated	7,582	581	8,163	8,244	1,500	9,744
	95,314	25,901	121,215	85,888	31,404	117,292
	95,677	25,901	121,578	86,073	31,404	117,477
Of which:						
Assets at fair value						
Trading	17,735	1,720	19,455	12,407	5,161	17,568
Designated at fair value	–	92	92	292	–	292
Available-for-sale	74,937	24,073	99,010	70,546	26,243	96,789
	92,672	25,885	118,557	83,245	31,404	114,649
Assets at amortised cost						
Loans and receivables	2,883	–	2,883	2,828	–	2,828
Held-to-maturity	122	16	138	–	–	–
	3,005	16	3,021	2,828	–	2,828
	95,677	25,901	121,578	86,073	31,404	117,477

The above table analyses debt securities and treasury bills that are neither past due nor impaired by external credit rating. The standard credit ratings used by the Group are those used by Standard & Poor's or its equivalent. Debt securities held that have a short-term rating are reported against the long-term rating of the issuer. For securities that are unrated, the Group applies an internal credit rating, as described under credit rating and measurements on page 108.

Net impaired debt securities increased during the year, primarily due to the impairment of a strategic investment in Europe and a corporate bond exposure in South Asia.

Debt securities in the AAA rating category increased by \$7.8 billion to \$31.5 billion in December 2014, mainly due

to an increase in higher-quality corporate bonds in Hong Kong and Singapore.

This was offset by a low level of AAA trading business, as funds were deployed into higher-quality assets in Singapore, and as part of the restructuring of the balance sheet in Korea.

Debt securities in the BBB- to BBB+ rating category increased by \$4.2 billion in December 2014. The increase is mainly in India, due to investment in government securities that are currently rated as BBB-.

Unrated securities primarily relate to corporate issuers. Using internal credit ratings, \$7,908 million (2013: \$9,275 million) of these securities is considered to be equivalent to investment grade.

Asset backed securities (ABS) (unaudited)

Total exposures to ABS

	2014				2013			
	Percentage of notional value of portfolio %	Notional \$million	Carrying value \$million	Fair value ¹ \$million	Percentage of notional value of portfolio %	Notional \$million	Carrying value \$million	Fair value ¹ \$million
Residential mortgage backed securities	39	4,002	4,007	4,004	46	3,059	3,052	3,045
Collateralised debt obligations	1	82	54	54	3	223	181	190
Commercial mortgage backed securities	4	390	325	318	5	321	242	235
Other asset backed securities	56	5,796	5,795	5,795	46	3,126	3,081	3,124
	100	10,270	10,181	10,171	100	6,729	6,556	6,594
Of which included within:								
Financial assets held at fair value through profit or loss	3	286	282	282	2	158	158	158
Investment securities – available-for-sale	84	8,624	8,548	8,548	79	5,295	5,202	5,202
Investment securities – loans and receivables	13	1,360	1,351	1,341	19	1,276	1,196	1,234
	100	10,270	10,181	10,171	100	6,729	6,556	6,594

1. Fair value reflects the value of the entire portfolio, including assets redesignated to loans and receivables

The carrying value of ABS represents 1 per cent (2013: 1 per cent) of our total assets.

The Group has an existing portfolio of ABS which it reclassified from trading and available-for-sale to loans and receivables with effect from 1 July 2008. No assets have been reclassified since 2008. This portfolio has been gradually managed down since 2010. The carrying value and fair value for this part of the portfolio were \$316 million and \$334 million respectively as at 31 December 2014 (31 December 2013: \$614 million and \$647 million respectively).

 **Note 15 on page 268 to the financial statements provides details of the remaining balance of those assets reclassified in 2008**

The Group has also extended its investment to a limited amount of trading in ABS and acquired an additional \$4 billion of ABS during the first half of 2014 for liquidity reasons.

Financial statement impact of ABS

	Available-for-sale \$million
2014	
Charge to available-for-sale reserves	22
Charge to the profit and loss account	-
2013	
Charge to available-for-sale reserves	26
Credit to the profit and loss account	(1)

Selected European country exposures

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

Total gross exposure represents the amount outstanding on the balance sheet (including any accrued interest, but before provisions) and positive mark-to-market amounts on derivatives before netting. To the extent gross exposure does not represent the maximum exposure to loss, this is disclosed separately. Exposures are assigned to a country based on the country of incorporation of the counterparty as at 31 December 2014.

The Group has \$10 million direct sovereign exposure (as defined by the European Banking Authority) to the eurozone countries of Greece, Ireland, Italy, Portugal and Spain (GIIPS) and only \$0.7 billion direct sovereign exposure to other eurozone countries. The Group's non-sovereign exposure to GIIPS is \$1.6 billion (\$1.0 billion after collateral and netting) and \$35 billion (\$20.1 billion after collateral and netting) to the remainder of the eurozone. This exposure primarily consists

of balances with corporates. The substantial majority of the Group's total gross GIIPS exposure has a tenor of less than five years, with approximately 57 per cent having a tenor of less than one year. The Group has no direct sovereign exposure and \$120 million (2013: \$260 million) of non-sovereign exposure (after collateral and netting) to Cyprus.

The exit of one or more countries from the eurozone, or ultimately its dissolution, could potentially lead to significant market dislocation, the extent of which is difficult to predict. Any such exit or dissolution, and the redenomination of formerly euro-denominated rights and obligations in replacement national currencies, would cause significant uncertainty in any exiting country, whether sovereign or otherwise. Such events are also likely to be accompanied by the imposition of capital, exchange and similar controls. We monitor the situation closely and have prepared contingency plans to respond to a range of potential scenarios, including the possibility of currency redenomination. Local assets and liability positions are carefully monitored by in-country asset and liability and risk committees with appropriate oversight at the Group level by the Group Asset and Liability Committee and the Group Risk Committee.

Country

	Greece \$million	Ireland \$million	Italy \$million	Portugal \$million	Spain \$million	Total \$million
As at 31 December 2014						
Direct sovereign exposure	–	–	10	–	–	10
Banks	–	–	452	–	437	889
Other financial institutions	–	192	6	–	–	198
Other corporate	6	302	38	–	145	491
Total gross exposure	6	494	506	–	582	1,588
Direct sovereign exposure	–	–	–	–	–	–
Banks	–	–	(38)	–	(239)	(277)
Other financial institutions	–	(189)	(6)	–	–	(195)
Other corporate	–	(43)	(16)	–	(16)	(75)
Total collateral/netting	–	(232)	(60)	–	(255)	(547)
Direct sovereign exposure	–	–	10	–	–	10
Banks	–	–	414	–	198	612
Other financial institutions	–	3	–	–	–	3
Other corporate	6	259	22	–	129	416
Total net exposure as at 31 December 2014	6	262	446	–	327	1,041
Total net exposure as at 31 December 2013	14	950	741	–	284	1,989

The Group's exposure to GIIPS at 31 December 2014 is analysed by financial asset as follows:

	Greece \$million	Ireland \$million	Italy \$million	Portugal \$million	Spain \$million	Total \$million
As at 31 December 2014						
Loans and advances						
Loans and receivables	–	167	52	–	101	320
Held at fair value through profit or loss	–	–	–	–	–	–
Total gross loans and advances	–	167	52	–	101	320
Collateral held against loans and advances	–	(8)	(26)	–	(16)	(50)
Total net loans and advances	–	159	26	–	85	270
Debt securities						
Trading	–	–	–	–	–	–
Designated at fair value	–	–	–	–	32	32
Available-for-sale	–	100	–	–	–	100
Loans and receivables	–	–	–	–	5	5
Total gross debt securities	–	100	–	–	37	137
Collateral held against debt securities	–	–	–	–	–	–
Total net debt securities	–	100	–	–	37	137
Derivatives						
Gross exposure	–	227	44	–	239	510
Collateral/netting ¹	–	(224)	(34)	–	(239)	(497)
Total derivatives	–	3	10	–	–	13
Contingent liabilities and commitments						
6	–	410	–	–	205	621
Total net exposure (on- and off-balance sheet)¹	6	262	446	–	327	1,041
Total balance sheet exposure	–	494	96	–	377	967

As at 31 December 2013

Net loans and advances	8	139	223	–	9	379
Net debt securities	–	51	–	–	42	93
Net derivatives	–	8	1	–	–	9
Contingent liabilities and commitments	6	752	517	–	233	1,508
Total net exposure (on- and off-balance sheet) ¹	14	950	741	–	284	1,989

1. Based on International Swaps and Derivatives Association (ISDA) netting

Other selected eurozone countries

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

	France \$million	Germany \$million	Netherlands \$million	Luxembourg \$million	Total \$million
Direct sovereign exposure	–	245	–	–	245
Banks	2,627	4,111	972	2,025	9,735
Other financial institutions	49	–	85	208	342
Other corporates	896	740	4,795	924	7,355
Total net exposure at as 31 December 2014	3,572	5,096	5,852	3,157	17,677
Total net exposure as at 31 December 2013	4,516	5,390	7,735	1,916	19,557

The Group's lending to these selected eurozone countries primarily takes the form of repurchase agreements, interbank loans and bonds. The substantial majority of the Group's total gross exposures to these selected countries have a tenor of less than three years, with over 56 per cent having a tenor of less than one year.

The Group's exposure in Germany is primarily with the Central Bank. Other than all these specifically identified countries, the Group's residual net exposure to the eurozone is \$2.9 billion, which primarily comprises bonds and export-structured financing to banks and corporates.

Country cross-border risk

Country cross-border risk is the risk that we will be unable to obtain payment from our customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency. See further details of our approach to managing country cross-border risk on page 112.

The profile of our country cross-border exposures as at 31 December 2014 remained consistent with our strategic focus on core franchise countries, and with the scale of the larger markets in which we operate. Changes in the pace of economic

activity had an impact on growth of cross-border exposure for certain territories.

Cross-border exposure to China remains predominantly short term (74 per cent of such exposure had a tenor of less than 12 months), including very short-dated interbank and treasury exposures. Progressing internationalisation of the renminbi contributed to the growth in cross-border exposure to China, with short-term cross-border exposure increasing throughout 2014 in response to the deployment of renminbi customer deposits. Short-dated trade finance activity and an expansion of our corporate client base also increased cross-border exposure to China.

We took steps to diversify the placement of surplus liquidity away from Chinese banks during 2014, resulting in an increase in short-term cross-border exposure to other markets, particularly Hong Kong, Korea and Malaysia, as noted further below.

Trade finance activity and short-dated lending to corporate, commercial and private banking clients drove an increase in short-term cross-border exposure to Singapore.

The overall size of cross-border exposure to India reflects our competitive advantage in offering dollar facilities in the domestic market, and the facilitation of overseas investment and trade flows supported by parent companies in India. During 2014, efforts to prioritise business that offered higher returns contributed to the lower cross-border exposure. Other factors that led to decreased exposure in India were maturing corporate client facilities and a reduction in new business due to a moderation in the business environment.

Increased trade finance activity and interbank placements of foreign currency liquidity resulted in increased cross-border exposure to Korea during 2014, with growth in medium-term exposure driven by offshore transactions to support Korean clients across the Group's footprint.

Cross-border exposure to the UAE declined during 2014, due to decreases in trade financing transactions and short-dated exposures arising from financial markets activity.

Growth in short-term cross-border activity in Indonesia was attributable to an expansion of the corporate client base, and growth in international trade finance. Successful syndication and distribution of risk on new longer-dated transactions resulted in a decline in medium-term cross-border exposure. The country cross-border exposure to Indonesia arising from Permata, a joint venture in which the Group holds 44.56 per cent, is counted at the value of the Group's equity in the joint venture.

Overall cross-border exposure to Nigeria increased, driven by project financing and foreign currency funding of Nigerian corporate and institutional clients. Exposure with a tenor greater than one year declined as a result of a focus on shorter-dated transactions and the successful syndication and distribution of term facilities.

Cross-border exposure to Malaysia increased in 2014 in response to growth in trade finance activity amidst rising intra-regional trade flows with ASEAN member countries, and with China and India. Higher short-dated cross-border exposure to Malaysia was also representative of increased interbank money market positions booked offshore.

The decrease in cross-border exposure to Brazil is attributable to a moderation in economic growth, and slowing trade and investment flows with our core markets.

Cross-border exposure to developed countries in which we do not have a major presence predominantly relates to short-dated money market treasury activities, which can change significantly from period to period. Exposure also represents global corporate business for customers with interests in our footprint. This is a key factor explaining the significant cross-border exposure to the US.

The table below, which is based on our internal cross-border country risk reporting requirements, shows cross-border exposures that exceed 1 per cent of total assets.

	2014			2013		
	Less than one year \$million	More than one year \$million	Total \$million	Less than one year \$million	More than one year \$million	Total \$million
China	42,098	14,790	56,888	32,220	14,449	46,669
US	26,406	10,672	37,078	19,001	7,287	26,288
Hong Kong	22,104	8,684	30,788	21,164	8,210	29,374
Singapore	21,422	5,930	27,352	19,328	5,749	25,077
India	8,551	15,015	23,566	12,566	18,295	30,861
Korea	9,581	8,216	17,797	9,093	7,415	16,508
United Arab Emirates	6,955	8,752	15,707	6,281	10,997	17,278
Indonesia	4,172	4,058	8,230	3,959	4,958	8,917
Nigeria	4,543	3,301	7,844	2,318	4,072	6,390
Malaysia	4,115	3,488	7,603	3,878	3,396	7,274
Brazil	5,297	2,228	7,525	6,175	2,002	8,177

Market risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises predominantly from providing 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 broadly stable. Market risk also arises in the non-trading book from the requirement to hold a large liquid assets buffer of high-quality liquid debt securities and from the translation of non-dollar denominated assets, liabilities and earnings. A summary of our current policies and practices regarding market risk management is provided in Risk management approach on page 112.

The primary categories of market risk for the Group are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options
- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options

Daily VaR (VaR at 97.5 per cent, one day)

Trading and non-trading	2014				2013			
	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	25.8	36.8	19.0	22.0	25.0	37.4	18.2	23.3
Foreign exchange risk	3.6	6.7	2.2	4.7	4.2	7.6	2.3	7.0
Commodity risk	1.4	2.9	0.7	0.7	1.5	2.6	0.9	1.5
Equity risk	17.9	20.0	15.1	16.4	15.4	18.4	13.0	18.3
Total ⁴	34.4	47.4	25.2	26.5	32.8	44.8	22.1	38.5

Trading ⁵	2014				2013			
	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	9.3	21.3	5.7	5.7	9.1	15.0	6.5	8.1
Foreign exchange risk	3.6	6.7	2.2	4.7	4.2	7.6	2.3	7.0
Commodity risk	1.4	2.9	0.7	0.7	1.5	2.6	0.9	1.5
Equity risk	1.6	2.4	1.3	2.0	1.5	2.1	1.1	1.8
Total ⁴	10.6	20.8	7.1	7.6	9.8	14.9	7.3	9.1

Non-trading	2014				2013			
	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	20.9	27.4	14.6	18.0	22.6	34.3	16.9	22.1
Equity risk	17.2	19.1	15.5	16.1	14.9	17.6	12.4	17.4
Total ³	30.1	39.0	17.3	25.1	29.2	34.9	19.6	32.7

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

2. Actual one day VaR at year end date

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

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

5. Trading book for market risk is defined in accordance with the EU Capital Requirements Regulation (CRD IV/CRR) Part 3 Title I Chapter 3 which restricts the positions permitted in the trading book. This regulatory definition is narrower than the accounting definition of the trading book within International Accounting Standards 39 'Financial Instruments: Recognition and Measurement'

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

	2014				2013			
	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	34.4	47.4	25.2	26.5	32.8	44.8	22.1	38.5
Trading³								
Rates	6.3	13.7	3.7	3.9	6.4	12.2	3.5	5.5
Global Foreign Exchange	3.6	6.7	2.2	4.7	4.2	7.6	2.3	7.0
Credit Trading and Capital Markets	3.9	8.2	2.8	2.8	3.1	4.3	2.2	3.4
Commodities	1.4	2.9	0.7	0.7	1.5	2.6	0.9	1.5
Equities	1.6	2.4	1.3	2.0	1.5	2.1	1.1	1.8
Total ⁴	10.6	20.8	7.1	7.6	9.8	14.9	7.3	9.1
Non-trading								
Asset and Liability Management	20.6	26.6	14.5	17.7	22.2	33.9	17.1	21.2
Other Financial Markets non-trading book	1.2	1.5	0.9	1.3	1.6	2.4	1.0	1.3
Listed private equity	17.2	19.1	15.5	16.1	14.9	17.6	12.4	17.4
Total ²	30.1	39.0	17.3	25.1	29.2	34.9	19.6	32.7

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. 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. This regulatory definition is narrower than the accounting definition of the trading book within International Accounting Standards 39 'Financial Instruments: Recognition and Measurement'

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

Risks not in VaR

The only material market risk that is not reflected in VaR is the currency risk where the exchange rate is currently pegged or managed. The VaR historical one-year observation period does not reflect the future possibility of a change in the currency regime such as sudden depegging. Additional capital is set aside to cover this 'risk not in VaR'. For further details on market risk capital see the Standard Chartered PLC Pillar 3 Disclosures 2014 section on market risk.

Backtesting (unaudited)

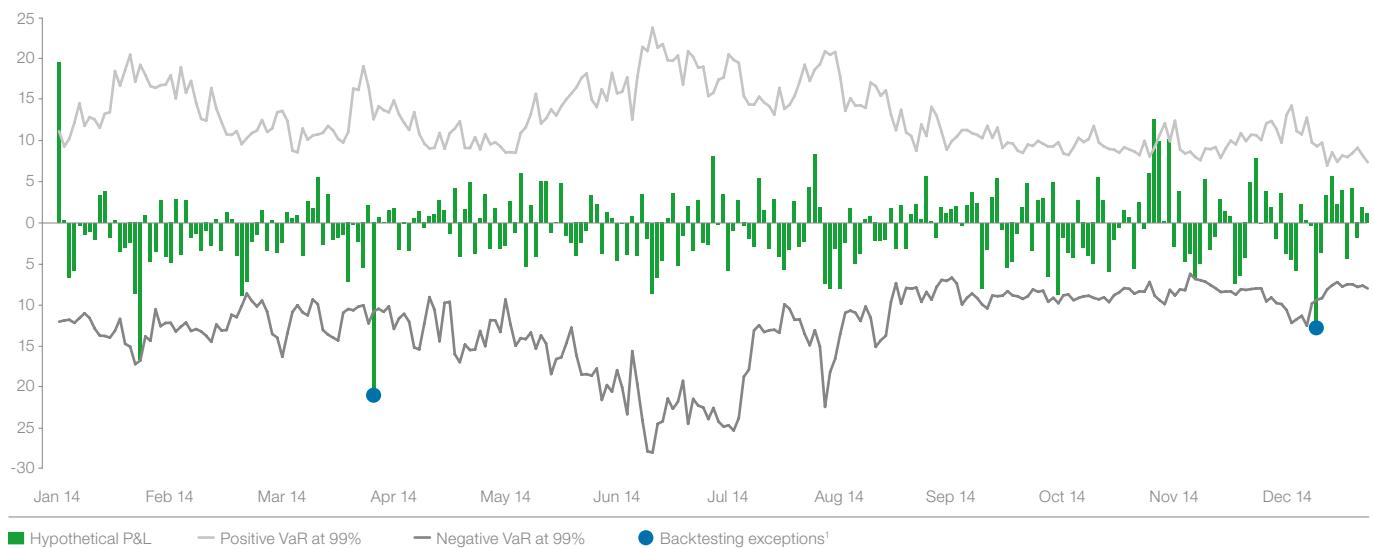
Regulatory backtesting is applied at both Group and Solo levels. In 2014, exceptions due to exceptional market volatility occurred on three days: one at Group level (none in 2013) and three at Solo level (one in 2013).

These occasions followed notable central bank action with impact in Group footprint markets:

- 21 February: the People's Bank of China widened the renminbi trading band, resulting in sharp movements in the renminbi foreign exchange market (Solo level only)
- 24 November: after the People's Bank of China had cut renminbi interest rates for the first time since 2012, there were sharp movements in both renminbi interest rate and foreign exchange markets (Solo level only)
- 16 December: the Russian rouble dropped in value after the Central Bank of Russia suddenly increased rouble interest rates. This induced wider reaction in other interest rate markets, notably India and Brazil (Group and Solo levels)

Three exceptions due to market events are within the 'green zone' applied internationally to internal models by bank supervisors.

2014 backtesting chart for internal model approach regulatory trading book at Group level with hypothetical profit and loss (P&L) versus VaR (99 per cent, one day)



1. The backtesting exception on 31 March 2014 was due to a quarter-end adjustment and not due to a market event

Financial Markets loss days

	2014	2013
Number of loss days reported for Financial Markets trading book total product income ¹	2	2

1. Reflects total product income for Financial Markets excluding ALM business (non-trading) and periodic valuation changes for Capital Markets, expected loss provisions and overnight index swap discounting

Average daily income earned from market risk-related activities¹

	2014 \$million	2013 \$million
Trading		
Interest rate risk	3.9	4.7
Foreign exchange risk	5.1	5.5
Commodity risk	1.4	1.5
Equity risk	0.6	0.5
Total	11.0	12.2
Non-Trading		
Interest rate risk	3.2	2.8
Equity risk	0.1	0.5
Total	3.3	3.3

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 that are generated from market risk-related activities

Risk profile

Mapping of market risk items to the balance sheet (unaudited)

Market risk contributes only 5.9 per cent of the Group's regulatory capital risk-weighted asset (RWA) requirement (see RWA table on page 121). As highlighted in the VaR disclosure,

the majority of market risk is managed within Financial Markets, which spans both trading book and non-trading book. The non-trading equity market risk is generated by listed private equity holdings within Principal Finance. Group Treasury manage 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	65,834	65,132	702	Interest rate, foreign exchange, commodity or equity risk
Loans and advances to banks	87,500	16,288	71,212	Interest rate or foreign exchange risk
Loans and advances to customers	288,599	11,823	276,776	Interest rate or foreign exchange risk
Debt securities	95,677	17,553	78,124	Interest rate mainly, but also foreign exchange or equity risk
Treasury bills	25,901	1,803	24,098	Interest rate or foreign exchange risk
Equities	7,769	4,515	3,254	Equities risk mainly, but also interest or foreign exchange risk
Other assets	38,689	15,508	23,181	Interest rate, foreign exchange, commodity or equity risk
Total	609,969	132,622	477,347	
Financial liabilities				
Deposits by banks	55,323	–	55,323	Interest rate or foreign exchange risk
Customer accounts	414,189	–	414,189	Interest rate or foreign exchange risk
Debt securities in issue	80,788	–	80,788	Interest rate mainly, but also foreign exchange or equity risk
Derivatives financial instruments	63,313	62,704	609	Interest rate, foreign exchange, commodity or equity risk
Short positions	3,785	3,686	99	Interest rate, foreign exchange, commodity or equity risk
Total	617,398	66,390	551,008	

Group Treasury market risk

Group Treasury raises debt and equity capital and the proceeds are invested within the Group as capital or placed with ALM. Interest rate risk arises due to the investment of equity and reserves into rate-sensitive assets, as well as some

tenor mismatches between debt issuance and placements. This risk is measured as the impact on net interest income (NII) of an unexpected and instantaneous adverse parallel shift in rates and is monitored over a rolling one-year time horizon (see table below).

Group Treasury NII sensitivity to parallel shifts in yield curves

	2014 \$million	2013 \$million
+25 basis points	38.9	33.9
-25 basis points	(38.9)	(33.9)

NII sensitivity has increased as Group capital investment in branches and subsidiaries has increased.

Structural foreign exchange exposures

The table below sets out the principal structural foreign exchange exposures (net of investment hedges) of the Group.

	2014 \$million	2013 \$million
Hong Kong dollar	8,208	7,079
Korean won	4,782	5,194
Indian rupee	4,425	3,793
Taiwanese dollar	2,755	2,853
Chinese renminbi	3,586	3,084
Singapore dollar	2,768	2,925
Thai baht	1,608	1,640
UAE dirham	1,757	1,766
Malaysian ringgit	1,578	1,650
Indonesian rupiah	1,185	993
Pakistani rupee	594	530
Other	3,948	4,010
	37,194	35,517

As at 31 December 2014, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial investments) of \$1,097 million (2013: \$1,280 million) to partly cover its exposure to the Korean won. An analysis has been performed on these exposures to assess the impact of a 1 per cent fall in the dollar exchange rates, adjusted to incorporate the impacts of correlations of these currencies to the dollar. The impact on the positions above would be an increase of \$265 million (2013: \$247 million). Changes in the valuation of these positions are taken to reserves.

Derivatives

Derivatives are contracts with characteristics and value derived from underlying financial instruments, interest and exchange rates or indices. They include futures, forwards, swaps and options transactions. See further details in Risk management approach on page 113.

Hedging

The notional value of interest rate swaps for the purpose of fair value hedging increased by \$6.8 billion as at 31 December 2014 compared to 31 December 2013. Fair value hedges largely hedge the interest rate risk on our sub-debt and debt securities in the UK, which form part of the Group's liquidity buffers and are used to manage fixed-rate securities and loan portfolios in our key markets. Currency and interest rate swaps used for cash flow hedging have decreased by \$11.7 billion as at 31 December 2014, compared to 31 December 2013. The increase of cash flow hedges is attributable to floating rate loans, bonds and deposits, mainly in Korea and Singapore.

Liquidity risk

Liquidity risk is the risk that we either do not have sufficient financial resources available to meet our obligations as they fall due, or can only access these financial resources at excessive cost.

A summary of our current policies and practices regarding liquidity risk management is provided in Risk management approach on page 114.

Liquidity in 2014

The liquidity position of the Group stayed strong in 2014 and we continued to enjoy inflows of customer deposits and maintained good access to wholesale markets.

Conditions in the bank wholesale debt markets were generally positive in 2014, supported by strong investor demand. In 2014, the Group issued \$10 billion of term debt securities, \$6.6 billion of senior debt and \$4.7 billion of Tier 2 subordinated debt (2013: \$9.5 billion of which \$6.8 billion was senior debt and \$5.5 billion was Tier 2 subordinated debt).

Primary sources of funding

A substantial portion of our assets are funded by 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 and countries in which we operate. This seeks to ensure that we have market intelligence, maintain stable funding lines and can obtain optimal pricing when we perform our interest rate risk management activities.

Debt refinancing levels are low. In the next 12 months approximately \$6.6 billion of the Group's senior and subordinated debt is falling due for repayment either contractually or callable by the Group.

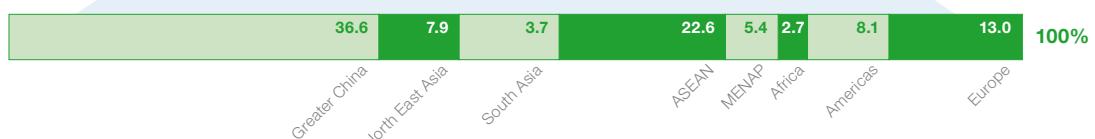
 Further details of the Group's senior and subordinated debt by geography are provided in note 2 in the Financial statements and notes on page 246

The graph below shows the composition of liabilities in which customer deposits make up 57 per cent of total liabilities as at 31 December 2014, the majority of which are current accounts, savings accounts and Time Deposits. Our largest customer deposit base by geography is Greater China (in particular Hong Kong), which holds 37 per cent of Group customer accounts.

Group's composition of liabilities 31 December 2014



Geographic distribution of customer accounts 31 December 2014



Liquidity metrics

We monitor key liquidity metrics on a regular basis, both on a country basis and in aggregate across the Group. In addition to the metrics listed here, we also monitor other risk metrics, which are covered in Risk management approach on page 114.

Liquid asset ratio (LAR)

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

Liquid assets are the total cash (less restricted balances), treasury bills, loans and advances to banks (less deposits by banks) and debt securities (less illiquid securities).

Illiquid securities are debt securities that cannot be sold or exchanged easily for cash without substantial loss in value amounting to \$492 million (2013: \$1,012 million).

LAR limit (minimum LAR level acceptable) is set and monitored at Group level in order to ensure that an adequate proportion of the balance sheet shall always remain highly liquid. In addition, the Group keeps sufficient liquid assets to survive a number of severe stress scenarios, both internal and regulatory.

The Group LAR (32.2 per cent) increased from the previous year (29.8 per cent), reflecting an increase in liquid assets held mainly in the Americas and Europe.

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

	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Cash and balances at central banks	9,017	5,278	808	4,182	2,239	1,682	42,257	31,819	97,282
Restricted balances	(3,339)	(919)	(486)	(2,098)	(1,602)	(710)	(877)	(42)	(10,073)
Loans and advances to banks									
- net of non-performing loans	28,758	5,997	488	12,301	1,603	940	12,661	24,649	87,397
Deposits by banks	(5,200)	(4,202)	(338)	(7,283)	(2,374)	(687)	(16,496)	(18,743)	(55,323)
Treasury bills	7,689	5,320	1,864	4,540	954	2,723	2,059	752	25,901
Debt securities	30,928	5,357	4,292	16,280	5,024	2,539	5,124	26,133	95,677
of which:									
Issued by governments	13,992	4,412	3,651	6,859	4,315	1,001	367	3,438	38,035
Issued by banks	10,495	185	163	4,088	272	430	3,823	14,149	33,605
Issued by corporates and other entities	6,441	760	478	5,333	437	1,108	934	8,546	24,037
Illiquid securities and Other Assets	(127)	(18)	(747)	(453)	(5)	-	(1,689)	(3,777)	(6,816)
Liquid assets	67,726	16,813	5,881	27,469	5,839	6,487	43,039	60,791	234,045
Total assets	210,351	69,746	26,968	160,958	38,272	20,076	85,427	114,116	725,914
Liquid assets to total asset ratio	32.2%	24.1%	21.8%	17.1%	15.3%	32.3%	50.4%	53.3%	32.2%
	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Cash and balances at central banks	7,188	4,909	970	5,679	2,169	1,621	23,345	8,653	54,534
Restricted balances	(3,431)	(547)	(523)	(2,959)	(1,546)	(644)	(262)	(34)	(9,946)
Loans and advances to banks									
- net of non-performing loans	27,899	6,561	575	6,689	2,097	742	13,067	28,432	86,062
Deposits by banks	(4,652)	(3,719)	(542)	(6,917)	(1,491)	(566)	(17,739)	(8,900)	(44,526)
Treasury bills	10,741	6,794	2,567	4,748	1,220	2,777	1,027	1,530	31,404
Debt securities	30,126	5,895	2,896	16,093	3,986	2,803	3,979	20,295	86,073
of which:									
Issued by governments	12,625	4,289	2,162	6,584	3,382	1,307	194	3,331	33,874
Issued by banks	12,334	935	327	4,183	265	267	3,484	10,376	32,171
Issued by corporates and other entities	5,167	671	407	5,326	339	1,229	301	6,588	20,028
Illiquid securities and Other Assets	(204)	(20)	(729)	(389)	(39)	-	-	(1,363)	(2,744)
Liquid assets	67,667	19,873	5,214	22,944	6,396	6,733	23,417	48,613	200,857
Total assets	201,832	73,130	27,142	156,366	37,519	19,357	65,125	93,909	674,380
Liquid assets to total asset ratio	33.5%	27.2%	19.2%	14.7%	17.0%	34.8%	36.0%	51.8%	29.8%

Advances-to-deposits ratio

This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances-to-deposits ratio demonstrates that customer deposits exceed

customer loans as a result of the emphasis placed on generating a high level of funding from customers. Customer Deposits tend to be more stable than wholesale funding and a core position of these deposits is likely to remain with the bank for the medium term.

	2014 \$million	2013 \$million
Loans and advances to customers ¹	288,599	296,015
Customer accounts	414,189	390,971
Advances-to-deposits ratio	69.7%	75.7%

1. See note 19 to the financial statements on page 275

Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) (unaudited)

The Group monitors the LCR in line with the Capital Requirements Regulation, the Regulation that implements BCBS238 in Europe. The Group also monitors NSFR in line with BCBS271, pending implementation in Europe. As at 31 December 2014 both the Group LCR and NSFR were above 100 per cent, well ahead of regulatory implementation.

Encumbered assets (unaudited)

Encumbered assets represent those on-balance sheet assets pledged or used as collateral in respect of certain of the Group's liabilities. Hong Kong government certificates of indebtedness, which secure the equivalent amount of Hong Kong currency notes in circulation and cash collateral pledged against derivatives, are included within other assets. Taken together, these encumbered assets represent 2.8 per cent (2013: 2.7 per cent) of total assets, continuing the Group's historical low level of encumbrance.

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

	2014				2013			
	Unencumbered assets		Encumbered assets \$million	Total assets \$million	Unencumbered assets		Encumbered assets \$million	Total assets \$million
	Not readily available to secure funding \$million	Readily available to secure funding \$million			Not readily available to secure funding \$million	Readily available to secure funding \$million		
Cash and balances at central banks	10,073	87,209	—	97,282	9,946	44,588	—	54,534
Derivative financial instruments	65,834	—	—	65,834	61,802	—	—	61,802
Loans and advances to banks ¹	49,389	38,111	—	87,500	49,279	36,890	—	86,169
Loans and advances to customers ¹	288,568	—	31	288,599	295,236	—	779	296,015
Investment securities ¹	41,762	82,120	5,465	129,347	48,699	72,062	3,516	124,277
Other assets	23,640	—	15,049	38,689	19,870	—	13,700	33,570
Current tax assets	362	—	—	362	234	—	—	234
Prepayments and accrued income	2,647	—	—	2,647	2,510	—	—	2,510
Interests in associates and joint ventures	1,962	—	—	1,962	1,767	—	—	1,767
Goodwill and intangible assets	5,190	—	—	5,190	6,070	—	—	6,070
Property, plant and equipment	7,984	—	—	7,984	6,903	—	—	6,903
Deferred tax assets	518	—	—	518	529	—	—	529
Total	497,929	207,440	20,545	725,914	502,845	153,540	17,995	674,380

1. Includes assets held at fair value through profit or loss

In addition to the above, the Group received \$27,910 million (2013: \$15,906 million) as collateral under reverse repurchase agreements that was eligible for repledging; of this the Group sold \$2,252 million (2013: \$1,804 million) under repurchase agreements.

Readily available to secure funding (unaudited)

Readily available to secure funding includes unencumbered assets that can be sold outright or under repo within a few days, in line with regulatory definitions. The Group's readily available assets comprise cash and balances at central banks, loans and advances to banks, and investment securities.

Assets classified as not readily available to secure funding include:

- Assets that have no restrictions for funding and collateral purposes, such as loans and advances to customers, which are not acquired or originated with the intent of generating liquidity value
- Assets that cannot be encumbered, such as derivatives, goodwill and intangible and deferred tax assets

Liquidity analysis of the Group's balance sheet

Contractual maturity of assets and liabilities

This table analyses assets and liabilities into relevant 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 cash flow.

Within the tables below cash and balances with central banks, interbank placements, treasury bills and investment securities that are available-for-sale are used by the Group principally for liquidity management purposes.

Contractual maturity

	2014								
	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	87,209	–	–	–	–	–	–	10,073	97,282
Derivative financial instruments	7,345	8,987	7,753	5,796	4,072	9,549	12,327	10,005	65,834
Loans and advances to banks ¹	38,111	18,421	15,388	6,260	5,663	1,774	1,813	70	87,500
Loans and advances to customers ¹	77,288	26,106	19,147	10,801	11,128	22,701	43,749	77,679	288,599
Investment securities ¹	9,951	13,065	11,245	8,202	8,446	20,881	36,917	20,640	129,347
Other assets	20,163	7,488	3,007	366	456	331	705	24,836	57,352
Total assets	240,067	74,067	56,540	31,425	29,765	55,236	95,511	143,303	725,914
Liabilities									
Deposits by banks ¹	49,903	2,776	784	168	349	118	681	544	55,323
Customer accounts ¹	308,310	49,482	24,117	10,342	10,847	6,194	1,899	2,998	414,189
Derivative financial instruments	7,832	8,844	7,605	5,478	3,737	8,714	12,449	8,654	63,313
Senior debt	215	191	2,607	904	2,663	5,303	8,938	3,323	24,144
Other debt securities in issue ¹	12,078	16,217	14,818	3,767	1,169	695	1,133	6,767	56,644
Other liabilities	16,780	7,692	4,731	808	336	426	915	10,928	42,616
Subordinated liabilities and other borrowed funds	–	–	–	6	–	1,013	5,114	16,814	22,947
Total liabilities	395,118	85,202	54,662	21,473	19,101	22,463	31,129	50,028	679,176
Net gap	(155,051)	(11,135)	1,878	9,952	10,664	32,773	64,382	93,275	46,738

1. Amounts include financial instruments held at fair value through profit or loss (see note 15 on pages 256 and 257)

	2013								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Assets									
Cash and balances at central banks	44,309	264	—	—	—	—	—	9,961	54,534
Derivative financial instruments	6,820	7,376	8,403	4,514	3,612	9,085	13,453	8,539	61,802
Loans and advances to banks ¹	36,890	21,705	13,349	5,543	5,153	1,647	1,798	84	86,169
Loans and advances to customers ¹	73,036	29,469	23,541	10,772	11,677	22,549	48,297	76,674	296,015
Investment securities ¹	11,496	13,948	12,567	7,252	11,241	21,052	30,844	15,877	124,277
Other assets	14,677	10,964	2,316	44	318	35	201	23,028	51,583
Total assets	187,228	83,726	60,176	28,125	32,001	54,368	94,593	134,163	674,380
Liabilities									
Deposits by banks ¹	36,084	4,873	1,489	394	276	173	521	716	44,526
Customer accounts ¹	279,638	48,630	26,473	12,864	10,793	2,574	6,310	3,689	390,971
Derivative financial instruments	6,922	7,306	9,405	4,195	3,418	8,480	12,802	8,708	61,236
Senior debt	478	291	3,485	430	19	7,020	10,121	3,335	25,179
Other debt securities in issue ¹	10,114	13,252	11,516	1,422	1,938	1,141	1,992	4,858	46,233
Other liabilities	12,759	8,665	3,260	962	432	544	1,117	11,258	38,997
Subordinated liabilities and other borrowed funds	—	—	—	—	—	6	4,785	15,606	20,397
Total liabilities	345,995	83,017	55,628	20,267	16,876	19,938	37,648	48,170	627,539
Net gap	(158,767)	709	4,548	7,858	15,125	34,430	56,945	85,993	46,841

1. Amounts include financial instruments held at fair value through profit or loss (see note 15 on pages 256 and 257)

Behavioural maturity of financial assets and liabilities

The cash flows presented on page 229 reflect the cash flows 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 cash flow. In practice, certain asset and liability instruments behave differently from their contractual terms and, 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. Such behavioural adjustments are identified and managed in each country through analysis of the historical behaviour of balances. The Group's expectation of when assets and liabilities are likely to become due is provided in the table below.

Behavioural maturity

	2014								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Assets									
Loans and advances to banks ¹	38,958	17,946	14,935	6,237	5,320	1,734	2,285	85	87,500
Loans and advances to customers ¹	56,456	22,008	14,780	9,023	15,786	22,079	90,032	58,435	288,599
Total loans and advances	95,414	39,954	29,715	15,260	21,106	23,813	92,317	58,520	376,099
Liabilities									
Deposits by banks ¹	37,983	2,854	841	224	421	11,719	737	544	55,323
Customer accounts ¹	144,144	29,151	15,898	11,151	22,720	79,491	107,446	4,188	414,189
Total deposits	182,127	32,005	16,739	11,375	23,141	91,210	108,183	4,732	469,512
Net gap	(86,713)	7,949	12,976	3,885	(2,035)	(67,397)	(15,866)	53,788	(93,413)

1. Amounts include financial instruments held at fair value through profit or loss (see note 15 on pages 256 and 257)

	2013								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Assets									
Loans and advances to banks ¹	36,990	21,856	13,342	5,532	5,072	1,554	1,665	158	86,169
Loans and advances to customers ¹	55,193	27,724	18,204	8,491	17,991	21,239	88,092	59,081	296,015
Total loans and advances	92,183	49,580	31,546	14,023	23,063	22,793	89,757	59,239	382,184
Liabilities									
Deposits by banks ¹	25,782	5,063	1,472	427	318	10,160	597	707	44,526
Customer accounts ¹	131,684	28,574	16,700	11,055	23,572	115,686	58,868	4,832	390,971
Total deposits	157,466	33,637	18,172	11,482	23,890	125,846	59,465	5,539	435,497
Net gap	(65,283)	15,943	13,374	2,541	(827)	(103,053)	30,292	53,700	(53,313)

1. Amounts include financial instruments held at fair value through profit or loss (see note 15 on pages 256 and 257)

Maturity of financial liabilities (excluding derivative financial instruments) on an undiscounted basis

The following table analyses the contractual cash flows payable for the Group's financial liabilities by remaining contractual maturities on an undiscounted basis. The financial liability balances in the table below will not agree to the balances reported in the consolidated balance sheet as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments.

Within the 'More than five years and undated' maturity band are undated financial liabilities, all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful given the instruments are undated. Interest payments on these instruments are included within the relevant maturities up to five years.

	2014								
	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	49,597	2,862	811	177	352	193	1,025	690	55,707
Customer accounts	297,368	49,629	24,341	10,453	10,978	10,419	14,410	4,108	421,706
Debt securities in issue	12,381	16,469	17,570	4,760	4,129	6,474	10,835	20,679	93,297
Subordinated liabilities and other borrowed funds	176	104	298	361	158	2,113	7,729	23,331	34,270
Other liabilities	16,505	7,751	4,742	812	338	427	904	11,140	42,619
Total liabilities	376,027	76,815	47,762	16,563	15,955	19,626	34,903	59,948	647,599

	2013								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Deposits by banks	36,084	4,873	1,489	394	276	269	588	729	44,702
Customer accounts	279,638	48,630	26,473	12,864	10,793	2,820	6,972	4,359	392,549
Debt securities in issue	10,592	13,543	15,001	4,020	3,348	9,625	12,113	8,920	77,162
Subordinated liabilities and other borrowed funds	8	243	273	278	256	998	6,504	28,787	37,347
Other liabilities	12,759	8,665	3,260	962	432	544	1,117	11,258	38,997
Total liabilities	339,081	75,954	46,496	18,518	15,105	14,256	27,294	54,053	590,757

Maturity of derivative financial instruments on an undiscounted (notional) basis

Derivative financial instruments include those net settled derivative contracts in a net liability position, together with the pay leg of gross settled contracts regardless of whether the

overall contract is in an asset or liability position. The receiving leg is not shown in this table and as a result the derivative amounts in this table are increased by their exclusion. Derivative financial instruments make up 9 per cent of the Group balance sheet.

	2014								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	
Derivative financial instruments	289,423	260,266	196,477	125,491	95,975	149,660	160,721	102,694	1,380,707
2013									
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Derivative financial instruments	204,012	174,783	149,101	98,972	88,696	110,913	142,221	82,249	1,050,947

Operational risk

We define operational risk as the potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks.

As operational risk arises from all activities carried out within the Group, the potential for operational risk events occurring across a large and complex international organisation is a constant challenge. To address this we aim to achieve 'industrial strength' process and control design standards for all activities and benchmark practices against peers, other industries and regulatory requirements.

A summary of our current policies and practices regarding operational risk management is provided in Risk management approach on page 115.

Operational risk profile

The operational risk profile is the Group's overall exposure to operational risk, at a given point in time, covering all applicable operational risk types. The operational risk profile comprises both operational risk events and losses that have already occurred and the current exposures to operational risks which, at an aggregate level, includes the consideration of top risks and emerging risks.

Operational risk events and losses (unaudited)

The most significant losses reviewed by Group committees during the year were:

- Execution delivery and process management: the terms of the Group's settlement with the New York Department of Financial Services (NYDFS) include a \$300 million civil monetary penalty, which was the highest operational risk loss during the year. The settlement includes various business restrictions with a range of deadlines, which are being complied with. In addition, the Group has initiated a number of change programmes, which include significant design typologies and system enhancements to improve its defences against financial crime
- External fraud: the Group has recorded an operational risk event of \$193 million in relation to a warehouse fraud in Qingdao in China. The root cause analysis identified the main cause as collusive fraud, which is inherently difficult to detect. Fraud detection controls are being enhanced and include increased frequency of inspections and periodically moving inventory

The Group's profile of operational loss events in 2013 and 2014 is summarised in the table below. It shows by Basel business line the percentage distribution of gross operational losses.

Distribution of operational losses by Basel business line

	% Loss	
	2014	2013
Agency services	0.1	0.3
Commercial banking	28.8 ¹	3.6
Corporate finance	1.3	0.1
Corporate items	44.8 ²	3.0
Payment and settlements	19.3	36.9
Retail banking	4.5	47.9
Retail brokerage	0.2	1.1
Trading and sales	1.0	7.1

1. Includes the China commodities fraud

2. Includes the civil monetary penalty

Risk profile

The Group's profile of operational loss events in 2013 and 2014 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	
	2014	2013
Business disruption and system failures	2.1	1.1
Clients' products and business practices	18.4	35.9
Employment practices and workplace safety	0.1	0.9
Execution delivery and process management	48.0¹	38.2
External fraud	31.2²	18.2
Internal fraud	0.2	5.7

1. Includes the civil monetary penalty

2. Includes the China commodities fraud

Operational losses are one indicator of the effectiveness and robustness of the operational risk control environment. In addition, lessons learned reviews and root cause analyses from external and internal loss events, including near misses, are used to improve processes and controls.

Top risks and emerging risks

A top risk is a risk exposure, or a group of highly correlated risk exposures, that has the highest potential to breach the Group's risk capacity. The objective is to identify those risks that can materially impact the Group's risk capacity, and to calibrate metrics as early warning indicators against undesirable outcomes and performance under stress. Top risk candidates are identified through a top-down assessment of concentration

of exposures or aggregation of risks and may also be a gross risk, triggering any one of a set of filtering criteria.

Emerging risks are also considered, both internally from the Group's internal operational risk profile and from external events. Where relevant, an emerging risk may be categorised and prioritised as a top risk for specific monitoring.

Given their significance, top risks attract closer scrutiny from top levels of management and governance committees. Top risks are expected to change over time based on top-down assessments by senior management.

The Group's operational top risks as at 31 December 2014 are shown in the table below.

Top risks

Macro-prudential, regulatory and external risks	Internal processes, systems and change risks
<ul style="list-style-type: none"> ● Regulatory non-compliance ● Anti-money laundering ● International sanctions and terrorist financing ● External fraud ● Information and cyber security ● Critical third-party vendors ● Additional conduct including bribery and corruption 	<ul style="list-style-type: none"> ● Change management ● Data management ● Major systems failure ● Significant business interruption ● Rogue trading ● Internal fraud ● Manipulation of market data submission ● Mis-selling ● Product management ● Collateral management

Other risks

Reputational risk

Reputational risk is the potential for damage to the Group's franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the Group or its actions. Failures in behaviours or systems may affect stakeholders' perceptions of the Group's commitment to its Here for good brand promise.

A summary of our current practices regarding reputational risk management is provided in Risk management approach on page 117.

Pension risk

Pension risk is the potential for loss due to having to meet an actuarially assessed shortfall in the Group's pension schemes. See further pension disclosure in Risk management approach on page 117.

Principal uncertainties

The management of risk lies at the heart of Standard Chartered's business. We seek to contain and mitigate risks to ensure they remain within our risk tolerance and are adequately compensated for.

An overview of our risk profile is set out in pages 60 to 100 and our approach to risk management is set out in pages 105 to 117.

The key uncertainties we face in the current year are set out below. This should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties that we may experience.

Deteriorating macroeconomic conditions in footprint countries

Macroeconomic conditions have an impact on personal expenditure and consumption, demand for business products and services, the debt-service burden of consumers and businesses, the general availability of credit for retail and corporate borrowers, and the availability of capital and liquidity funding for our business. All these factors may impact our performance.

The world economy is coming out of a difficult period and uncertainty remains. The unwinding of the US Federal Reserve's quantitative easing programme could lead to higher interest rates, volatility in financial markets and capital flight from emerging markets, which may threaten the growth trajectory of some vulnerable economies. China's slowing economic growth and the rebalancing of the economy may depress prices and trade in a number of commodity sectors such as energy, metals and mining, and a deeper and more prolonged slowdown could have wider economic repercussions.

Supply shocks can result in weak or volatile commodity prices, which in turn can damage the economic growth prospects or sovereign creditworthiness of commodity-exporting countries.

The sovereign crisis in the eurozone is not fully resolved and, although some risks have been addressed by ongoing policy initiatives, there is still a need for substantial new structural reform (see additional information on the risk of redenomination on page 86). The proposed UK referendum on membership of the European Union (EU) would bring further economic and political uncertainty.

Our exposure to eurozone sovereign debt is very low. However, we remain alert to the risk of secondary impacts from events on financial institutions, other counterparties and global economic growth.

Inflation and property prices appear to be under control in most of the countries in which we operate, though some central banks are already employing macro-prudential tools to temper property price increases. Changes in monetary policy could lead to significant increases in interest rates from their currently low historical levels, with resulting impacts on the wider economy and on property values.

We balance risk and return, taking account of changing conditions through the economic cycle, and monitor economic trends in our markets very closely. We conduct stress tests to assess the effects of extreme but plausible trading conditions on our portfolio and also continuously review the suitability of our risk policies and controls. We manage credit exposures following the principle of diversification across products, geographies and client segments. This provides strong resilience against economic shocks in one or more of our portfolios.

Financial markets dislocation

There is a risk that a sudden financial market dislocation, perhaps as a result of a tightening of monetary policy in the major economies, a deterioration of the sovereign debt crisis in the eurozone or a geo-political event, could significantly increase general financial market volatility. This could affect our performance or the availability of capital or liquidity. In addition, reduction of monetary intervention by the US Federal Reserve, or other central banks, could disrupt external funding for some economies, leading to lower growth and financial market volatility. These factors may have an impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios. The potential losses incurred by certain clients holding derivative contracts during periods of financial market volatility could also lead to an increase in disputes and corporate defaults. At the same time, financial market instability could cause some financial institution counterparties to experience tighter liquidity conditions, or even fail. There is no certainty that government action to reduce the systemic risk will be successful and it may have unintended consequences.

We stress test our market risk exposures to highlight the potential impact of extreme market events on those exposures and to confirm that they are within authorised stress loss triggers. Stress scenarios are regularly updated to reflect changes in risk profile and economic events. Where necessary, overall reductions in market risk exposure are enforced. We closely monitor the performance of our financial institution counterparties and adjust our exposure to these counterparties as necessary. We maintain robust processes to assess the appropriateness and suitability of products and services we provide to clients to mitigate the risk of disputes.

Geo-political events

We operate in a large number of markets around the world, and our performance is in part reliant on the openness of cross-border trade and capital flows. We face a risk that geo-political tensions or conflicts in our footprint could impact trade flows, our customers' ability to pay, and our ability to manage capital or operations across borders.

We actively monitor the political situation in all our principal markets. We also monitor the development of broader geo-political events such as in Ukraine, the Middle East and territorial disputes in North East Asia. We conduct stress tests on the impact of extreme but plausible geo-political events on our performance, and the potential for such events to jeopardise our ability to operate within our stated risk appetite. Further details on stress testing are given on page 107.

Risk of fraud and other criminal acts

The banking industry has long been a target for third parties seeking to defraud, disrupt legitimate economic activity, or facilitate other illegal activities. Concerns about cyber crime have risen significantly, driven in part by geo-political events. Cyber crime risks include fraud, vandalism and damage to critical infrastructure.

While the internet and networked technologies have provided major opportunities for digitising business, they have also given rise to significant risks as well-equipped and motivated attackers become more sophisticated. The incidence of cyber crime is rising, becoming more globally coordinated, and is a challenge for all organisations.

Principal uncertainties

We seek to be vigilant to the risk of internal and external crime in our management of people, processes and systems and in our dealings with clients and other stakeholders. The Group has implemented a range of cyber crime defences to protect from hacking, misuse, malware, errors, social engineering and physical threats. Controls are embedded in our policies and procedures across a wide range of the Group's activities, such as origination, recruitment and physical and information security. We perform regular reviews of our control environment and tests of our defences against cyber and other attacks. We use third parties where appropriate to further protect, validate and strengthen our defences.

We actively collaborate with our peers, regulators and other expert bodies as part of our response to this risk.

The Group's controls to address money-laundering risks are under review as part of the Group's Financial Crime Risk Mitigation Programme, referred to in the section headed 'Regulatory compliance, reviews, requests for information and investigations' on pages 103 and 104.

Fraud and criminal activity may also give rise to litigation impacting the Group. In December 2008, Bernard Madoff confessed to running a Ponzi scheme through Bernard L. Madoff Investment Securities, LLC (BMIS). American Express Bank (AEB), acquired by the Group in February 2008, had provided clients with access to funds that invested in BMIS. BMIS and the funds are in liquidation. Certain clients have brought actions against the Group in various jurisdictions, seeking to recover losses based principally on the assertion that inadequate due diligence was undertaken on the funds. In addition, the BMIS bankruptcy trustee and the funds' liquidator have commenced proceedings against the Group, seeking to recover sums paid to clients when they redeemed their investments prior to BMIS' bankruptcy. There is a range of possible outcomes in the litigation described above, with the result that it is not possible for the Group to estimate reliably the liability that might arise. However, the Group considers that it has good defences to the asserted claims and continues to defend them vigorously.

For further details on legal and regulatory matters refer to note 43 on page 303.

Exchange rate movements

Changes in exchange rates affect, among other things, the value of our assets and liabilities denominated in foreign currencies, as well as the earnings reported by our non-US dollar denominated branches and subsidiaries. Sharp currency movements can also affect trade flows, the ability of countries and clients to service debt and the wealth of clients, any of which could have an impact on our performance.

We monitor exchange rate movements closely and adjust our exposures accordingly. Under certain circumstances, we may take the decision to hedge our foreign exchange exposures in order to protect our capital ratios from the effects of changes in exchange rates. The effect of exchange rate movements on the capital adequacy ratio is mitigated to the extent there are proportionate movements in risk-weighted assets.

The following table sets out the period-end and average currency exchange rates versus the dollar for Indian rupee, Korean won, Indonesian rupiah and Taiwanese dollar for the years ended 31 December 2014 and 31 December 2013. These are the markets for which currency exchange rate movements have had the greatest translation impact on the Group's results in 2014.

	2014	2013
Indian rupee		
Average	60.98	58.51
Period end	62.96	61.77
Korean won		
Average	1,052.25	1,094.52
Period end	1,098.85	1,055.08
Indonesian rupiah		
Average	11,838.11	10,414.66
Period end	12,396.43	12,164.29
Taiwanese dollar		
Average	30.33	29.70
Period end	31.64	29.84

Regulatory changes

Our business as an international bank will continue to be subject to an evolving and complex regulatory framework comprising legislation, regulation, enforcement and codes of practice, in each of the countries in which we operate. A key uncertainty relates to the way in which governments and regulators adjust laws, regulations and economic policies in response to macroeconomic and other systemic conditions. The nature and impact of such future changes are not always predictable and could adversely affect our strategic interests. Some could have a significant impact, such as the calibration and implementation of new liquidity requirements and a leverage ratio, continuing derivatives reform (including the implementation of risk mitigation techniques for over-the-counter (OTC) derivatives not cleared by a central counterparty) and banking structural reforms in a number of markets (including proposals that could result in (i) the structural separation of certain trading activities from core deposit-taking and lending activities and (ii) local branches of international banking groups being subsidiaryised), the UK bank levy and the US Foreign Account Tax Compliance Act.

In relation to the banking structural reforms, the European Commission has published a legislative proposal for a regulation on structural measures improving the resilience of EU credit institutions, including a prohibition on proprietary trading and separation powers for supervisors relating to banks' trading activities. The regulation is expected to be adopted during 2015 with a view to the prohibition on proprietary trading taking effect on 1 January 2017 and the separation powers for supervisors on 1 July 2018.

Uncertainty remains regarding the final calibration and implementation of (i) liquidity requirements and the leverage ratio under the EU's Capital Requirements Directive and Regulation (CRD IV) (although the Bank of England Financial Policy Committee has consulted on a proposal to introduce, as soon as practicable, a UK-specific 3 per cent leverage ratio and, from 2016, supplementary leverage ratio buffers ahead of final calibration by the European Union) and (ii) OTC derivative reforms across our markets, which could potentially have a material impact on the Group and its business model. Furthermore, proposals for regulatory changes may have unintended consequences either for individual banks or, in terms of aggregate impact, on the financial system. Depending on the final calibration and implementation of these measures, they could adversely affect economic growth, the volatility and liquidity of the financial markets and, consequently, the way we conduct business, structure our global operating model and manage capital and liquidity. These effects may directly or indirectly impact our financial performance.

Regulatory compliance, reviews, requests for information and investigations

While the Group seeks to comply with the letter and spirit of all applicable laws and regulations at all times, it has been, and may continue to be, subject to regulatory actions, reviews, requests for information (including subpoenas and requests for documents) and investigations across our markets, the outcomes of which are generally difficult to predict and can be material to the Group.

In 2012, the Group reached settlements with the US authorities regarding US sanctions compliance in the period 2001 to 2007, involving a Consent Order by the New York Department of Financial Services (NYDFS), a Cease and Desist Order by the Board of Governors of the Federal Reserve System (FED), Deferred Prosecution Agreements with each of the Department of Justice (DOJ) and the New York County District Attorney's Office (DANY) (each a DPA) and a Settlement Agreement with the Office of Foreign Assets Control (together, the 'Settlements'). In addition to the civil penalties totalling \$667 million, the terms of these Settlements include a number of conditions and ongoing obligations with regard to improving sanctions, Anti-Money Laundering (AML) and Bank Secrecy Act (BSA) controls such as remediation programmes, reporting requirements, compliance reviews and programmes, banking transparency requirements, training measures, audit programmes, disclosure obligations and, in connection with the NYDFS Consent Order, the appointment of an independent monitor (the 'Monitor'). These obligations are managed under a programme of work referred to as the US Supervisory Remediation Program (SRP). The SRP comprises work streams designed to ensure compliance with the remediation requirements contained in all of the Settlements. In 2013 the Group also established a Financial Crime Risk Mitigation Programme (FCRMP), which is a comprehensive, multi-year programme designed to review and enhance many aspects of the Group's existing approach to money laundering prevention and to combating terrorism finance and the approach to sanctions compliance and the prevention of bribery and corruption. Many of the deliverables under the SRP are reliant on, or led by, individuals or functions outside the US, and in some cases represent the US implementation of Group-wide remediation or upgrade activity managed under the FCRMP. Consequently, there is a close working relationship between the SRP and FCRMP for the purpose of project coordination and delivery. As part of the FCRMP, the Group or its advisors may identify new issues, potential breaches or matters requiring further review or further process improvements that could impact the scope or duration of the FCRMP.

The Group is engaged with all relevant authorities to implement these programmes and meet the obligations under the Settlements.

On 19 August 2014, the Group announced that it had reached a final settlement with the NYDFS regarding deficiencies in the AML transaction surveillance system in its New York branch (the 'Branch'). The system, which is separate from the sanctions screening process, is one part of the Group's overall financial crime controls and is designed to alert the Branch to unusual transaction patterns that require further investigation on a post-transaction basis.

The settlement provisions are summarised as follows:

- (i) A civil monetary penalty of \$300 million
- (ii) Enhancements to the transaction surveillance system at the Branch
- (iii) A two-year extension to the term of the Monitor
- (iv) The following set of temporary remediation measures, which will remain in place until the transaction surveillance system's detection scenarios are operating to a standard approved by the Monitor:
 - (a) The Branch will not, without prior approval of the NYDFS in consultation with the Monitor, open a dollar demand deposit account for any client that does not already have such an account with the Branch
 - (b) Requirements for inclusion of identifying information for originators and beneficiaries of some affiliate and third-party payment messages cleared through the Branch
 - (c) A restriction on dollar-clearing services for certain Hong Kong retail business clients
 - (d) Enhanced monitoring of certain small and medium-sized enterprise clients in the UAE. The Group decided to exit this business as part of its broader efforts to sharpen its strategic focus, withdrawing from or realigning non-strategic businesses, including those where increased regulatory costs undermine their economic viability. The exit process is largely complete and, in accordance with the settlement agreement, dollar clearance restrictions were implemented effective 17 November 2014.

The remit of the SRP has been expanded to cover the management of these obligations.

On 9 December 2014, the Group announced that the DOJ, DANY and the Group had agreed to a three-year extension of the DPAs until 10 December 2017, and to the retention of a monitor to evaluate and make recommendations regarding the Group's sanctions compliance programme. The DOJ agreement acknowledges that the Group has taken a number of steps to comply with the requirements of the original DPAs and to enhance and optimise its sanctions compliance, including the implementation of more rigorous US sanctions policies and procedures, certified staff training, hiring of senior legal and financial crime compliance staff, and recently implementing additional measures to block payment instructions for countries subject to US sanctions laws and regulations. The Group will work closely with the authorities to make additional substantial improvements to its US sanctions programme to reach the standard required by the DPAs.

The DOJ agreement also indicates that the Group is cooperating with an investigation related to possible historical violations of US sanctions laws and regulations, but that additional time is needed for the authorities to complete the investigation and determine whether any violations have occurred. The Group remains committed to full cooperation with the authorities during this investigation, alongside an extensive programme of compliance improvements. At the current stage of this investigation, the Group cannot predict the nature or timing of its outcome. There is a range of potential penalties for sanctions compliance violations, which could ultimately include substantial monetary penalties, additional compliance and remediation requirements, and/or additional business restrictions.

Principal uncertainties

The Group recognises that its compliance with historical, current and future sanctions, as well as AML and BSA requirements, and customer due diligence practices, not just in the US but throughout its footprint, are and will remain a focus of the relevant authorities.

As part of their remit to oversee market conduct, regulators and other agencies in certain markets are conducting investigations or requesting reviews into a number of areas of regulatory compliance and market conduct, including sales and trading, involving a range of financial products, and submissions made to set various market interest rates and other financial benchmarks, such as foreign exchange. At relevant times, certain of the Group's branches and/or subsidiaries were (and are) participants in some of those markets, in some cases submitting data to bodies that set such rates and other financial benchmarks. The Group is contributing to industry proposals to strengthen financial benchmarks processes in certain markets and continues to review its practices and processes in the light of the investigations, reviews and the industry proposals.

The Group is cooperating with all relevant ongoing reviews, requests for information and investigations. The outcome of these reviews, requests for information and investigations is uncertain and could result in further actions, penalties or fines, but it is not possible to predict the extent of any liabilities or other consequences that may arise.

In meeting regulatory expectations and demonstrating active risk management, the Group also takes steps to restrict or restructure or otherwise mitigate higher-risk business activities, which could include divesting or closing businesses that exist beyond risk tolerances.

For further details on legal and regulatory matters refer to note 43 on page 303.

As a result of our normal business operations, Standard Chartered is exposed to a broader range of risks than those principal uncertainties mentioned above and our approach to managing risk is detailed on the following pages.

Risk management approach

The management of risk lies at the heart of Standard Chartered's business. One of the main risks the Group incurs arises from extending credit to clients through our trading and lending operations. Beyond credit risk, we are also exposed to a range of other risk types such as country cross-border, market, liquidity, operational, pension, reputational and other risks that are inherent to our strategy, product range and geographical coverage.

Risk management framework

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is therefore a central part of the financial and operational management of the Group.

Through our risk management framework we manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our risk tolerance.

As part of this framework, the Board has approved a set of principles that describe the risk management culture we wish to sustain:

Balancing risk and return

- We manage our risks to build a sustainable franchise, in the interests of all our stakeholders
- We only take risk within our risk tolerances and risk appetite, and where consistent with our approved strategy
- We manage our risk profile to maintain a low probability of an unexpected loss event that would materially undermine the confidence of our investors

Conduct of business

- We demonstrate we are Here for good through our conduct, and are mindful of the reputational consequences of inappropriate conduct
- We seek to achieve good outcomes for clients, investors and the markets in which we operate, while abiding by the spirit and letter of laws and regulations
- We treat our colleagues fairly and with respect

Responsibility and accountability

- We take individual responsibility to ensure risk-taking is disciplined and focused, particularly within our area of authority
- We make sure risk-taking is transparent, controlled and reported in line with the risk management framework, within risk appetite and risk tolerance boundaries and only where there is appropriate infrastructure and resource

Anticipation

- We seek to anticipate material future risks, learn lessons from events that have produced adverse outcomes and ensure awareness of known risks

Competitive advantage

- We seek to achieve competitive advantage through efficient and effective risk management and control

Risk governance

Ultimate responsibility for setting our risk tolerance boundaries and for the effective management of risk rests with the Board.

Acting within an authority delegated by the Board, the Board Risk Committee, whose membership is comprised exclusively of non-executive directors of the Group, has responsibility for oversight and review of prudential risks, including but not limited to credit, market, capital, liquidity and operational risks. It reviews the Group's overall Risk Tolerance Statement and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, considering the implications of material regulatory change proposals, ensuring effective due diligence on material acquisitions and disposals, and monitoring the activities of the Group Risk Committee and the Group Asset and Liability Committee.

The Board Risk Committee receives regular reports on risk management, including our portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference. The Board Risk Committee also conducts 'deep dive' reviews on a rolling basis of different sections of the consolidated group risk information report.

The Brand, Values and Conduct Committee oversees the brand, values and good reputation of the Group, ensuring that reputational risk is consistent with the Risk Tolerance Statement approved by the Board and the creation of long-term shareholder value.

The Board Financial Crime Risk Committee oversees the Group's effective compliance with financial crime regulations.

The Audit Committee oversees financial, audit and internal control issues.

 **Further details on the role of the Board and its committees in matters of risk governance are covered in the Directors' report on pages 128 to 219**

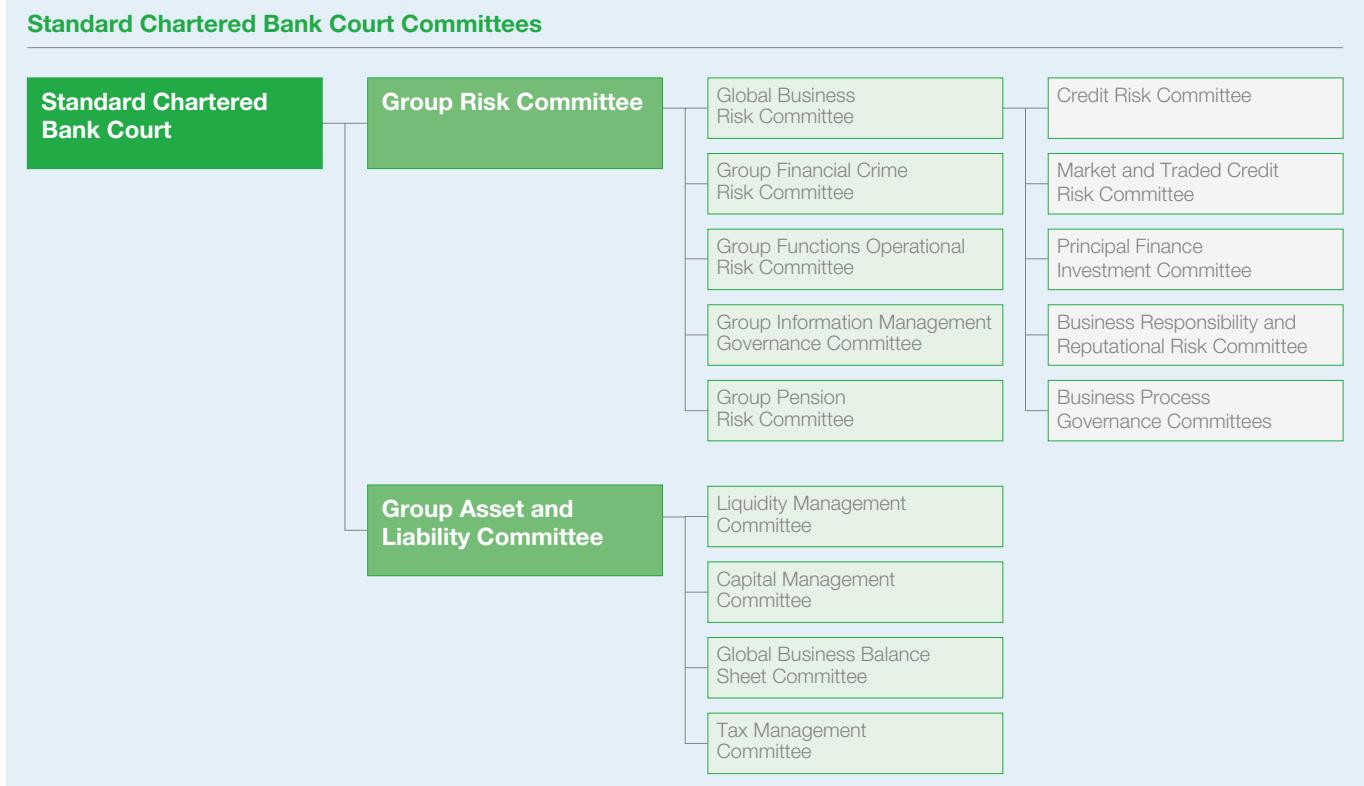
Overall accountability for risk management is held by the Standard Chartered Bank Court (the 'Court'), which comprises the Group executive directors and other senior executives of Standard Chartered Bank.

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

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

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

The Group Risk Committee and the Group Asset and Liability Committee are essentially unchanged following the reorganisation of our business, although the committee structures below them have changed significantly in some areas. The previous divisional risk committee structures have been combined to achieve better integration and alignment to the new organisational model.



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

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

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence describes a specific set of responsibilities for risk management and control.

- First line of defence: all employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities. Business unit, function and geographic heads are accountable for risk management in their respective businesses and functions, and for countries where they have governance responsibilities
- Second line of defence: this comprises the risk control owners, supported by their respective control functions. Risk control owners are responsible for ensuring that the risks within the scope of their responsibilities remain within appetite. The scope of a risk control owner's responsibilities

is defined by a given risk type and the risk management processes that relate to that risk type. These responsibilities cut across the Group and are not constrained by functional, business and geographic boundaries. The major risk types are described individually in the following sections

- Third line of defence: the independent assurance provided by the Group Internal Audit function. Its role is defined and overseen by the Audit Committee

The findings from the Group Internal Audit function's audits are reported to all relevant management and governance bodies, accountable line managers, relevant oversight function or committee and committees of the Board.

Group Internal Audit provides independent assurance of the effectiveness of management's control of its own business activities (the first line) and of the processes maintained by the risk control functions (the second line). As a result, Group Internal Audit provides assurance that the overall system of control effectiveness is working as required within the risk management framework.

The Risk function

The Group Chief Risk Officer directly manages a Risk function that is separate from the origination, trading and sales functions of the businesses. The Group Chief Risk Officer also chairs the Group Risk Committee and is a member of the Court.

The role of the Risk function is:

- To maintain the risk management framework, ensuring it remains appropriate to the Group's activities, is effectively communicated and implemented across the Group, and to administer related governance and reporting processes

- To uphold the overall integrity of the Group's risk/return decisions, and in particular ensure that risks are properly assessed, that risk/return decisions are made transparently on the basis of this proper assessment, and controlled in accordance with the Group's standards and risk appetite
- To exercise direct risk control ownership for credit, market, country cross-border, short-term liquidity and operational risk types

The independence of the Risk function is to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. This is particularly important given that revenues are recognised from the point of sale, while losses arising from risk positions typically manifest themselves over time.

In addition, the Risk function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the wider organisation.

Risk tolerance and appetite

We manage our risks to build a sustainable franchise in the interests of all our stakeholders.

We recognise three sets of constraints which determine the risks that we are willing to take in pursuit of our strategy:

- Risk capacity** defines externally imposed constraints within which the Group must operate. It is the maximum level of risk the Group can assume, given its current capabilities and resources, before breaching constraints determined by regulatory capital and liquidity requirements, or otherwise failing to meet the expectations of regulators and law enforcement agencies
- Risk tolerance** is the boundary defined by the Board that determines the maximum level of risk the Group is ordinarily willing to take in pursuit of its strategy, in accordance with its risk principles. Risk tolerance must constrain risk to the levels where the potential for any financial or reputational damage is consistent with the sustained pursuit of strategy and in line with the reasonable expectations of stakeholders. Risk tolerance cannot exceed risk capacity
- Risk appetite** is the amount of risk that the Group regards as optimal in order to generate returns, taking account of current and reasonably foreseeable external market conditions. Risk appetite cannot exceed risk tolerance

The Group's risk profile is our overall exposure to risk, at a given point in time, covering all applicable risk types. Risk control tools such as exposure limits, underwriting standards, scorecard cut-offs and policies and other operational control parameters are used to keep the Group's risk profile within risk appetite (and therefore also risk tolerance and risk capacity).

The Board has approved a Risk Tolerance Statement, which is underpinned by a set of financial and operational control parameters, known as risk tolerances. These risk tolerances directly constrain the aggregate risk exposures that can be taken across the Group.

The Group's Risk Tolerance Statement, and the related risk tolerance categories approved by the Board, are as follows:

- General: the Group will not compromise adherence to its risk tolerances in order to pursue revenue growth or higher returns

- Credit and country cross-border: the Group manages its credit and country cross-border exposures following the principle of diversification across products, geographies, client segments and industry sectors. Specific risk tolerances are set for single-name credit concentrations, industry credit concentrations, portfolio tenor, retail unsecured credit concentrations and country cross-border credit risk concentrations
- Capital and earnings volatility: under stressed conditions, of a severity experienced on average once in 25 years, the Group's prudential capital ratios on a transitional basis should exceed minimum regulatory capital requirements, without recourse to external sources. Specific tolerances are set for minimum Common Equity Tier 1 capital and leverage ratios under 1-in-25-year stress conditions
- Market risk: the Group should control its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Group's franchise. Specific tolerances are set for minimum financial markets, stress profitability and short-term profit and loss volatility
- Liquidity risk: the Group should be able to meet its payment and collateral obligations under extreme but plausible liquidity stress scenarios without recourse to extraordinary central bank support. Specific tolerances are set for minimum assets to deposits and liquidity coverage ratios
- Operational risk: 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. This statement is underpinned by risk tolerances for each operational top risk. The risk control metrics that underpin the operational top risks are in the process of being defined as part of the roll out of the Group's operational risk framework (ORF). See page 100 for the list of the Group's current operational top risks
- Reputational risk: the Group will protect its reputation to ensure that there is no material damage to the Group's franchise

The Group Risk Committee and the Group Asset and Liability Committee are responsible for ensuring that our risk profile is managed in compliance with the risk tolerances set by the Board. The Board Risk Committee advises the Board on the Risk Tolerance Statement and monitors that the Group remains in compliance with it.

Stress testing

Stress testing and scenario analysis are used to assess the financial and management capability of Standard Chartered to continue operating effectively under extreme but plausible trading conditions.

Our stress-testing framework is designed to:

- Contribute to the setting and monitoring of risk tolerance
- Identify key risks to our strategy, financial position and reputation
- Support the development of mitigating actions and contingency plans, including business continuity
- Meet regulatory requirements

Our stress-testing activity focuses on the potential impact of market, macroeconomic, geo-political and physical events on relevant geographies, client segments and asset classes.

Stress tests are performed at Group, country and business level

and bespoke scenarios are applied to our market and liquidity positions as described in the section on market risk on page 113 and liquidity risk on page 114.

Credit risk management

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group in accordance with agreed terms. Credit exposures arise from both the banking and trading books.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework. The Group manages its credit exposures following the principle of diversification across products, geographies, industries, collateral types and client segments.

Credit Risk Committee

The Credit Risk Committee, which receives its ultimate authority from the Group Risk Committee, is the primary senior management committee to ensure the effective management of credit risk throughout the Group in line with risk appetite and in support of Group strategy. The Credit Risk Committee regularly meets to monitor all material credit risk exposures, key internal developments and external trends, and ensure that appropriate action is taken. It is chaired by the Group Chief Credit Officer.

Credit policies

Group-wide credit policies and standards are considered and approved by the Group Risk Committee, which also oversees the delegation of credit approval and loan impairment provisioning authorities. These policies set key control standards on credit origination and credit risk assessment, concentration risk and large exposures, credit risk mitigation, credit monitoring, collection and recovery management. In addition, there are other Group-wide policies integral to credit risk management such as those relating to stress testing, risk measurement and impairment provisioning.

Policies and procedures specific to each client or product segment are established by authorised bodies. These are consistent with our Group-wide credit policies, but are more detailed and adapted to reflect the different risk characteristics across client and product segments. Policies are regularly reviewed and monitored to ensure these remain effective and consistent with the risk environment and risk appetite.

Credit rating and measurement

Risk measurement plays a central role, along with judgement and experience, in informing risk-taking and portfolio management decisions.

Since 1 January 2008, Standard Chartered has used the advanced internal ratings based (IRB) approach under the Basel II regulatory framework to calculate credit risk capital requirements.

A standard alphanumeric credit risk grade (CG) system for Corporate & Institutional Clients and Commercial Clients is used. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower credit grades are indicative of a lower likelihood of default. CG 1 to 12 are assigned to performing customers or accounts, while CG 13 and 14 are assigned to non-performing or defaulted customers.

An analysis by CG of those loans that are neither past due nor impaired is set out on pages 75 and 76.

For Retail Clients IRB portfolios, we use application and behaviour credit scores that are calibrated to generate a probability of default and then mapped to the standard alphanumeric credit risk grade system.

Our CGs are not intended to replicate external credit grades (where these are available), and ratings assigned by external ratings agencies or credit bureaus are not used in determining our internal credit grades. Nonetheless, as the factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency or credit bureau is typically assigned a worse internal credit grade.

Advanced IRB 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 IRB risk measurement models are approved by the Credit Risk Committee, on the recommendation of the Credit Model Assessment Committee. The Credit Model Assessment Committee approves all other IRB risk measurement models, with all decisions noted to the Credit Risk Committee. The Credit Model Assessment Committee supports the Credit Risk Committee in ensuring risk identification and measurement capabilities are objective and consistent, so that risk control and risk origination decisions are properly informed. Prior to review by the Credit Model Assessment Committee, all IRB models are validated in detail by a model validation team, which is separate from the teams that develop and maintain the models. Models undergo annual periodic review. Reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process.

Credit approval and credit risk assessment

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Credit Approval Committee. The Credit Approval Committee is appointed by the Credit Risk Committee and derives its credit approving authority from the Group Risk Committee.

All other credit approval authorities are delegated by the Group Risk Committee to individuals based both on their judgement and experience and a risk-adjusted scale that takes account of the estimated maximum potential loss from a given customer or portfolio. Credit origination and approval roles are segregated in all but a very few authorised cases. In those very few exceptions where they are not, originators can only approve limited exposures within defined risk parameters.

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 usually based on the client's credit quality and the repayment capacity from operating cash flows for counterparties; and personal income or wealth for individual borrowers. The risk assessment gives due consideration to the client's liquidity and leverage position. Where applicable, the assessment includes a detailed analysis of the credit risk mitigation arrangements to determine the level of reliance on such arrangements as the secondary source of repayment in the event of a significant deterioration in a client's credit quality leading to default. Lending activities that are

considered as higher risk or non-standard are subjected to stricter minimum requirements and require escalation to a senior credit officer or authorised bodies. An analysis of the loan portfolio is set out on pages 65 to 70.

Credit concentration risk

Credit concentration risk may arise from a single large exposure to a counterparty or a group of connected counterparties, or from multiple exposures across the portfolio that are closely correlated.

Large exposure concentration risk is managed through concentration limits set by counterparty or group of connected counterparties.

At the portfolio level, credit concentration thresholds are set and monitored to control concentrations, where appropriate, by country, industry, product, tenor, collateral type, collateralisation level and credit risk profile.

For concentrations that are material at a Group level, thresholds are set and monitored by the Credit Risk Committee and reported to the Group Risk and Board Risk Committees.

Credit monitoring

We regularly monitor credit exposures, portfolio performance, and external trends that may impact risk management outcomes.

Internal risk management reports are presented to risk committees, containing information on key environmental, political and economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance; and IRB portfolio metrics including credit grade migration.

Credit risk committees meet regularly to assess the impact of external events and trends on the Group's credit risk portfolios and to define and implement our response in terms of appropriate changes to portfolio shape, portfolio and underwriting standards, risk policy and procedures.

Clients or portfolios are placed on early alert when they display signs of actual or potential weakness, for example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, non-performance of an obligation within the stipulated period, or there are concerns relating to ownership or management.

Such accounts and portfolios are subjected to a dedicated process overseen by Credit Issues Committees in countries. Client account plans and credit grades are re-evaluated. In addition, remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of Group Special Assets Management (GSAM), our specialist recovery unit. Typically, all Corporate & Institutional Clients, Commercial Clients and Private Banking Clients past due accounts are managed by GSAM.

For Retail Clients exposures, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and considered for lending decisions. Accounts that are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by specialist recovery teams. In some countries, aspects of collections and recovery functions are outsourced.

Credit risk mitigation

Potential credit losses from any given account, client or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees. The reliance that can be placed on 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 is held to mitigate credit risk exposures. Where appropriate, credit derivatives are used to reduce credit risks in the portfolio. Due to their potential impact on income volatility, such derivatives are used in a controlled manner with reference to their expected volatility.

The Group credit risk mitigation policy determines the key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements.

Collateral types that are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit. The Group also enters into collateralised reverse repurchase agreements.

In order to be recognised as security and for the loan to be classified as secured, all items pledged must be valued and an active secondary resale market must exist for the collateral. Documentation must be held to enable the Group to realise the asset without the cooperation of the asset owner in the event that this is necessary. The Group also seeks to diversify its collateral holdings across asset classes and markets.

For certain types of lending – typically mortgages or asset financing – the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. The requirement for collateral is, however, not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

Regular valuation of collateral is required in accordance with the Group's credit risk mitigation policy, which prescribes both the process of valuation and the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios. Physical collateral is required to be insured at all times and against all risks, with the Group as the loss payee under the insurance policy.

Where appropriate, collateral values are adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of possession.

Where guarantees or credit derivatives are used as credit risk mitigation, the creditworthiness of the guarantor is assessed and established using the credit approval process in addition to that of the obligor or main counterparty. The main types of guarantors include banks, insurance companies, parent companies, shareholders and export credit agencies.

Traded products

Credit risk from traded products is managed within the overall credit risk appetite for corporates and financial institutions.

The credit risk exposure from traded products derives from the positive mark-to-market value of the underlying instruments,

and an additional component to cater for potential market movements.

The Group uses bilateral and multilateral netting to reduce pre-settlement and settlement counterparty risk. Pre-settlement risk exposures are normally netted using bilateral netting documentation in legally approved jurisdictions. Settlement exposures are generally netted using Delivery versus Payments or Payment versus Payments systems. Master netting agreements are generally enforced only in the event of default. In line with International Accounting Standards (IAS) 32, derivative exposures are presented on a net basis in the financial statements only if there is a legal right to offset and there is intent to settle on a net basis or realise the assets and liabilities simultaneously.

In addition, we enter into credit support annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Further details on CSAs are set out on page 73.

Securities

The portfolio limits and parameters for the underwriting and purchase of all predefined securities assets to be held for sale are approved by the Underwriting Committee. The Underwriting Committee is established under the authority of the Credit Risk Committee. The business operates within set limits, which include country, single issuer, holding period and credit grade limits.

Day-to-day credit risk management activities for traded securities are carried out by a specialist team within the Risk function whose activities include oversight and approval within the levels delegated by the Underwriting Committee. Issuer credit risk, including settlement and pre-settlement risk, and price risk are controlled by the Risk function.

The Underwriting Committee approves individual proposals to underwrite new security issues for our clients. Where an underwritten security is held for a period longer than the target sell-down period, the final decision on whether to sell the position rests with the Risk function.

Loan impairment

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and advances. Individually impaired loans are those loans against which individual impairment provisions have been raised.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the balance sheet date are determined by taking into account past loss experience as a result of uncertainties arising from the economic environment, and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported, for example, as a result of uncertainties arising from the economic environment.

The total amount of the Group's impairment allowances is inherently uncertain, being sensitive to changes in economic and credit conditions across the geographies in which the

Group operates. Economic and credit conditions are interdependent within each geography and as a result there is no single factor to which the Group's loan impairment allowances as a whole are sensitive. It is possible that actual events over the next year differ from the assumptions built into our model, resulting in material adjustments to the carrying amount of loans and advances.

Retail Clients

Retail Clients portfolios consist of a large number of comparatively small exposures, where it is impractical to assess each loan on an individual basis for impairment. The primary indicator of potential impairment in these portfolios is therefore delinquency. A loan is considered delinquent (or 'past due'), when the customer has failed to make a principal or interest payment in accordance with the loan contract. For delinquency reporting purposes we follow industry standards, measuring delinquency as of 1, 30, 60, 90, 120 and 150 days past due. Impairment is measured against these buckets in two stages:

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

In the second stage we are able to replace PIPs with individual impairment provisions (IIPs) as we develop more knowledge about each individual account. We apply IIPs after the following number of days' delinquency:

- For mortgages, after 150 days
- For secured Wealth Management products, after 90 days
- For unsecured consumer finance loans, after 90 days
- For all other unsecured loans and loans secured on automobiles, after 150 days

IIPs are based on the estimated present values of future cash flows, in particular those resulting from the realisation of security. The days past due used to trigger IIPs are driven by past experience, which shows that once an account reaches the relevant number of days past due, the probability of recovery (other than by raising security as appropriate) is low. For all products there are certain situations where the IIP process is accelerated, such as in cases involving bankruptcy, customer fraud and death. IIPs are also accelerated for all restructured accounts to 90 days past due for unsecured and automobile finance and 120 days past due for secured loans.

Loan write-off is again broadly driven by past experience of the point at which further recovery is unlikely. Write-off occurs at the same time that IIPs are established for all products except mortgage loans, which have not been restructured. The latter is fully impaired after 720 days past due.

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

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

For further details on Retail see page 75 to 83.

Corporate & Institutional and Commercial and Private Banking Clients

Loans are classified as impaired where analysis and review indicate that full payment of either interest or principal is questionable, or as soon as payment of interest or principal is 90 days overdue. Impaired accounts are managed by our specialist recovery unit, GSAM, which is separate from our main businesses. Where any amount is considered irrecoverable, an IIP is raised. This provision is the difference between the loan-carrying amount and the present value of estimated future cash flows.

The individual circumstances of each client are taken into account when GSAM estimates future cash flows. All available sources, such as cash flow arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees, are considered. In any decision relating to the raising of provisions, we attempt to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an impairment provision has been raised, that amount will be written off.

As with Retail Clients, a PIP is held to cover the inherent risk of losses which, although not identified, are known through experience to be present in any loan portfolio. This is set with reference to historical loss rates and subjective factors such as the economic environment and the trends in key portfolio indicators. The PIP methodology provides for accounts for which an IIP has not been raised.

For further details on Corporate & Institutional, Commercial and Private Banking Clients see page 75 and page 83.

Renegotiated and forborne loans

In certain circumstances, the Group may renegotiate client loans.

Loans that are renegotiated for commercial reasons, such as when a client had a credit rating upgrade, are not included as part of renegotiated and forborne loans because they are not indicative of any credit stress.

Loans that are renegotiated primarily to grant extended tenor to a client who is facing some difficulties but who we do not believe is impaired are reported as 'Other renegotiated loans'. Loans that are renegotiated on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared to the original terms of the loans, are considered to be subject to forbearance strategies and are disclosed as 'Loans subject to forbearance', which is a subset of impaired loans.

Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the bank or a third party (including government sponsored programmes or a conglomerate of credit institutions) and includes debt restructuring, such as a new repayment schedule, payment deferrals, tenor extensions and interest only payments.

Once a loan is subject to forbearance or is renegotiated, the loan continues to be reported as such, until the loan matures or is otherwise derecognised.

Retail Clients

For Retail Clients, all loans subject to forbearance (in addition to other renegotiated loans) are managed within a separate portfolio. If such loans subsequently become past due, charge-off and IIP is accelerated to 90 days past due for unsecured loans and automobile finance or 120 days past due for secured loans. The accelerated loss rates applied to this portfolio are derived from experience with other renegotiated loans, rather than the Retail Clients portfolio as a whole, to recognise the greater degree of inherent risk.

Corporate & Institutional and Commercial and Private Banking Clients

Forbearance and other renegotiations are applied on a case-by-case basis and are not subject to business-wide programmes. In some cases, a new loan is granted as part of the restructure, in others, the contractual terms and repayment of the existing loans are changed or extended (for example, interest-only for a period).

Loans classified as subject to forbearance are managed by GSAM and are kept under close review to assess the client's ability to adhere to the restructured repayment strategy and to identify any events that could result in a deterioration in the client's ability to repay.

If the terms of the renegotiation are such that, where the present value of the new cash flows is lower than the present value of the original cash flows, the loan would be considered to be impaired and, at a minimum, a discount provision would be raised and shown under loans subject to forbearance. These accounts are monitored as described on page 109.

Renegotiated and forborne loans are disclosed by client segments on page 77.

Country cross-border risk

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

The Group Risk Committee is responsible for our country cross-border risk limits and delegates the setting and management of those limits to the Group Country Risk function. The business heads and country chief executive officers manage exposures within these limits and policies. Countries designated as higher risk are subject to increased central monitoring.

Assets that generate country cross-border exposure are those where the main source of repayment or security is derived from a country other than the country in which the asset is booked. These cover a wide range of products, including loans and advances, interest-bearing deposits with other banks, trade and other bills, acceptances, amounts receivable under finance leases, derivatives, certificates of deposit and other negotiable paper, investment securities and formal commitments.

Cross-border assets also include exposures to local residents denominated in currencies other than the local currency and local-currency assets funded by intra-group funding. Cross-border exposure also includes the value of commodity, aircraft and shipping assets owned by the Group that are held in a given country.

Market risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises predominantly from providing 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 broadly stable. Market risk also arises in the non-trading book from the requirement to hold a large liquid assets buffer of high-quality liquid debt securities and from the translation of non-US dollar denominated assets, liabilities and earnings.

The primary categories of market risk for the Group are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options
- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on FX Options
- Commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; covering energy, precious metals, base metals and agriculture
- Equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options

Market risk governance

The Board approves the Group's risk tolerances for market risk. Subject to the risk tolerances set for market risk, the Group Risk Committee sets Group-level market risk limits and stress loss triggers.

The Market and Traded Credit Risk Committee, under authority ultimately delegated by the Group Risk Committee, is responsible for setting business and desk-level value at risk (VaR) and stress loss triggers for market risk within the levels set by the Group Risk Committee. The Market and Traded Credit Risk Committee is also responsible for policies and standards for the control of market risk and overseeing their effective implementation. These policies cover both trading and non-trading books of the Group.

The Market and Traded Credit Risk function approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to a one basis point increase in yields, whereas foreign exchange, commodity and equity sensitivities are measured in terms of the underlying values or amounts involved. Option risks are controlled through revaluation limits on underlying price and volatility shifts, limits on volatility risk and other variables that determine the option's value.

VaR

We measure the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology. VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit and loss outcome.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

We apply two VaR methodologies:

- Historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors and the majority of specific (credit spread) risk VaR
- Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets

In both methods a historical observation period of one year is chosen and applied.

VaR is calculated as our exposure as at the close of business, generally UK time. Intra-day risk levels may vary from those reported at the end of the day.

A small proportion of market risk generated by trading positions is not included in VaR or cannot be appropriately captured by VaR. This is recognised through a Risks-not-in-VaR (RNIV) framework, which estimates these risks and applies capital add-ons.

To assess their predictive power, VaR models are backtested against actual results.

See an analysis of VaR and backtesting results in 2014 on pages 89 to 91.

Stress testing

Losses beyond the 97.5 per cent confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations.

MTCR complements the VaR measurement by weekly stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress-testing methodology is applied to trading and non-trading books. The stress-testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. The Market and Traded Credit Risk function reviews stress exposures 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 tolerance.

Regular stress-test scenarios are applied to interest rates, credit spreads, exchange rates, commodity prices and equity prices. This covers all asset classes in the Financial Markets banking and trading books.

Ad hoc scenarios are also prepared, reflecting specific market conditions and for particular concentrations of risk that arise within the business.

Market risk VaR coverage

Interest rate risk from non-trading book portfolios is transferred to Financial Markets where it is managed by local Asset and Liability Management (ALM) desks under the supervision of local Asset and Liability Committees. ALM deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits.

VaR and stress tests are therefore applied to these non-trading book exposures (except Group Treasury, see below) in the same way as for the trading book, including available-for-sale securities. Securities classed as Loans and Receivables or Held-to-maturity are not reflected in VaR or stress tests since they are accounted for on an amortised cost basis, so market price movements have limited effect on either profit and loss or reserves.

Structural foreign exchange risks are managed by Group Treasury, as described below, and are not included within Group VaR. Otherwise, the non-trading book does not run open foreign exchange positions.

Equity risk relating to non-listed private equity and strategic investments is not included within VaR. It is separately managed through delegated limits for both investment and divestment, and is also subject to regular review by an investment committee.

 These are included as Level 3 assets, as disclosed in note 15 to the financial statements

Group Treasury market risk

Group Treasury raises debt and equity capital and the proceeds are invested within the Group as capital or placed with ALM. Interest rate risk arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements. This risk is measured as the impact on net interest income (NII) of an unexpected and instantaneous adverse parallel shift in rates and is monitored over a rolling one-year time horizon. See details in Market risk on page 92.

These risks are monitored and controlled by the Group's Capital Management Committee.

Group Treasury also manages the structural foreign exchange risk that arises from non-US dollar currency net investments in branches and subsidiaries. The impact of foreign exchange movements is taken to reserves which form part of the capital base. The effect of exchange rate movements on the capital ratio is partially mitigated by the fact that both the value of these investments and the risk-weighted assets in those currencies follow broadly the same exchange rate movements. With the approval of the Capital Management Committee, Group Treasury may hedge the net investments if it is anticipated that the capital ratio will be materially affected by exchange rate movements. Changes in the valuation of these positions are taken to reserves. See details in Market risk on page 109.

Derivatives

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

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

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

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

The credit risk arising from all financial derivatives is managed as part of the overall lending limits to financial institutions and corporate clients. This is covered in more detail in the Credit risk section on page 73.

Hedging

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

In accounting terms under IAS 39, hedges are classified into three types: fair value hedges, predominantly where fixed rates of interest or foreign exchange are exchanged for floating rates; cash flow hedges, predominantly where variable rates of interest or foreign exchange are exchanged for fixed rates; and

hedges of net investments in overseas operations translated to the parent company's functional currency, dollars.

We may also, under certain individually approved circumstances, enter into economic hedges that do not qualify for IAS 39 hedge accounting treatment, and which are accordingly marked-to-market through the profit and loss account, thereby creating an accounting asymmetry. These are entered into primarily to ensure that residual interest rate and foreign exchange risks are being effectively managed. Current economic hedge relationships include hedging the foreign exchange risk on certain debt issuances and on other monetary instruments held in currencies other than dollars.

Liquidity risk

Liquidity risk is the risk that we either do not have sufficient financial resources available to meet our obligations as they fall due, or can only access these financial resources at excessive cost.

It is our policy to maintain adequate liquidity at all times, in all geographic locations and for all currencies, and hence to be in a position to meet obligations as they fall due. We manage liquidity risk both on a short-term and structural basis. In the short term, our focus is on ensuring that the cash flow demands can be met when required. In the medium term, the focus is on ensuring that the balance sheet remains structurally sound and is aligned to our strategy.

The Group Asset and Liability Committee is the responsible governing body that approves our liquidity management policies. The Liquidity Management Committee receives authority from the Group Asset and Liability Committee and is responsible for setting or delegating authority to set liquidity limits and proposing liquidity risk policies. Liquidity in each country is managed by the country Asset and Liability Committee within predefined liquidity limits and in compliance with Group liquidity policies and practices, as well as local regulatory requirements. MTCR and Group Treasury propose and oversee the implementation of policies and other controls relating to the above risks.

We seek to manage our liquidity prudently in all geographical locations and for all currencies. Exceptional market events could impact us adversely, thereby potentially affecting our ability to fulfil our obligations as they fall due. The principal uncertainties for liquidity risk are that customers withdraw their deposits at a substantially faster rate than expected, or that asset repayments are not received on the expected maturity date. To mitigate these uncertainties, we maintain a diverse and largely customer-driven funding base, while our customer loans are mostly of short tenor. In addition we have contingency funding plans including a portfolio of liquid assets that can be realised if a liquidity stress occurs, as well as ready access to wholesale funds under normal market conditions.

Customer assets are, as far as possible, funded in the same currency. Where mismatches arise, they are controlled by limits in each country on the amount of foreign currency that can be swapped to local currency and vice versa. Such limits are therefore a means of reducing the risk that obligations could not be met in the required currency in the event that access to foreign exchange markets becomes restricted. In sizing the limits we consider a range of factors including:

- The size and depth of local foreign exchange markets
- The local regulatory environment, particularly the presence or risk of imposition of foreign exchange controls

Policies and procedures

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

- The local and foreign currency cash flow gaps
- The level of external wholesale funding, to ensure that the size of this funding is proportionate to the local market and our local operations
- The level of borrowing from other countries within the Group, to contain the risk of contagion from one country to another
- Commitments, both on- and off-balance sheet, to ensure there are sufficient funds available in the event of drawdown
- The advances-to-deposits ratio, to ensure that commercial advances are funded by stable sources and that customer lending is funded by customer deposits
- The amount of assets that may be funded from other currencies
- The amount of medium-term assets that have to be funded by medium-term funding

In addition, we prescribe a liquidity stress scenario that includes accelerated withdrawal of deposits over a period of time. Each country has to ensure on a daily basis that cash inflows would exceed outflows under such a scenario.

All limits are reviewed at least annually, and more frequently if required, to ensure that they remain relevant given market conditions and business strategy. Compliance with limits is monitored independently on a regular basis by MTCR and Finance. Limit excesses are escalated and approved under a delegated authority structure and reported to the country Asset and Liability Committee. Excesses are also reported monthly to the Liquidity Management Committee, which provides further oversight.

We have significant levels of marketable securities, including government securities that can be monetised or pledged as collateral in the event of a liquidity stress. In addition, a Funding Crisis Response and Recovery Plan (FCRRP), reviewed and approved annually, is maintained by Group Treasury. The FCRRP strengthens existing governance processes by providing a broad set of Early Warning Indicators (EWIs), an escalation framework and a set of management actions that could be effectively implemented by the appropriate level of senior management in the event of a liquidity stress. A similar plan is maintained within each major country.

Liquidity management – stress scenarios

The Group conducts a range of liquidity-related stress analyses, both for internal and regulatory purposes.

Internally, three stress tests are run routinely: a severe eight-day name-specific stress, a 30-day market-wide stress and a 90-day combined name-specific and market-wide stress. Liquidity risks are also considered as part of the Group's wider periodic scenario analysis, including reverse stress testing. In addition, the Group runs a range of stress tests to meet regulatory requirements, as defined by the PRA and local regulators.

The eight-day stress is specifically designed to determine a minimum quantity of marketable securities that must be held at all times in all countries. This stress is computed daily, and the minimum marketable securities requirement is observed daily.

This is intended to ensure that, in the unlikely event of an acute loss of confidence in the Group or any individual entity within it, there is sufficient time to take corrective action. Every country must pass, on a standalone basis, with no presumption of Group support. The Group's resilience to market-wide disruption, such as loss of interbank money or foreign exchange markets, is tested using the 30-day market-wide stress scenario, and is monitored by country Asset and Liability Committees.

Finally, the 90-day stress test considers more prolonged stresses that affect markets across a number of the Group's main footprint countries and in which the Group itself may come under some sustained pressure. This pressure may be unwarranted or may be because the Group is inextricably linked with those markets/countries. This stress is managed at a Group rather than individual country level. It tests the adequacy of contingency funding arrangements beyond the marketable securities held to cover the eight-day stress, including the ability to support countries from elsewhere in the Group.

Our country stress testing considers potential currency mismatches between outflows and inflows. Particular focus is paid to mismatches in less liquid currencies and those that are not freely convertible. Mismatches are controlled by management action triggers set by MTCR. Group-wide stress tests also consider the portability of liquidity surpluses between Group entities, taking account of regulatory restrictions on large and intra-group exposures.

Standard Chartered Bank's credit ratings as at December 2014 were AA- negative (Fitch), A+ with negative outlook (S&P) and A1 (Moody's). A downgrade in credit rating would increase derivative collateral requirements and outflows due to rating-linked liabilities. The impact of a two-notch downgrade results in an estimated outflow of \$2.1 billion.

Operational risk

We define operational risk as the potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks.

As operational risk arises from all activities carried out within the Group, the potential for operational risk events occurring across a large and complex international organisation is a constant challenge. To address this we aim to achieve 'industrial strength' process and control design standards for all activities, and benchmark practices against peers, other industries and regulatory requirements.

Operational risk governance

The Group Risk Committee provides oversight of operational risk management across the Group. It is supported by the Global Business Risk Committee, the Group Functions Operational Risk Committee, the Group Financial Crime Risk Committee and the Group Information Management Governance Committee, which oversee operational risk arising from the global businesses, Group functions, financial crime compliance and information management respectively.

Internal organisation – Three Lines of Defence

To implement the operational risk management approach in the Group, the Group applies the Three Lines of Defence, as set out in the risk management framework.

The first line of defence has responsibility for identifying and managing all risks within first line processes as an integral part of first line responsibilities.

In the second line of defence, Group Operational Risk is responsible for setting and maintaining the standards for the operational risk management approach. In addition, the second line of defence comprises both second line risk control owners of each operational risk sub-type and second line Group policy owners.

The third line of defence is the independent assurance provided by the Group Internal Audit function, which has no management responsibilities for any of the activities it examines. Group Internal Audit provides assurance that the overall system of control effectiveness is working as required within the risk management framework. See page 106 for more information on the Three Lines of Defence.

Risk tolerance approach

Operational risk is managed within tolerances aligned to achieve the Board-approved Risk Tolerance 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.

In order to comply with this statement, the operational risk management approach includes the following requirements:

- The Group will systematically identify top risks and emerging risks with the involvement of the Board and senior management to define the appropriate course of action, including business restrictions
- All material processes will be mapped and owned with appropriate key control standards defined to mitigate risks
- The Group will not miss any opportunity to learn lessons from internal or external events and will implement relevant mitigation actions
- The Group will systematically test internal capital adequacy through scenario analysis and stress testing

Risk classification

Risk types are the different ways that we may be exposed to loss. Each risk type is a grouping of potential losses that are material, and which may arise in different activities or areas of the Group.

The Group uses risk types principally as an aid to ensure comprehensive and consistent identification of risks, wherever they may arise. Operational risk types are listed in the table overleaf.

Operational risk sub-types

External rules and regulations	Potential for actual or opportunity loss due to failure to comply with laws or regulations, or as a result of changes in laws or regulations or in their interpretation or application
Liability	Potential for loss or sanction due to a legal claim against any part of the Group or individuals within the Group
Legal enforceability	Potential for loss due to failure to protect legally the Group's interests or from difficulty in enforcing the Group's rights
Damage or loss of physical assets	Potential for loss or damage or denial of use of property or other physical assets
Safety and security	Potential for loss or damage relating to health and/or physical security
Internal fraud or dishonesty	Potential for loss due to action by staff that is intended to defraud, or to circumvent the law or company policy
External fraud	Potential for loss due to criminal acts by external parties such as fraud or theft of financial assets
Information security	Potential for loss due to unauthorised access, use, disclosure, disruption, modification or destruction of information
Processing failure	Potential for loss due to failure of an established process or a process design weakness
Model	<p>Potential for loss due to a significant discrepancy between the output of credit and market risk measurement models and actual experience.</p> <p>Potential for regulatory breach due to a significant discrepancy between the output of client risk-scoring, name-screening and surveillance detection models and actual experience.</p>

Operational risk management approach

The Group ensures completeness of its management of operational risk by maintaining a complete process universe defined for all client segments, products and functions processes.

The process universe is the complete list of end-to-end processes that collectively describe the activities of the Group and is the reference for the application of the operational risk management approach.

This represents all Group activities, the owners of these activities, and the risk and control standards that are defined by risk and process owners. It also serves as the foundation for policy delivery, as well as risk identification, measurement, management and reporting. The operational risk management approach requires:

- 'Industrial strength' processes for all Group activities
- Control tolerances for detection and rectification of defects within a defined time period
- Standardised processes in all countries except for legitimate system or regulatory exceptions
- Gross and residual risk assessments by first line and approved by second line
- Monthly risk and control monitoring
- Prompt execution of risk treatment actions to closure

The operational risk management approach is being rolled out on a prioritised basis by risk and market as part of the ORF programme. The Group's Very High and High Gross risk processes are being rolled out to all businesses and functions in nine of the largest markets (Singapore, Hong Kong, China,

Korea, the UAE, the UK, the US, India, and Pakistan). This will be completed in the first half of 2015. Progression to all markets and lower risk processes in the Group will take place by the end of 2015.

Stress testing and scenario analysis

As part of our operational risk management approach, we conduct regulatory stress testing and stress testing by scenario analysis for the Group.

Regulatory stress testing driven by adverse macroeconomic scenarios is used to determine regulatory capital adequacy. In 2014, we participated in the Bank of England and Internal Capital Adequacy Assessment Process exercises. The exercises included internal judgemental overlays for potential risk of low-frequency, high-severity events occurring during stress conditions, due to collateral management processing failure, fraud and mis-selling risks. The results confirmed the Group's operational risk Pillar I regulatory capital was adequate.

Our stress-testing and scenario analysis programme is prioritised to identify concentration of risks across the Group's processes and to consider and assess the potential impact of low-frequency high-severity events that may exceed the Group's risk tolerances. An example of a recent stress test included a cyber attack scenario, which was performed following public information on external events regarding malware attacks on other financial institutions.

Conduct

Conduct of business, or conduct, is a term that is used in a broad number of ways across the financial services industry. At its broadest, good conduct is the appropriate execution of business, by the Group or any individual acting on its behalf,

in accordance with our strategic intent, risk management principles and risk appetite. More narrowly, it refers to specific regulations designed to achieve fair outcomes for customers and the effective operation of markets.

Good conduct is evidenced through disciplined adherence to our overall framework of systems and controls outlined in the risk management framework and the standards of individual behaviour set out in the Code of Conduct (the 'Code').

Specifically for operational risk:

- External rules and regulations classifications defined in the ORF include specific categories of regulation designed to achieve fair outcomes for clients (client conduct) and the effective operation of markets (market conduct). This ensures that each category of regulation is properly classified and aligned to the Group's systems and control structures. Risk control owners are responsible for defining the Group's minimum standards and controls in respect of each category. The Group's policies and standards may frequently exceed the minimum requirements or expectations of regulators
- Conduct is considered in the Group's top risks (see Risk profile on page 100). The Group aims to prevent the risks of failure to deliver the conduct of business standards expected by the Group's clients, investors and markets in which we operate. Many of the top risks can be driven by poor conduct so the Group is focused on its control standards around these risks. Additionally, there is a specific top risk for additional conduct related liability that may arise from failure of our people, processes or clients to live up to the Group's standards. Examples of areas where conduct areas are more acute include bribery and corruption and servicing clients across borders

Reputational risk

Reputational risk is the potential for damage to the Group's franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the Group or its actions. Failures in behaviours or systems may affect stakeholders' perceptions of the Group's commitment to its Here for good brand promise. Reputational risk could arise from the failure of the Group to effectively mitigate the risks in its businesses, including one or more of country, credit, liquidity, market, regulatory, legal, strategic or other operational risk. Damage to the Group's reputation could cause existing clients to reduce or cease to do business with the Group and prospective clients to be reluctant to do business with the Group. All employees are responsible for day-to-day identification and management of reputational risk. These responsibilities form part of the Code and are further embedded through values-based performance assessments. Risk control owners must identify material reputational risks arising from any business activity or transaction that they control and ensure that these are escalated and controlled in accordance with the Group's Reputational Risk Policy and applicable procedures.

Reputational risk may also arise from a failure to comply with environmental and social standards. Our primary environmental and social impacts arise through our relationship with our clients and the financing decisions we take. We have published a series of Position Statements that we apply in the provision of financial services to clients who operate in sectors with specific risks, and for key issues. We have mechanisms in our origination and credit processes to identify and assess

environmental and social risks, and a dedicated Environmental and Social Risk Management team that reviews proposed transactions with identified risks.

The Group Risk Committee provides Group-wide oversight on reputational risk, sets policy and monitors material risks. The Group Head of Corporate Affairs is the overall risk control owner for reputational risk. The Brand, Values and Conduct and Board Risk Committees provide additional oversight of reputational risk on behalf of the Board. At the business level, the Business Responsibility and Reputational Risk Committee has responsibility for managing reputational risk.

At country level, the Country Head of Corporate Affairs is the risk control owner of reputational risk. It is his or her responsibility to protect our reputation in that market with the support of the Country Management Group. The Head of Corporate Affairs and Country Chief Executive Officer must actively:

- Promote awareness and application of our policies and procedures regarding reputational risk
- Encourage business and functions to take account of our reputation in all decision-making, including dealings with customers and suppliers
- Implement effective in-country reporting systems to ensure they are aware of all potential issues in tandem with respective business committees
- Promote effective, proactive stakeholder management through ongoing engagement

Pension risk

Pension risk is the potential for loss due to having to meet an actuarially assessed shortfall in the Group's pension schemes. The risk assessment is focused on our obligations towards our major pension schemes, ensuring that our funding obligation to these schemes is comfortably within our financial capacity. Pension risk is monitored quarterly.

The Group Pension Risk Committee is the body responsible for governance of pension risk and it receives its authority from the Group Risk Committee.

Capital

Capital summary

Maintaining the Group's strong capital and leverage position in support of our clients, the refreshed business strategy and to meet regulatory requirements.

Capital, leverage and RWA	2014 %	2013 ¹ %
CET1 transitional	10.5	10.9
CET1 end point	10.7	11.2
Total capital transitional	16.7	17.0
Leverage end point ²	4.5	4.7
RWA (\$million)	341,648	331,296

1. The 2013 column shows 31 December 2013 Basel II position adjusted for the CRD IV rules as at 1 January 2014

2. The leverage end-point ratio as at 31 December 2013 is not directly comparable; its calculation was on a different basis, following prevailing PRA guidance for the year

The Group is well capitalised, with an end-point Common Equity Tier 1 (CET1) ratio of 10.7 per cent that is well ahead of the Prudential Regulation Authority's (PRA) current requirement for large UK banks of 7 per cent CET1, and the Group's current known 2019 minimum CET1 requirement of 8.7 per cent. The Group will continue to manage its capital position in the context of current and evolving CET1 requirements as they apply to the Group.

The Group is not highly leveraged. Its leverage ratio of 4.5 per cent is well ahead of the current known 2019 leverage requirement of 3.35 per cent. Issuance of Additional Tier 1 (AT1) capital would further strengthen the Group's leverage ratio.

The Group continues to manage its balance sheet proactively. In 2014, its increased focus on the disciplined management of RWA has delivered RWA efficiencies of \$12.2 billion and released around \$8.5 billion of RWA from the management of low-return relationships. The efficient management of RWA supports the Group's ability to continue delivering organic capital accretion while funding growth and meeting regulatory requirements.

The Group is well positioned: diversified, well capitalised and liquid, with a conservative approach to balance sheet management. The Group currently operates at capital and leverage levels materially above the current minimum requirements and has a number of levers at its disposal to manage future regulatory requirements as they evolve.

CET1 ratio

In Policy Statement PS7/13, the PRA set out its approach to the implementation of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), which together comprise CRD IV. CRD IV came into force on 1 January 2014. A number of areas of CRD IV remain subject to further consultation or await promulgation of the relevant European Banking Authority (EBA) Technical Standards and UK implementing rules. Further, CRD leaves considerable scope for national discretion. Accordingly, the position presented here is based on the Group's current understanding of the rules, which may be subject to change.

As at 31 December 2014, the Group's transitional CET1 ratio was 10.5 per cent (30 June 2014: 10.5 per cent; 31 December 2013: 10.9 per cent). The Group's end-point CET1 ratio is 10.7 per cent, which reflects the inclusion of unrealised gains on available-for-sale securities in CET1 from 2015 onwards.

- A strong balance sheet: diversified, well capitalised and highly liquid, with an efficient funding structure and low leverage
- Proactive balance sheet management to deliver underlying capital accretion
- A focus on disciplined risk-weighted asset (RWA) management and optimising capital deployment to improve returns across client segments and businesses

Capital movements

The main movements in capital between 1 January 2014 and 31 December 2014 were:

- The transitional CET1 ratio declined by 40 basis points (bps) as strong underlying CET1 accretion of around 50 bps was offset by the impact of model changes, deduction of foreseeable dividends and the civil monetary penalty of \$300 million
- CET1 capital was broadly flat as a result of the net effect of movements in profits less dividends, regulatory adjustments, foreign currency translation and movements in other comprehensive income
- AT1 capital decreased by \$1.7 billion, mainly as a result of the redemption of \$1.5 billion of non-CRR compliant Innovative Tier 1 capital, which would otherwise have been de-recognised
- Tier 2 capital increased by \$2.4 billion, as a result of the new issuance net of redemptions of \$3.9 billion, partly offset by regulatory amortisation and foreign currency translation movements

Reflecting the above movements, the Group's total capital ratio has declined slightly from 17 per cent as at 1 January 2014 to 16.7 per cent as at 31 December 2014.

The following sections of Capital form part of the audited financial statements: from the start of 'CRD IV capital base' on page 119 to the end of 'Movement in total capital' on page 120, excluding capital ratios and risk-weighted assets amounts.

Capital ratios

	2014 %	2013 ¹ %
CET1 transitional	10.5	10.9
CET1 end point ²	10.7	11.2
Total capital transitional	16.7	17.0

CRD IV capital base

	Transitional position 2014 \$million	Transitional position 2013 ¹ \$million
CET1 instruments and reserves		
Capital instruments and the related share premium accounts	5,225	5,213
Of which: Share premium accounts	3,989	4,001
Retained earnings ³	27,394	28,560
Accumulated other comprehensive income (and other reserves)	9,690	10,794
Non-controlling interests (amount allowed in consolidated CET1)	583	607
Independently reviewed interim and year-end profits ⁴	2,640	–
Foreseeable dividends net of scrip ⁵	(1,160)	–
CET1 capital before regulatory adjustments	44,372	45,174
CET1 regulatory adjustments		
Additional value adjustments	(196)	(180)
Intangible assets (net of related tax liability)	(5,449)	(6,173)
Deferred tax assets that rely on future profitability	(180)	(273)
Fair value reserves related to gains or losses on cash flow hedges	55	(15)
Negative amounts resulting from the calculation of expected loss	(1,719)	(1,738)
Gains or losses on liabilities at fair value resulting from changes in own credit	(167)	(85)
Defined-benefit pension fund assets	(13)	(6)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(9)	(5)
Exposure amounts which could qualify for risk weighting	(199)	(190)
Of which: securitisation positions	(177)	(184)
Of which: free deliveries	(22)	(6)
Regulatory adjustments relating to unrealised gains	(481)	(546)
Other	(1)	(2)
Total regulatory adjustments to CET1	(8,359)	(9,213)
CET1 transitional	36,013	35,961
AT1 capital instruments	2,786	4,458
Tier 1 capital	38,799	40,419
Tier 2 capital instruments	18,304	15,961
Tier 2 regulatory adjustments	(4)	(11)
Tier 2 capital	18,300	15,950
Total capital transitional	57,099	56,369
Total risk-weighted assets⁶	341,648	331,296

The table above summarises the consolidated capital position of the Group. The Group's Pillar 3 Disclosures contain the full prescribed EBA Own Funds template.

1. The 2013 column shows 31 December 2013 Basel II position adjusted for the CRD IV rules as at 1 January 2014

2. For details of the Group's 2013 end-point CET1 ratio of 11.2 per cent, please see the 2013 Annual Report and Accounts page 135

3. Retained earnings include the effect of regulatory consolidation adjustments, and for 2013 include year-end profits

4. Independently reviewed interim and year-end profits for CRD IV are in accordance with the regulatory consolidation

5. Foreseeable dividends include the proposed final dividend for 2014. The final dividend is reported net of scrip using a 25 per cent scrip dividend assumption

6. The risk-weighted assets are not covered by the scope of the audit

Capital

Movement in total capital

	2014 \$million
CET1 as at 1 January 2014	35,961
Ordinary shares issued in the year and share premium	11
Profit for the year	2,640
Dividends, net of scrip	(1,451)
Foreseeable dividends net of scrip	(1,160)
Decrease in goodwill and other intangible assets	724
Foreign currency translation differences	(1,042)
Decrease in unrealised gains on available-for-sale assets	65
Movement in eligible other comprehensive income	238
Net effect of regulatory consolidation and change in non-controlling interests	83
Decrease in excess expected loss	19
Decrease in securitisation positions	7
Own credit adjustment, net of tax	(82)
CET1 as at 31 December 2014 (transitional)	36,013
AT1 as at 1 January 2014	4,458
Redeemed capital	(1,800)
Other	128
AT1 as at 31 December 2014	2,786
Tier 2 capital as at 1 January 2014	15,950
Issuances net of redemptions	3,867
Regulatory amortisation	(701)
Foreign currency translation differences	(701)
Other	(115)
Tier 2 capital as at 31 December 2014	18,300
Total capital as at 31 December 2014 (transitional)	57,099

Movements in RWA

RWA increased by \$19.4 billion, or 6 per cent, from 31 December 2013. Of this, \$9 billion was a result of the transition to CRD IV on 1 January 2014, as set out in the 'Movement in RWA' table on page 121. This primarily comprised of a \$15.4 billion increase in credit risk RWA, which was partially offset by a benefit in market risk RWA of \$6.4 billion.

Excluding the impact of CRD IV, total RWA increased by \$10.4 billion, or 3 per cent, to \$341.6 billion, and this is analysed below.

Corporate & Institutional Clients and Commercial Clients

Credit risk increased \$7.7 billion as a result of the following:

- Exposure at default (EAD) model changes of \$12.2 billion, resulting from a change in the method for calculating EAD for certain IRB models, under guidance from the PRA
- Negative credit migration due to downgrades, primarily in Europe and ASEAN, of \$8.3 billion
- Asset growth of \$2 billion, mainly due to growth in Financial Markets. Asset growth is partially offset by an \$8.5 billion decrease in RWA from the management of low-return relationships in Transaction Banking and Lending

This was partly offset by translation impact of \$4 billion as a result of depreciation of currencies in Europe, Africa and India, and efficiencies and optimisations of \$12 billion, which includes portfolio management activities, collateral management initiatives and some reduction in tenors.

Retail Clients

Credit RWA decreased by \$4.4 billion as a result of reshaping and de-risking the portfolio. There was a reduction in the unsecured lending book, which generally attracts a higher RWA, compared to secured lending in Wealth Management and Mortgages, which grew in 2014. Positive credit migration of \$1.8 billion and a translation impact of \$1.9 billion due to depreciation of currencies in Korea, Singapore, India, Taiwan and Indonesia, further contributed to lower RWA.

Private Banking Clients

Private Banking RWA increased by \$1.7 billion, driven by the impact of CRD IV collateral eligibility policy changes and growth in Wealth Management lending of \$0.4 billion.

Market risk

Excluding the impact of CRD IV, RWA increased by \$3.5 billion, mainly due to an increase in internal model RWA of \$2.4 billion and an increase in foreign currency positions under standardised rules at the year end, adding \$1.2 billion.

Operational risk

RWA increased by \$1.8 billion to \$35.1 billion, due to the change in income over a rolling three-year time horizon (2013 income replacing 2010).

RWA by business

	CRD IV 2014			
	Credit risk \$million	Operational risk \$million	Market risk \$million	Total risk \$million
Corporate & Institutional Clients	201,978	22,322	20,295	244,595
Commercial Clients	21,874	2,778	—	24,652
Private Banking Clients	6,507	902	—	7,409
Retail Clients	55,887	9,105	—	64,992
Total risk-weighted assets	286,246	35,107	20,295	341,648

	Basel II 2013			
	Credit risk \$million	Operational risk \$million	Market risk \$million	Total risk \$million
Corporate & Institutional Clients	177,366	21,166	23,128	221,660
Commercial Clients	23,062	2,634	—	25,696
Private Banking Clients	4,779	855	—	5,634
Retail Clients	60,627	8,634	—	69,261
Total risk-weighted assets	265,834	33,289	23,128	322,251

RWA by geographic region

	CRD IV 2014 \$million	Basel II 2013 \$million
Greater China	66,585	63,284
North East Asia	23,990	26,701
South Asia	26,522	26,721
ASEAN	82,603	80,377
MENAP	29,775	29,402
Africa	20,289	19,729
Americas	13,692	12,454
Europe	89,592	74,389
Netting balances ¹	(11,400)	(10,806)
Total risk-weighted assets	353,048	333,057

1. Risk-weighted assets by geographic region are reported gross of any netting benefits

Movement in RWA

	Credit risk							
	Corporate & Institutional Clients \$million	Commercial Clients \$million	Private Banking Clients \$million	Retail Clients \$million	Total \$million	Operational risk \$million	Market risk \$million	Total risk \$million
As at 1 January 2013 (Basel II)	158,540	20,599	4,087	63,424	246,650	30,761	24,450	301,861
Assets growth/(decline) ¹	15,661	1,601	943	(517)	17,688	—	—	17,688
Credit migration	9,075	651	(203)	(569)	8,954	—	—	8,954
Risk-weighted assets efficiencies	(1,986)	(642)	2	(1,290)	(3,916)	—	—	(3,916)
Model, methodology and policy changes	(73)	1,253	—	1,015	2,195	—	—	2,195
Acquisitions and disposals	—	145	—	156	301	—	—	301
Foreign currency translation differences	(3,851)	(545)	(50)	(1,592)	(6,038)	—	—	(6,038)
Non-credit risk movements	—	—	—	—	—	2,528	(1,322)	1,206
As at 31 December 2013 (Basel II)	177,366	23,062	4,779	60,627	265,834	33,289	23,128	322,251
Impact of CRD IV (as at 1 January 2014)	16,602	(900)	50	(330)	15,422	—	(6,377)	9,045
As at 1 January 2014 (CRD IV)	193,968	22,162	4,829	60,297	281,256	33,289	16,751	331,296
Assets growth/(decline) ¹	2,614	(596)	379	(929)	1,468	—	—	1,468
Credit migration	6,780	1,491	(25)	(1,846)	6,400	—	—	6,400
Risk-weighted assets efficiencies	(10,393)	(1,656)	479	(596)	(12,166)	—	—	(12,166)
Model, methodology and policy changes	12,574	863	956	502	14,895	—	—	14,895
Acquisitions and disposals	—	—	—	331	331	—	—	331
Foreign currency translation differences	(3,565)	(390)	(111)	(1,872)	(5,938)	—	—	(5,938)
Non-credit risk movements	—	—	—	—	—	1,818	3,544	5,362
As at 31 December 2014 (CRD IV)	201,978	21,874	6,507	55,887	286,246	35,107	20,295	341,648

1. \$8.5 billion RWA released from the management of low-return relationships is included within the assets growth/(decline) category

Leverage ratio

The Basel Committee on Banking Supervision (BCBS) introduced the leverage ratio to constrain the build-up of leverage in the banking sector, and supplement risk-based capital requirements with a 'simple, non-risk based backstop measure' of leverage. The leverage ratio compares Tier 1 capital to total exposures, which includes certain exposures held off-balance sheet as adjusted by regulatory credit conversion factors.

Final adjustments to the definition and calibration of the leverage ratio in the EU will be made during the first half of 2017, with a view to migrating the leverage ratio to a binding Pillar 1 requirement by 1 January 2018. In June 2014, in an update to Supervisory Statement SS3/13, the PRA set out a requirement for the eight major UK institutions (of which the Group is one) to meet an end-point leverage ratio of at least 3 per cent from 1 July 2014.

In July 2014, the Financial Policy Committee (FPC) issued a consultation on the UK leverage ratio, the results of which were published in November 2014. The FPC proposed a minimum leverage ratio of 3 per cent together with supplementary leverage ratio buffers, set at 35 per cent of the corresponding risk-weighted global systemically important institutions (G-SII) and countercyclical buffers, as those buffers are applicable to individual banks and as phased in. Based on the FPC's

proposals, the Group's future minimum leverage ratio requirement will be 3.35 per cent, which comprises (i) the minimum 3 per cent and (ii) a 0.35 per cent G-SII leverage buffer (calculated as 35 per cent of the Group's 1 per cent risk-weighted G-SII buffer).

The basis of calculating the leverage ratio is set by the PRA. It uses the end-point CRR definition of Tier 1 for the numerator and permits either (i) the BCBS January 2014 definition for the leverage exposure denominator or (ii) the CRR definition of leverage exposure adopted by a European Union delegated act in October 2014. The Group has used the October 2014 CRR definition. As at 30 June 2014, the Group's leverage ratio was calculated using the PRA's prevailing guidance of: (i) a capital measure using the end-point Tier 1 capital definition in the final CRR text and the Own Funds Regulatory Technical Standards published by the EBA and (ii) an exposure measure based on the BCBS January 2014 definition. The differences arising from the change in basis of calculation between 30 June 2014 and 31 December 2014 are not material for the Group.

The Group's current leverage ratio of 4.5 per cent is above the current PRA minimum requirement and the FPC's proposed requirement. The Group has not yet issued any CRR-compliant AT1 capital, but the PRA permits 0.75 per cent of the leverage requirement to be met with CRR-compliant AT1 capital.

Leverage ratio

	2014 \$million
Tier 1 capital (transitional position)	38,799
Additional Tier 1 capital subject to phase out	(2,786)
Regulatory adjustments relating to unrealised gains	481
Tier 1 capital (end point)	36,494
Derivative financial instruments	65,834
Derivative cash collateral	10,311
Securities financing transactions (SFTs)	29,856
Loans and advances and other assets	619,913
Total on-balance sheet assets	725,914
Regulatory consolidation adjustments	15,008
Derivatives adjustments	
Derivatives netting	(43,735)
Adjustments to cash collateral	(17,316)
Net written credit protection	7,885
Potential future exposure on derivatives	46,254
Total derivatives adjustments	(6,912)
Counterparty risk leverage exposure measure for SFTs	9,963
Regulatory deductions and other adjustments	(7,701)
Off-balance sheet items	67,042
Total leverage exposure end point	803,314
Leverage ratio end point	4.5%

Advanced internal ratings-based (IRB) models

Since 1 January 2008, we have been using the IRB approach for the calculation of credit risk capital requirements with the approval of our relevant regulators. This approach builds on our risk management practices and investment in data warehousing and risk models.

For a market risk internal model approach (IMA), where IMA permission has been granted by our relevant regulators, we use VaR for the calculation of our market risk capital requirements. Where our market risk exposures are not included in a regulatory IMA permission we apply the standardised approach as specified by the relevant regulator. We apply the standardised approach for determining the capital requirements for operational risk.

The Group's IRB models are subject to initial approval, and ongoing supervision by its regulators. The Group believes that the overall performance of its models has been, and continues to be, conservative. The PRA has revised its approach towards the use and calibration of IRB models. Consequently, in 2014 the Group has changed the method for calculating EAD in certain IRB portfolios, resulting in around a \$12 billion increase in RWA. This, together with some other model-related items, led to the \$14.9 billion increase in RWA for model, methodology and policy changes shown in the 'Movement in RWA table on page 121.

In December 2013, in Policy Statement PS7/13, the PRA proposed changes to the treatment of certain exposures where the country-specific default experience is not deemed sufficient for modelling purposes, including the application of various loss given default (LGD) floors.

In June 2014, the PRA issued a Consultation Paper (CP12/14) proposing, among other changes, that advanced IRB permissions for exposures to central governments, central banks, public sector entities and financial institutions be replaced by Foundation IRB (FIRB) permissions by the end of June 2015.

Under a FIRB permission, EAD and LGD for such exposures will be determined based on supervisory formulae rather than internal models. Such changes to the treatment of LGD would result in an increase in the RWA calculated by such models. The impact of such changes will depend on the final outcome of the consultation process.

In December 2014, the BCBS released two consultative documents (CD306 and CD307) on: (i) revisions to the standardised approach for credit risk; and (ii) the design of a capital floor framework based on standardised approaches for credit, market and operational risk. The proposed capital floor framework will be based on the finalised versions of the standardised approaches, and would replace the existing transitional capital floor based on the Basel I framework. The calibration of the floor is outside the scope of the consultation, and will be consulted on alongside the BCBS's work on finalising the revised standardised approaches to credit risk, market risk and operational risk. Such changes could result in an increase in the RWA calculated by such models, but the eventual impact will depend on the final outcome of the consultation process. The Group will respond to the consultations, which have a deadline of 27 March 2015.

The BCBS intends to publish the final standards, including their calibration and implementation arrangements, at the end of 2015. The extent to which the EU and/or the PRA will adopt the BCBS proposals is unknown.

The BCBS consultation on changes to the operational risk regime under BCBS 291 concluded in January 2015. The Group currently follows the standardised approach for operational risk. The Group's current expectation is that the changes to the operational risk regime will be implemented in 2016 and would lead to an increase in operational RWA across the industry.

CET1 requirements

As the relevant rules are not yet fully implemented and the final outcome depends in part on the future shape of the Group, future management actions and the future view the Group's regulators take of the Group's business and risk profile, the Group's capital requirement is subject to change. Based on the Group's current understanding of the rules, its known future minimum CET1 capital requirement is 8.7 per cent, comprising:

- A minimum CET1 requirement of 4.5 per cent by 1 January 2015
- A capital conservation buffer of 2.5 per cent by 1 January 2019
- A G-SII buffer of 1 per cent by 1 January 2019
- A Pillar 2A CET1 addition of around 0.65 per cent (subject to ongoing PRA review)

The Group's current CET1 position materially exceeds this requirement. The Group would also expect to continue to operate with a prudent management buffer above the minimum capital requirement. The UK authorities have yet to finalise the rules relating to, and calibration of, the countercyclical buffer, systemic risk buffers, the PRA Buffer assessment and additional sectoral capital requirements.

Capital buffers

In April 2014, the PRA published Policy Statement PS3/14 and Supervisory Statement SS6/14, which set out its approach to the implementation of some of the CRD IV buffers. The Bank of England (BoE) was identified as the designated authority for the countercyclical capital buffer, with its powers delegated to the FPC. The FPC may set a countercyclical capital buffer for UK and non-EU exposures.

In the UK, the capital conservation buffer, the countercyclical capital buffer, the G-SII buffer and the systemic risk buffer (to the extent applicable to a firm) will comprise a Combined Buffer. If a firm does not meet its Combined Buffer:

- It will be required to notify the PRA within five days and calculate a maximum distributable amount (MDA)
- It must not make distributions of profits in excess of the applicable MDA

Where firms are in the first quartile of their Combined Buffer, (when they meet between 75 per cent and 100 per cent of it), 60 per cent of the MDA can be distributed. In the second quartile, 40 per cent can be distributed; in the third quartile, 20 per cent; and in the fourth quartile, 0 per cent. Relevant distributions include: distributions in connection with CET1, payment of variable remuneration or discretionary pensions, and payments on AT1 instruments.

To the extent a countercyclical capital buffer is applied to the Group, it would increase the Group's minimum CET1 requirement. The Hong Kong Monetary Authority has recently announced an intention to set a countercyclical capital buffer of 2.5 per cent in Hong Kong, to be phased in from 2016 to 2019.

Given the Group's diverse footprint, its future countercyclical capital buffer requirement is expected to be determined from applying various country-specific countercyclical buffer rates to the Group's qualifying credit exposures in the relevant country (based on the jurisdiction of the obligor) on a weighted-average basis.

Pillar 2

In addition to Pillar 1 capital requirements, the Group, like other UK banks, is subject to additional requirements set by the PRA and referred to as Individual Capital Guidance (ICG), which comprise:

- A Pillar 2A buffer, for material risks not addressed adequately by Pillar 1 capital requirements. These risks include (but are not limited to): pension obligation risk, interest rate risk in the non-trading book, credit concentration risk and operational risk. From 1 January 2015, the Group must hold at least 56 per cent of its Pillar 2A buffer in CET1 and can hold up to 19 per cent in AT1
- A capital planning buffer (CPB), to ensure the Group remains well capitalised during periods of stress. From 1 January 2016, the CPB will transition to a PRA Buffer the amount of which will be based on the results of the BoE annual stress testing of the UK banking system. This would be in addition to existing CRD IV buffer requirements where the PRA does not consider them to adequately address the Group's risk profile

The PRA is consulting during 2015 on the transition to a new Pillar 2 framework which includes the revised PRA Buffer approach. Based on current guidance received from the PRA during 2014, the Group's Pillar 2A guidance is around 115 bps of RWA, of which at least around 65 bps must be held in CET1. The Group's Pillar 2A guidance will vary over time.

Total Loss Absorbing Capacity (TLAC)

The Financial Stability Board (FSB) published draft TLAC proposals in November 2014, setting out principles on the loss absorbing and recapitalisation capacity of G-SIIs in resolution and a high-level draft term sheet for an international standard on the characteristics, and levels, of TLAC for G-SIIs. Under the FSB's proposals, G-SIIs would be subject to a Pillar 1 minimum TLAC requirement of between 16 per cent and 20 per cent of Group RWA in addition to the Combined Buffer. Including the Combined Buffer, under the current proposals, the Group would have a potential Pillar 1 TLAC requirement of between 19.5 per cent and 23.5 per cent, to be met from 1 January 2019 at the earliest.

The FSB proposal also states that the Pillar 1 TLAC requirement would be at least twice the quantum of capital that would be required to meet the Basel Tier 1 leverage ratio requirement. Assuming a minimum leverage ratio requirement of 3 per cent, as currently proposed by the BCBS, this means a TLAC requirement in the UK of at least 6 per cent of total leverage exposure.

Based on its current understanding of the TLAC proposals, the Group estimates that, as at 31 December 2014, it has TLAC of above 20 per cent of RWA and around 9 per cent of leverage exposure. The Group's TLAC estimate includes:

- Total regulatory capital
- Senior liabilities issued by Standard Chartered PLC with at least one year remaining to maturity

- That part of subordinated debt (issued by Standard Chartered PLC or Standard Chartered Bank) with at least one year remaining to maturity is outside the scope of regulatory capital recognition due to: (i) amortisation over the last five years of the relevant instrument's duration, or (ii) other regulatory derecognition

Bank of England stress tests

The PRA conducted a stress test of the UK banking system, which included the Group, as recommended by the FPC. The Group conducted a number of scenario extensions to extend the impact of the BoE and EBA stress-test parameters to its footprint markets. These scenario extensions resulted in cumulative falls in GDP over the stress period compared to the baseline forecasts and property price stresses in our markets at levels consistent with those applied to the UK. The BoE stress test therefore assessed the impact of a severe economic downturn in the Group's markets and represented a meaningful assessment of the Group's capital adequacy and resilience to stress.

The BoE released the final results on 16 December 2014 for each of the eight participating institutions. The PRA board stated that the stress test did not reveal any capital inadequacies for the Group and the PRA board did not require the Group to submit a revised capital plan, recognising the Group's minimum stressed CET1 ratio of 8.1 per cent after the effect of strategic management actions. This result demonstrates the Group's resilience to macroeconomic stress and severe shocks across its key markets. In future, the Group expects that the results of the BoE stress test will be one of the inputs used by the PRA to inform the setting of the Group's PRA Buffer.

Global systemically important institutions

The Group has been designated a G-SII by the FSB since November 2012. The Group has been categorised with a 1 per cent G-SII CET1 requirement, which will be phased in over the period from 1 January 2016 to 1 January 2019. The Group's calculations, based on publicly available data, indicate that its G-SII score is at the lower end of the 1 per cent range. On 5 June 2014, the EBA published the final draft Regulatory Technical Standards (RTS) on the methodology for identifying G-SIIs and the related disclosure requirements for G-SIIs.

-  The Group's latest G-SII disclosure 'Standard Chartered's G-SII indicators' can be found at sc.com/en/news-and-media/news/global/31-07-2014-gsib-indicators.html

Capital management and governance

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

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

The capital plan takes the following into account:

- Current regulatory capital requirements and our assessment of future standards

- Demand for capital due to business outlook, loan impairment outlook and potential market shocks or stresses
- Available supply of capital and capital-raising options

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

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

The Group's capital position, including its relationship to the Group's Risk Appetite Statement, is regularly considered by the Board Risk Committee. At a country level, capital is monitored by the Country Asset and Liability Committee. Appropriate policies are in place governing the transfer of capital within the Group.

The Group's view is that, in light of the uncertain economic environment and continuing uncertainty as to the end state for banks' regulatory capital and other loss absorbency requirements, it is appropriate to remain both strongly capitalised and well above regulatory requirements.

The capital that the Group is required to hold is determined by its balance sheet, off-balance sheet, counterparty and other risk exposures.

 Further detail on counterparty and risk exposures is included on page 65

Capital in branches and subsidiaries is maintained on the basis of host regulators' requirements and the Group's assessment of capital requirements under normal and stress conditions. Suitable processes and controls are in place to monitor and manage capital adequacy and ensure compliance with local regulatory requirements in all Group entities. These processes are designed to ensure that we have sufficient capital available to meet local regulatory capital requirements.

Standard Chartered Bank is authorised by the PRA and regulated by the Financial Conduct Authority and the PRA as Standard Chartered Bank (Solo Consolidated). The Group operates through branches and a number of significant subsidiaries including Standard Chartered Bank, Standard Chartered Bank (HK) Ltd and Standard Chartered Bank Korea Ltd. These subsidiaries are subject to local regulation and therefore may be subject to different rules relating to capital and risk-weight requirements, and the implementation and phasing in of Basel III. The Group's Pillar 3 Disclosures provide further details on the subsidiaries.

Goal, an award-winning development programme using sport and life skills education to transform the lives of adolescent girls, was launched in Nigeria in 2011 and has since expanded, helping more than 58,000 girls



Directors' report

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Board of directors



Sir John Peace

Chairman



Peter Sands

Group Chief Executive



Mike Rees

Deputy Chief Executive



Andy Halford

Group Finance Director



Jaspal Bindra

Group Executive Director & Chief Executive Officer, Asia



V Shankar

Group Executive Director & Chief Executive Officer – Europe, Middle East, Africa and Americas



Ruth Markland

Senior Independent Director



Om Bhatt

Independent Non-Executive Director



Dr Kurt Campbell

Independent Non-Executive Director



Dr Louis Cheung

Independent Non-Executive Director



Dr Byron Grote

Independent Non-Executive Director



Christine Hodgson

Independent Non-Executive Director



Naguib Kheraj

Independent Non-Executive Director



Simon Lowth

Independent Non-Executive Director



Dr Han Seung-soo, KBE

Independent Non-Executive Director



Paul Skinner, CBE

Independent Non-Executive Director



Dr Lars Thunell

Independent Non-Executive Director



Annemarie Durbin

Group Company Secretary

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

**Sir John Peace (66)
Chairman**

Sir John was appointed to the Board as Deputy Chairman in 2007, becoming Group Chairman in 2009. On 26 February 2015, it was announced that Sir John intends to step down from the Board during the course of 2016.

Career: Sir John joined the board of GUS plc in 1997, of which Burberry and Experian were a part, becoming chief executive from 2000 until 2006. In 2002, Burberry was floated on the London Stock Exchange with Sir John as its chairman, a position he continues to hold. In 2006, Sir John was appointed chairman of Experian following the demerger of GUS plc, a position he held until he stepped down in July 2014. Sir John is committed to supporting his local community and has a long-standing interest in education. He chaired the board of governors of Nottingham Trent University for 10 years, has been a trustee of the Djanogly City Academy in Nottingham since 1999, is Lord-Lieutenant of Nottinghamshire and a fellow of the Royal Society of Arts. Sir John has an honorary doctorate from the University of Nottingham and was knighted in 2011 for services to business and the voluntary sector.

Experience: Sir John has a strong financial services and retailing background as well as significant board and chairmanship experience, in addition to extensive international experience and exemplary governance credentials.

Committees: Chair of the Governance and Nomination Committee

**Peter Sands (53)
Group Chief Executive**

Peter was appointed to the Board as Group Finance Director in May 2002, becoming Group Chief Executive in November 2006. On 26 February 2015, it was announced that Peter will step down from the Board and as Group Chief Executive in June 2015.

Career: Peter began his career at the UK Foreign and Commonwealth Office before joining the worldwide consultants McKinsey & Company in 1988, where he became partner in 1996 and director in 2000, working extensively in the banking and technology sectors in a wide range of international markets. Peter joined the Board of Standard Chartered PLC as Group Finance Director with responsibility for Finance, Strategy, Risk, and Technology and Operations, before becoming Chief Executive. Peter is the lead non-executive director of the Department of Health. Based in London.

Experience: Peter brings extensive executive and strategic leadership experience and a deep understanding of international banking and the regulatory environment.

**Mike Rees (59)
Deputy Chief Executive**

Mike was appointed to the Board as Chief Executive Officer, Wholesale Banking in August 2009, becoming Deputy Chief Executive in April 2014.

Career: Mike held several roles in finance at JP Morgan before joining Standard Chartered in 1990 as the Chief Financial Officer for Global Treasury, becoming the Regional Treasurer in Singapore, responsible for the South East Asia Treasury businesses. Mike was later appointed Group Head of Global Markets and Chief Executive, Wholesale Banking, responsible for all commercial banking products in addition to his responsibilities for global markets products. He was appointed Deputy Chief Executive in 2014, responsible for the integrated Wholesale and Consumer Banking business. Mike is a member of the International Advisory Board of Mauritius and the mayor of Rome's business advisory council. Based in London.

Experience: Mike is a qualified chartered accountant and brings extensive and wide-ranging international banking experience.

**Andy Halford (55)
Group Finance Director**

Andy was appointed to the Board as Group Finance Director in July 2014.

Career: Andy was group finance director at East Midlands Electricity plc prior to joining Vodafone in 1999 as financial director for Vodafone Limited, the UK operating company. In 2001, Andy was 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 in 2005, a position he held for nine years. As Group Finance Director at Standard Chartered, Andy is responsible for Finance, Corporate Treasury, Group Corporate Development and Strategy functions. Andy is a non-executive director at Marks and Spencer Group plc and a member of the Business Forum on Tax and Competitiveness. Based in London.

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

**Jaspal Bindra (54)
Group Executive Director & Chief Executive Officer, Asia**

Jaspal was appointed to the Board in January 2010. On 26 February 2015, it was announced that Jaspal will step down from the Board on 30 April 2015.

Career: Jaspal began his career with Bank of America in 1984, working across treasury markets and consumer banking in India and Singapore, before joining UBS Investment Bank. Jaspal joined Standard Chartered in 1998 and has held senior positions in the Group such as Global Head of Client Relationship for Wholesale Bank and Chief Executive Officer for India, before joining the Board as Chief Executive Officer, Asia. He is a non-executive director at Reckitt Benckiser Group plc, a member of the board of governors of XLRI Business School, a member of the City of London Advisory Council for India and a director of the US-India Business Council. Based in Hong Kong.

Experience: Jaspal brings wide-ranging international banking experience.

**V Shankar (57)
Group Executive Director & Chief Executive Officer – Europe, Middle East, Africa and Americas**

Shankar was appointed to the Board in January 2012.

Career: Shankar spent 19 years at Bank of America before joining Standard Chartered in 2001 as Group Head of Corporate Finance. He was appointed Group Head of Origination and Client Coverage in 2007 and promoted to his current role in 2010. Shankar is a non-executive director of Majid Al Futtaim Holding LLC, a trustee of the Asia Society, New York and a member of the board of trustees of the Singaporean Indian Development Association. Based in the UAE.

Experience: Shankar brings wide-ranging international banking experience.

**Ruth Markland (62)
Senior Independent Director**

Ruth was appointed to the Board in November 2003 and became Senior Independent Director in July 2013.

On 26 February 2015, it was announced that, having served as an independent non-executive director for over 11 years, Ruth will step down from the Board by the end of 2015. She will step down as Remuneration Committee Chair with effect from the conclusion of the AGM on 6 May 2015.

Career: Ruth joined Freshfields Bruckhaus Deringer in 1977 working in both London and Singapore,

becoming partner in 1983. Between 1996 and 2003, Ruth was managing partner in Asia, responsible for the firm's eight offices across the region. Ruth is the senior independent director and chair of the remuneration committee at The Sage Group plc and member of the supervisory board of Arcadis NV. Until November 2012, Ruth served as chair of the board of trustees of the WRVS charity.

Experience: Ruth brings significant expertise in Asia and a deep understanding of the legal and regulatory environment.

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

**Om Bhatt (63)
Independent Non-Executive Director**

Om was appointed to the Board in January 2013.

Career: In a career spanning 38 years with the State Bank of India (SBI), India's largest commercial bank, Om held a number of roles, beginning with the lead bank department, which pioneered financial inclusion. He led the project team that pioneered SBI's technology initiative in the 1990s, undertook assignments at SBI's London and Washington offices and held general management roles between 2004 and 2006. He became managing director of SBI in 2006, culminating in his appointment as chairman of the State Bank Group, until he stepped down in 2011. Om has also served as chairman of the Indian Banks' Association and was an independent non-executive director of Oil and Natural Gas Corporation before stepping down in December 2014. Om is an independent non-executive director of Hindustan Unilever Ltd, Tata Steel, Tata Consultancy Services and governor of the board of the Center for Creative Leadership.

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

Committees: Member of the Board Risk Committee

**Dr Kurt Campbell (57)
Independent Non-Executive Director**

Kurt was appointed to the Board in June 2013.

Career: Kurt has served in several capacities in the US government, including deputy assistant secretary of defense for Asia and Pacific Affairs and director on the National Security Council Staff in the White House. From 2003 to 2009, Kurt was the

Board of directors

founder and chairman of StratAsia, a strategic advisory firm focused on Asia. From 2009 to 2013, Kurt served as the US Assistant Secretary of State for East Asian and Pacific Affairs. He was widely credited as being a key architect of the 'pivot to Asia'. Kurt was a central figure in advancing the US-China relationship, building stronger ties to Asian allies, and in the opening of Myanmar. Previously, Kurt was the chief executive officer and co-founder of the Center for a New American Security. Kurt was also an associate professor at Harvard's John F Kennedy School of Government. He is chairman and chief executive officer of The Asian Group LLC, a strategic advisory and investment group specialising in the Asia Pacific region.

Experience: Kurt has a wealth of experience of the US political environment and significant experience of some of our key markets, notably across Asia.

Committees: Member of the Brand, Values and Conduct Committee

Dr Louis Cheung (51) *Independent Non-Executive Director*

Louis was appointed to the Board in January 2013.

Career: Louis was a global partner of McKinsey & Company and a leader in its Asia Pacific financial institutions practice prior to joining Ping An Insurance Group in 2000. Louis worked in several senior roles at Ping An, including chief financial officer, before becoming group president in 2003 and executive director from 2006 to 2011. Louis is currently the chief executive officer of Boyu Capital Advisory Co, independent non-executive director of Fubon Financial Holding Company and a Fellow and council member of the Hong Kong Management Association.

Experience: Louis brings broad financial services and investor relations credentials, particularly, in a Greater China context.

Committees: Member of the Remuneration Committee

Dr Byron Grote (66) *Independent Non-Executive Director*

Byron was appointed to the Board in July 2014.

Career: Byron spent nine years at Standard Oil of Ohio prior to it being acquired by BP plc in 1987. From 1988 to 2000, Byron worked across BP in a variety of commercial, operational and executive roles. He was appointed chief executive officer of BP Chemicals and a managing director of BP plc in 2000, with 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 is currently a non-executive director and chair of the audit committee at Unilever plc and Unilever NV and will step down from its board at the end of April 2015. Byron is also a non-executive director and audit committee chair at Anglo American plc, and a non-executive director on the supervisory board at Akzo Nobel NV. Byron will join the board of Tesco PLC as a non-executive director from 1 May 2015. He is also a member of the European Audit Committee Leadership Network and an emeritus member of the Cornell Johnson School Advisory Council at Cornell University.

Experience: Byron brings broad commercial, financial and international experience.

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

Christine Hodgson (50) *Independent Non-Executive Director*

Christine was appointed to the Board in September 2013. On 26 February 2015, it was announced that Christine will be appointed as Remuneration Committee Chair with effect from 7 May 2015.

Career: Christine held a number of senior positions at Coopers & Lybrand and was corporate director of Ronson plc before joining Capgemini in 1997, where she has held a variety of roles including chief financial officer for Capgemini UK plc and chief executive officer of technology services for North West Europe, before being appointed chair of Capgemini UK plc. Christine is a non-executive director of Ladbrokes plc and sits on the board of two charities: The Prince of Wales' Business in the Community and MacIntyre Care. In February 2015, Christine was appointed chair of a new government-backed careers and enterprise company, Enterprise for Education Limited, aiming to inspire and prepare young people for the world of work.

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

Committees: Member of the Audit Committee, the Remuneration Committee, the Brand, Values and Conduct Committee and the Board Financial Crime Risk Committee

Naguib Kheraj (50) *Independent Non-Executive Director*

Naguib was appointed to the Board in January 2014.

Career: Naguib began his career in banking at Salomon Brothers in 1986 and went on to hold a number of 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 was chief executive officer of JP Morgan Cazenove, a leading London-based investment banking business. Naguib is a former non-executive director of NHS England and has served as a senior advisor to Her Majesty's Revenue and Customs Service and to the Financial Services Authority in the UK. Naguib is currently a non-executive director of Rothesay Life, a specialist pensions insurer, and a member of the investment committee of Wellcome Trust. He spends the majority of his time as a senior advisor to the Aga Khan Development Network and serves on the boards of various entities within the Aga Khan Development Network.

Experience: Naguib brings significant banking and finance experience.

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

Simon Lowth (53) *Independent Non-Executive Director*

Simon was appointed to the Board in May 2010.

Career: Simon spent 15 years with the global management consultancy, McKinsey & Company, latterly as a senior director responsible for the firm's UK industrial practice, where he advised leading multi-national companies on a wide range of strategic, financial and operational issues. He joined Scottish Power PLC in 2003 as executive director corporate strategy and development, becoming finance director two years later. Simon was chief financial officer of AstraZeneca PLC from 2007 until 2013, when he was appointed chief financial officer and executive director at BG Group.

Experience: Simon brings significant expertise in finance, capital allocation,

portfolio and risk management and strategy.

Committees: Chair of the Board Financial Crime Risk Committee

Dr Han Seung-soo, KBE (78) *Independent Non-Executive Director*

Dr Han was appointed to the Board in January 2010.

Career: Dr Han is a former prime minister of the Republic of Korea. He has a distinguished political, diplomatic and administrative career, serving as deputy prime minister and minister of finance, foreign affairs, and industry and trade before serving as prime minister from 2008 to 2009. He also served as Korean ambassador to the United States, chief of staff to the president, president of the 56th Session of the United Nations General Assembly, special envoy of the UN Secretary-General on Climate Change and chairman of the 2009 Organisation for Economic Cooperation and Development Ministerial Council Meeting in Paris. Dr Han sits on a number of advisory boards and is currently the United Nations Secretary-General's Special Envoy for Disaster Risk Reduction and Water, the UN Secretary-General's Advisory Board on Water and Sanitation, is the founding chair of the High-Level Experts and Leaders' Panel on Water and Disaster, is the co-chair of the Water Advisory Group at the Asian Development Bank and co-chairman of the International Finance Forum of China.

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

Committees: Member of the Brand, Values and Conduct Committee

Paul Skinner, CBE (70) *Independent Non-Executive Director*

Paul was appointed to the Board in November 2003. On 26 February 2015, it was announced that, having served as an independent non-executive director for over 11 years, Paul will step down from the Board by the end of 2015.

Career: Paul was formerly a director of The Shell Transport and Trading Company plc and group managing director of the Royal Dutch/Shell Group of companies. During his Shell career he worked in all of Shell's main businesses, with assignments in the UK, Greece, Nigeria, New Zealand and Norway. Paul was chairman of Rio Tinto Plc from 2003 to 2009 and chairman of Infrastructure UK, within HM Treasury between 2009 and 2013. Paul was a UK business ambassador from 2008 to 2012. He also served as a member of the Defence Board of

the Ministry of Defence and as chairman of both the Commonwealth Business Council and International Chamber of Commerce UK. Paul is currently chairman of the MoD's Defence Equipment and Support entity, a non-executive director of the Tetra Laval Group and L'Air Liquide SA, and is a member of the public interest body of PwC and of the advisory body of Norton Rose Fulbright LLP.

Experience: Paul has extensive experience of customer-facing global businesses across our geographical footprint and of managing a large global commodities trading business. He has also served in major public sector roles.

Committees: Chair of the Brand, Values and Conduct Committee. Member of the Remuneration Committee, the Board Risk Committee and the Governance and Nomination Committee

Dr Lars Thunell (66)
Independent Non-Executive Director

Lars was appointed to the Board in November 2012.

Career: Lars was president and chief executive officer of Securum, the Swedish Government 'bad bank', from 1992 to 1994, chief executive officer of Trygg-Hansa from 1994 to 1997 and chief executive officer of SEB, Sweden's leading corporate bank, from 1997 to 2005. Until June 2012, Lars was chief executive officer and executive vice president of the International Finance Corporation (IFC), a member of the World Bank Group. In this role, Lars led the IFC's overall strategic direction in its mission to promote sustainable private sector development. Lars has held a number of non-executive directorships and been chairman of the Swedish Bankers Association. Lars is currently a senior advisor to the Blackstone Group, a director of Kosmos Energy, a non-executive director and vice chairman of Sithe Global LLP, a director of Fisterra Energy LLP and chairman of Global Water Development Partners – all part of the Blackstone Group. He is also a board member of the Middle East Investment Initiative and Access Health International, both independent non-profit organisations, and chairman of Africa Risk Capacity Limited.

Experience: Lars has a highly developed understanding of banking and risk management in a financial services context.

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

Annemarie Durbin (51)
Group Company Secretary

Annemarie was appointed in 2007.

Career: Annemarie has a bachelor's degree in commerce, is a qualified lawyer and has an MSc in executive coaching. She joined Standard Chartered in 1995, holding senior roles in Wholesale Banking, including Head of Financial Institutions for Europe and Africa, and had global responsibility for the Development Organisation client segment. Annemarie held Consumer Banking head roles in the Philippines and Thailand and was Chief Executive Officer in both countries. Since returning to the UK in 2006, Annemarie has held a number of group support function roles, including Head of Resourcing and Reward (within Human Resources) and Group Head of Corporate Affairs. Currently, in addition to being the Group Company Secretary, Annemarie's role also covers the Global Corporate Secretariat function, the Group's Corporate Real Estate Services function and administrative oversight of the Group's Internal Audit function. Annemarie is the Group's executive sponsor for our diversity and inclusion and Living with HIV programmes. Annemarie is a non-executive director of WHSmith PLC and member of its audit, remuneration and nomination committees.

Experience: Annemarie brings significant international banking and financial services experience, together with a deep understanding of the legal, regulatory and governance environment.

On 26 February 2015, we announced a number of new appointments to the Board. Bill Winters will join the Group ahead of his appointment to the Board as Group Chief Executive in June 2015, replacing Peter Sands. In addition, Gay Huey Evans and Jasmine Whitbread will join the Board as independent non-executive directors with effect from 1 April 2015. A full biography for Gay Huey Evans and Jasmine Whitbread can be found in the 2015 Notice of Annual General Meeting.

Bill Winters (53) is a career banker with significant front-line 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. Bill began his career with JP Morgan Chase, becoming one of the top five most senior executives at JP Morgan, and went on to become co-chief executive officer of the investment bank from 2004 until he stepped down in 2009. Bill was the only career banker to be invited to be a committee member of the Independent Commission on Banking, established by the UK government in 2010 to recommend ways to improve competition and financial stability in banking. Subsequently, Bill also served as advisor to the Parliamentary Commission on Banking Standards and was asked by the Court of the Bank of England to complete an independent review of the Bank's liquidity operations. Bill is an independent non-executive director of Novartis International AG and was previously a non-executive director of RIT Capital Partners Plc.

Gay Huey Evans (60) is an experienced non-executive director with significant commercial, financial services and regulatory experience, having spent 26 years working in a variety of executive roles in a number of global finance and banking institutions. Gay is a non-executive director at Aviva plc, ConocoPhillips, Bank Itau BBA International Limited and deputy chair of the Financial Reporting Council. She was previously a non-executive director of London Stock Exchange Group PLC.

Jasmine Whitbread (51) has significant business leadership experience as well as first-hand experience of operating across our markets. Jasmine is the chief executive officer of Save the Children International, a role she has held since 2010, with extensive experience and a deep understanding of operating successfully in highly regulated, political and unpredictable environments. Jasmine is a non-executive director of BT Group plc.

Senior management



Tracy Clarke



David Fein



Richard Goulding



Jan Verplancke

The senior management of the Group is made up of the Court of Standard Chartered Bank (the 'Court'), David Fein, in his capacity as Group General Counsel, and Annemarie Durbin (see page 131), in her capacity as Group Head, Independent Governance and Workplace. As at 4 March 2015, the Court comprises the executive directors of Standard Chartered PLC, Tracy Clarke, Richard Goulding and Jan Verplancke.

Tracy Clarke (48)
Director, Compliance, People and Communication

Tracy joined Standard Chartered in 1985. She was appointed a Director of Standard Chartered Bank in January 2013.

Career: Tracy spent her early career in Wholesale Banking operations and client relationship roles both in the UK and Hong Kong, before going on to become Head of the Group Chief Executive's Office and later Group Head of Corporate Affairs. In 2006, Tracy became Group Head of Human Resources. Her portfolio was expanded in January 2010 to encompass Group Head of Corporate Affairs and in April 2013 she took on the additional responsibility for Legal and Compliance. Tracy is an independent non-executive director of Sky Plc and chair of its remuneration committee. She is a trustee of WORKing for YOUlt, a charity working with business to create job opportunities for young people. Tracy is a member of the Institute of Financial Services and a fellow of the Chartered Institute of Personnel and Development.

Experience: Tracy brings a wide range of managerial and operational experience across corporate affairs, brand and marketing, media relations, human resources and legal and compliance.

David Fein (54)
Group General Counsel

David joined Standard Chartered in September 2013.

Career: Before joining Standard Chartered, David was United States Attorney for the District of Connecticut, appointed by President Obama and confirmed by the United States Senate. In that capacity, he was appointed Vice Chair of the Attorney General's Advisory Committee's White-Collar Crime sub-committee. Earlier in his

career, David was an Assistant United States Attorney for the Southern District of New York and served as Deputy Chief of the Criminal Division and Counsel to the United States Attorney. David also served as Associate White House Counsel; a partner at the law firm of Wiggin and Dana; and Visiting Lecturer in Law at Yale Law School. David is a key advisor to the Board of Standard Chartered PLC and the Court of Standard Chartered Bank on all material legal matters. In July 2014, David was appointed Chair of Seeing is Believing, Standard Chartered's global initiative tackling avoidable blindness. He also sits on the boards of Guiding Eyes for the Blind and Derek Jeter's Turn 2 Foundation.

Experience: David brings a wealth of legal knowledge and experience alongside a deep understanding of the US legal system, having held a number of significant roles in the US Government.

Richard Goulding (55)
Group Chief Risk Officer

Richard joined Standard Chartered in 2002 and was appointed a Director of Standard Chartered Bank in January 2013. On 8 January 2015, it was announced that Richard will be retiring as Chief Risk Officer from the Group and as a Director of the Court of Standard Chartered Bank during 2015.

Career: Richard qualified as a chartered accountant with Arthur Andersen and Company. He went on to become a member of the global executive board of UBS' investment banking division, chaired the operating committee and took responsibility for programme and regional management. Richard joined Standard Chartered from the Old Mutual Group, where he was chief operating officer of their global financial services division, based in London and Boston. When Richard joined the Group he was the Chief

Operating Officer for the Wholesale Banking business, before becoming the Group Chief Risk Officer, with responsibility for managing credit, market and operational risk across the Group. Richard is a trustee of the Global Association of Risk Professionals.

Experience: Richard brings an in-depth knowledge of the credit, market and operational risk agenda as well as experience across a wide range of operational functions.

Jan Verplancke (51)
Chief Information Officer and Group Head of Technology and Operations

Jan joined Standard Chartered in 2004 and was appointed a Director of Standard Chartered Bank in January 2013. On 8 January 2015, it was announced that Jan will be retiring as Chief Information Officer and Group Head of Technology and Operations from the Group and as a Director of the Court of Standard Chartered Bank during 2015.

Career: Jan joined Standard Chartered from Dell where he was chief information officer – EMEA. As well as having overall systems responsibility for EMEA, he was responsible for the expansion of new markets and the consolidation of Dell's back-office operations. Jan is responsible for all systems development, technology support and banking operations at Standard Chartered. Jan is a non-executive director of Scope International Private Limited and Standard Chartered Bank (China) Limited.

Experience: Jan brings significant systems, operations and technical expertise to the Group.

Corporate governance

Exemplary governance supports our decisions and guides our behaviours



"At Standard Chartered, our rich heritage, culture and values remain core to the way we do business"

Sir John Peace
Chairman

Dear Shareholder

This has been a difficult year as we continue to transition the Group back onto a trajectory of sustainable and profitable growth, delivering returns above our cost of equity. This repositioning is taking place against an intensely challenging environment of structural change within the banking industry, cyclical headwinds and a complex regulatory environment. As a Board we have taken significant action to address our immediate performance challenges and to reposition the Group for growth. We remain focused on raising the bar on conduct across every part of the Group, and have put in place changes to the Board's composition in line with our broader multi-year succession plan.

While we have been focused on shaping and executing the refreshed strategy, we have also taken time to reflect on and sharpen our approach in respect to all aspects of the plan and its execution. As a Board we have also rightly continued to ask questions of the Group's short-term performance and this will remain a key item of discussion in the year ahead.

At Standard Chartered, our rich heritage, culture and values remain core to the way we do business, underpinning our approach to everything we do and our commitment to be Here for good. However, we recognise that society's trust in the banking industry remains fragile, and that conduct continues to be a huge challenge for the industry. This is why the Board is committed to raising the bar in this area across every aspect of the Group's operations. We have committed significant investment to our financial crime and conduct agenda, including surveillance system upgrades, people and training. We endorsed the updated Group Code of Conduct and re-issued it in 2014, requiring every employee across our markets to personally re-commit to it. We also established a new Board committee with a mandate focused specifically on financial crime compliance matters. The Board Financial Crime Risk Committee became effective on 1 January 2015, providing the Board with both broader and deeper oversight than the previous Board Regulatory Compliance Oversight Committee, and includes three external experts who bring invaluable experience. More details on this new committee, its membership and responsibilities can be found on page 169.

The Nomination Committee was integrated with the Governance Committee during the year, to create a single Governance and Nomination Committee. This Committee has been intensely focused on executive and non-executive succession, putting in place a number of changes to the Board's composition in line with our multi-year plan to refresh the Board and reduce its overall size. In addition, the Governance and Nomination Committee has remained focused on ensuring that appropriate succession plans are in place among the senior management team, supporting the execution of the Group's strategy. Through the ongoing delivery of our multi-year succession plan, we have continued to ensure that the Board and senior management have the knowledge, skills, experience and background to develop, challenge and support our strategic ambitions, both now and in the future. More details on the activities of the Governance and Nomination Committee can be found on pages 166 and 167.

We recently announced that Peter Sands, our Group Chief Executive, will be leaving the Group with effect from June 2015. Peter has made an immense contribution to the success of Standard Chartered and has had a transformative impact during his 13-year tenure both as Group Chief Executive and, previously, as Group Finance Director. His leadership and insight, over a period of huge change and challenge for the entire industry, ensure he leaves the Group well placed to achieve its full potential as one of the world's leading financial institutions. On behalf of the Board, I would like to thank Peter for his tremendous service to the Group throughout his tenure.

Bill Winters will join the Group in May 2015 and be appointed to the Board as Group Chief Executive with effect from June 2015. Bill is a globally respected banker who brings substantial financial experience from leading a successful global business as well as an exceptional understanding of the global regulatory and conduct environment. Alongside the Board, Bill will be instrumental in executing our refreshed strategy and returning the Group swiftly to sustainable and profitable growth.

We also recently announced that Jaspal Bindra, Group Executive Director and Chief Executive Officer, Asia, has decided to step down from the Board at the end of April 2015, and will be leaving Standard Chartered shortly thereafter. Jaspal has made an enormous contribution to the Board and the wider Group throughout his long and successful 16-year career.

These changes follow on from previous executive changes to the Board since last year, when we announced as part of the strategic reorganisation that two of our executive directors, Steve Bertamini and Richard Meddings, would step down from the Board. They stepped down in March and June 2014 respectively. In July 2014, we were delighted to welcome Andy Halford as our new Group Finance Director.

There have also been a number of changes to non-executive representation on the Board since last year. We welcomed Byron Grote to the Board in July 2014 as an independent non-executive director. Byron brings considerable international business leadership and financial experience to the Board.

It was with regret that, for personal reasons, John Paynter, independent non-executive director, decided to step down with effect from 31 December 2014 after six years on the Board. Oliver Stocken, who agreed to remain on the Board for a short period following John's departure, retired from the Board in February 2015 having served over 10 years as an independent non-executive director. I would like to thank both John and Oliver for their highly valuable contributions and commitment.

We announced in February 2015 the appointment to the Board of two new independent non-executive directors, Gay Huey Evans and Jasmine Whitbread. Between them they bring extensive banking, risk, business leadership and international experience with a deep knowledge and understanding of our key markets. They also provide further valuable diversity of insight and perspective to the Board debate.

At the same time, we also announced the retirement of our two longest-standing independent non-executive directors, Ruth Markland and Paul Skinner. Both Ruth and Paul have been incredibly dedicated and supportive members of the Board, providing wise counsel to the Group for over 10 years.

Finally, we announced at the same time that it is my intention to step down from the Board during the course of 2016 after nine years on the Board, with seven years as Chairman. This timing will ensure Board-level continuity and allow sufficient time for Bill Winters to transition into his new role as Group Chief Executive.

A diverse Board with a mixture of experience, skills and perspectives is critical to ensuring that we remain an effective Board. We continue to believe that diversity should be viewed in its broadest sense and, at Standard Chartered, we have a long history of diverse Board membership which continues to this day. More detail on the diverse nature and make-up of our Board can be found on pages 136 to 138.

This year, the Remuneration Committee has been particularly focused on responding to shareholder concerns raised at last year's annual general meeting in respect of directors' remuneration and specific elements of the remuneration policy. The Remuneration Committee has undertaken a series of consultations and meetings with representatives from over half of our shareholder register to better understand the issues, and has put in place measures to address these. More detail on the activities of the Remuneration Committee and the policy can be found on pages 170 to 209.

I am confident that the actions we have taken as a Board will address our immediate performance challenges and reposition the Group for its new phase of growth. The changes we have put in place to the Board's composition, in line with our broader multi-year succession plan, fully support the ongoing execution of our refreshed strategy. At the same time, we remain focused on raising the bar on conduct across every part of the Group and delivering on our commitment to be Here for good.



Sir John Peace
Chairman

Our approach to governance disclosures

Throughout this report we have sought to give an insight into the importance placed on exemplary governance across the Group and to demonstrate a genuine understanding of how corporate governance supports our decisions and guides our behaviours within Standard Chartered.

Code compliance

We apply the provisions of the UK Corporate Governance Code 2012 issued by the Financial Reporting Council (the 'Code'). We also apply the Hong Kong Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules and have complied with its code provisions, save that the Board Risk Committee is responsible for the oversight of internal control (other than internal control over financial reporting) and risk management systems (Hong Kong Corporate Governance Code provision C.3.3 paragraphs (f), (g) and (h)). If there were no Board Risk Committee, these matters would be the responsibility of the Audit Committee.

Subject to the below, the directors confirm that the Group has complied with all of the provisions of the Code during the year ended 31 December 2014. By way of explanation we advise that:

Oliver Stocken did not seek re-election at the 2014 AGM as he was due to step down from the Board before the end of 2014. However, following John Paynter stepping down from the Board in December 2014 and to support the smooth transition of the Board's composition, Oliver agreed to remain on the Board for a short period, before stepping down on 28 February 2015.

Richard Meddings did not seek re-election at the 2014 AGM following an announcement made in January 2014 that he would step down from the Board in June 2014.

We have reviewed the new provisions set out in the UK Corporate Governance Code 2014, which we are not formally required to report against until December 2015. Throughout this corporate governance report we have provided a narrative statement of how governance operates within the Group and our application of the principles set out in the Hong Kong Listing Rules and the main principles of the Code.

The Group confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by Appendix 10 of the Hong Kong Listing Rules. Having made specific enquiry of all directors, the Group confirms that all directors have complied with the required standards of the adopted code of conduct.

 Copies of the Code and the Hong Kong Corporate Governance Code can be found at frc.org.uk and hkex.com.hk respectively

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 210 to 218.

The role of the Board and its committees

The Board is accountable for the long-term success of the Group and is responsible for ensuring leadership within a framework of effective controls, while approving the strategy, and that the Group is suitably resourced to achieve its strategic aspirations. In doing so, the Board considers its responsibilities to, and the impact of its decisions on, the Group's stakeholders including the Group's employees, shareholders, suppliers, the environment and the communities in which it operates.

The Board also delegates certain responsibilities to its committees to assist it in carrying out its function of ensuring independent oversight. The Board agreed a number of changes to its committee structure during 2014 to ensure it is more effectively aligned to support the work of the Board and provides a more comprehensive framework of oversight. Details of the changes are set out on pages 147 and 148.

The Board also delegates authority for the operational management of the Group's business to the Group Chief Executive or further delegation by him in respect of matters which are necessary for the effective day-to-day running and management of the business.

With the exception of the Governance and Nomination Committee which, in keeping with the provisions of the UK Corporate Governance Code, is chaired by the Group Chairman, all of the Board committees are made up of independent non-executive directors and play a key role in supporting the Board. In addition to comprising five independent non-executive directors, the Board Financial Crime Risk Committee's membership includes three independent external advisors. Further details of the changes to these committees, including membership changes, can be found on pages 150 to 209, along with an update from the Chairs on the work of their committees during 2014.

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

Board roles and key responsibilities

Chairman

Sir John Peace

Responsible for leading the Board and its overall effectiveness and governance, promoting high standards of integrity across the Group and ensuring effective communication between the Board, management and shareholders/wider stakeholders.

Group Chief Executive

Peter Sands

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.

Senior Independent Director

Ruth Markland

Provides a sounding board for the Chairman and discusses with shareholders and other stakeholders concerns that are unable to be resolved through the normal channels or where such contact would be inappropriate.

Independent non-executive directors

See pages 128 to 131

Provide an independent perspective, constructive challenge and monitor the performance and delivery of the strategy within the risk and controls set by the Board.

 The roles of the Chairman and Group Chief Executive are quite distinct from one another and are clearly defined in fuller role descriptions that can be viewed at [sc.com](#)

Board composition and meetings

The Board meets regularly throughout the year. It held nine scheduled meetings in 2014, including two overseas visits, to Malaysia and Singapore. Individual attendance is set out in the table on this page. In addition to the many substantial strategy discussions throughout the year, the Board held a two-day offsite strategy session in June 2014 in which it had a systematic and comprehensive discussion around the strategy and the direction of the Group. An overview of the key areas of discussion can be found on page 139.

The Board, at the time of approval of the Annual Report and Accounts on 4 March 2015, comprised 17 directors: the Chairman, five executive directors and 11 independent non-executive directors. Details on the diverse make-up of the Board can be found on page 138. A list of individual directors and their biographies are set out on pages 128 to 131, including details of the membership of the Board's committees.

During the year the Chairman met privately with the Senior Independent Director and independent non-executive directors on several occasions to assess their views and discuss any matters. Additionally, the Senior Independent Director met with the independent non-executive directors without the Chairman present.

Who is on our Board

Name of director	Scheduled meetings in 2014*	AGM†
Chairman		
Sir John Peace	9/9	1/1
Chief Executive		
P A Sands	9/9	1/1
Executive Directors		
A M G Rees	9/9	1/1
A N Halford (appointed 1 July 2014)	4/4	n/a
J S Bindra	9/9	1/1
V Shankar	9/9	1/1
Non-Executive Directors		
O P Bhatt	9/9	1/1
Dr K M Campbell	8/9 ¹	1/1
Dr L Cheung	9/9	1/1
Dr B E Grote (appointed 1 July 2014)	4/4	n/a
C M Hodgson	9/9	1/1
N Kheraj (appointed 1 January 2014)	9/9	1/1
S J Lowth	9/9	1/1
R Markland	9/9	1/1
Dr Han Seung-soo, KBE	9/9	1/1
P D Skinner, CBE	8/9 ²	1/1
Dr L H Thunell	9/9	1/1
Directors who stepped down during 2014/2015		
M Ewing (stepped down 31 January 2014)	0/1 ³	n/a
S P Bertamini (stepped down 31 March 2014)	2/2	n/a
J F T Dundas (stepped down 1 May 2014)	0/3 ⁴	n/a
R H P Markham (stepped down 1 May 2014)	3/3	n/a
R H Meddings (stepped down 30 June 2014)	5/5	1/1
J G H Paynter (stepped down 31 December 2014)	8/9 ⁵	1/1
O H J Stocken, CBE (stepped down 28 February 2015)	9/9	1/1

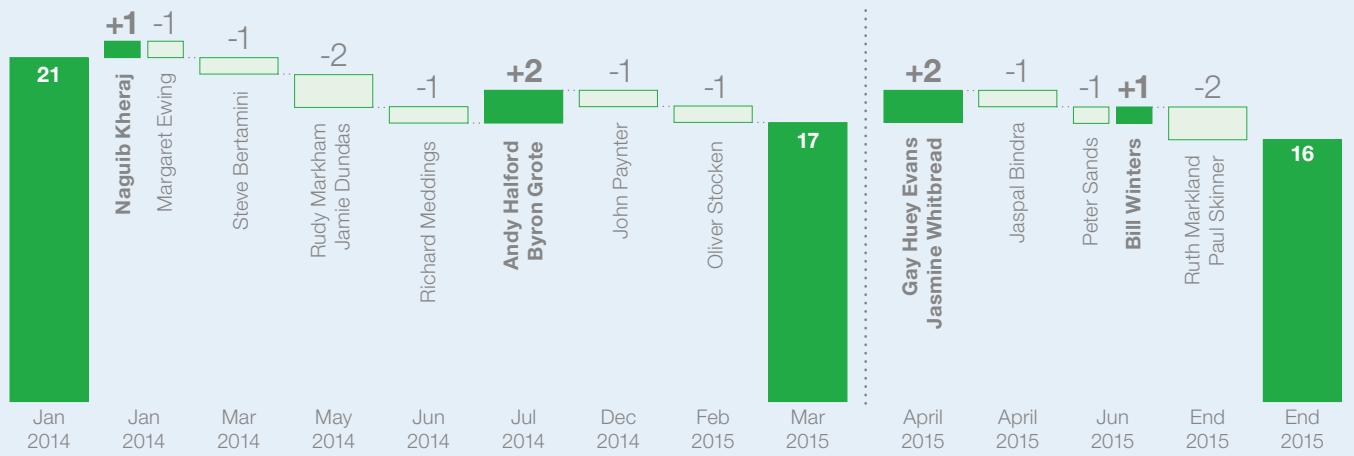
Notes

- Kurt Campbell was unable to attend the meeting on 30 July 2014 due to immovable personal commitments
- Paul Skinner was unable to attend the meeting on 17 September 2014 due to prior business commitments
- Margaret Ewing was unable to attend the meeting on 28 January 2014 due to ill health
- Jamie Dundas was unable to attend the meetings on 28 January 2014, 26 February 2014 and 1 April 2014 due to ill health
- John Paynter was unable to attend the meeting on 28 January 2014 due to prior business commitments

* The Board held nine scheduled meetings in 2014, exceeding the requirement of the Hong Kong Corporate Governance Code, which requires every listed issuer to hold board meetings at least four times a year

† In 2014, the Group held one general meeting, its AGM on 8 May 2014, which was attended by all of the directors. All directors were proposed for annual (re)election in 2014, with the exception of Richard Meddings, who stepped down on 30 June 2014, and Oliver Stocken, who had been due to step down at the end of 2014. All directors who stood for (re)selection were successfully (re)elected

Board membership changes



Changes to our Board

We have continued to evolve the shape and dynamics of the Board and its committees in 2014, both in line with the multi-year Board succession plan and to better reflect our drive to raise the bar on conduct through the committee structure. More details on the activities of the Governance and Nomination Committee can be found on pages 166 and 167. Some of the changes made to the Board this year were communicated to shareholders in last year's report, but took effect during 2014. These included the appointment of Mike Rees as Deputy Group Chief Executive in April 2014 and the departures of Steve Bertamini, Group Executive Director, and Richard Meddings, Group Finance Director, in March and June 2014 respectively. In addition, Margaret Ewing stepped down in January 2014 due to ill health and Jamie Dundas and Rudy Markham, both long-standing independent non-executive directors, retired in May 2014. Naguib Kheraj was appointed an independent non-executive director in January 2014.

Following an extensive recruitment process for a new Group Finance Director, assisted by external search consultants, where both internal and external candidates were considered, in July we appointed Andy Halford as our new Group Finance Director. Andy brings considerable financial, commercial and international experience, having held the role of chief financial officer at Vodafone for over nine years. We also continued to refresh and strengthen the independent non-executive directors, mindful of the need to ensure the appropriate balance of skills and experience, while seeking to maintain an element of stability and longevity. Byron Grote was appointed an independent non-executive director in July 2014. His appointment complements the existing Board membership, bringing additional strength and depth across a combination of international, business leadership, commercial and financial experience. For personal reasons, John Paynter stepped down from the Board as an independent non-executive on 31 December 2014. In view of John's departure, Oliver Stocken agreed to remain on the Board for a short period to support the smooth transition of the Board's composition, before stepping down on 28 February 2015.

On 26 February 2015, we announced a comprehensive series of changes to the composition of the Board as part of the next phase of its transition. Following an extensive recruitment process led by the Governance and Nomination Committee

and assisted by external search consultants, we announced that Bill Winters will join the Group on 1 May 2015 and be appointed to the Board and as Group Chief Executive in June 2015, when Peter Sands will step down from the Board and as Group Chief Executive. Bill brings substantial financial experience, having been co-chief executive officer of investment banking at JP Morgan for five years, and has an exceptional understanding of the global regulatory and conduct environment. He is also a proven leader with a strong track record in nurturing and developing talent. We also announced that Jaspal Bindra, Group Executive Director and Chief Executive Officer, Asia, will also step down from the Board in April 2015, after a successful 16-year career with the Group. In addition, Sir John Peace, who has served as Chairman since 2009, intends to step down from the Board during the course of 2016, giving Bill time to transition into his new role and ensure continuity on the Board.

We also announced a number of further changes to the Board composition in line with the multi-year Board succession plan. Two new independent non-executive directors, Gay Huey Evans and Jasmine Whitbread, will join the Board with effect from 1 April 2015. Gay is an experienced non-executive director with significant commercial, financial services and regulatory experience, having spent 26 years working in a variety of roles in a number of global finance and banking institutions. She is a non-executive director at Aviva plc, ConocoPhillips, Bank Itau BBA International Limited and deputy chair of the Financial Reporting Council. Jasmine has significant business leadership experience as well as first-hand experience of operating across our markets. She is the chief executive officer of Save the Children International, and has extensive experience and a deep understanding of operating successfully in highly regulated, political and unpredictable environments. She is a non-executive director of BT Group plc.

In addition, Ruth Markland, Senior Independent Director, and Paul Skinner, independent non-executive director, who have both served on the Board since November 2003, will retire from the Board by the end of 2015. Ruth will continue as Senior Independent Director until she retires but will step down from her role as Remuneration Committee Chair with effect from the conclusion of the AGM on 6 May 2015. Christine Hodgson, who joined the Board in September 2013, will be appointed as Remuneration Committee Chair with effect from 7 May 2015.

Board diversity

Nationalities represented on the Board



International: has lived or worked across Asia, Africa or the Middle East

72%



Representation from Asia, Africa or the Middle East

28%



Banking, finance, risk and accounting experience among the independent non-executive directors

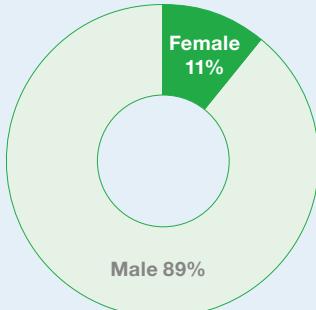
58%



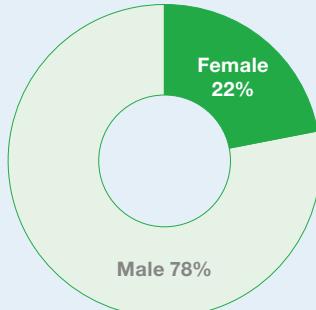
As at 31 December 2014

Board gender diversity

End 2014



AGM 2015



Since the inception of the multi-year Board succession plan in 2011, the composition of the Board has been refreshed significantly; seven independent non-executive directors and two executive directors have stepped down and eight independent non-executive directors and two executive directors have been appointed. Only the Chairman, four of the current 11 independent non-executive directors and three of the current five executive directors were members of the Board in 2011. Following the changes announced on 26 February 2015, by the end of 2015, 13 directors will have stepped down and 13 directors will have been appointed since 2011. As the Board transitions out of this phase of the plan, our intention is to reduce the Board's composition to 14 members in due course, giving it a broad-based composition covering banking, accounting, finance and risk experience, and a rich diversity of perspectives, skills, geographical representation, ethnicity and gender.

Board diversity

Our distinctive footprint and long history operating in some of the world's most diverse markets have given us a deep history of diverse Board membership, and an understanding of the importance of diversity among directors in sustaining an effective Board.

Our Board has a broad mixture of backgrounds, experience and skills, including six different nationalities, and as at the end of 2014, 13 directors who have lived and worked across Asia, Africa or the Middle East. We remain focused on ensuring that diversity remains a central feature of the Board, and believe that it should be considered in its broadest sense.

We are committed to appointments based on merit and not to fill mandatory quotas. That said, we recognise the importance of diversity in all its aspects. Therefore last year, we launched our Board diversity policy, which set out our objective of having 25 per cent female representation on the Standard Chartered PLC Board by 2017. This target is aligned with the Capital Requirements Directive IV (CRD IV) and the broader recommendations of the Davies Review. We are making progress towards reaching this target, following the recent

announcement that Gay Huey Evans and Jasmine Whitbread will join the Board on 1 April 2015. More detail on the policy can be found in the Governance and Nomination Committee section on page 167.

Independent non-executive director Board tenure

0-1 year

8%



1-3 years

50%



3-6 years

17%



6-9 years

0%



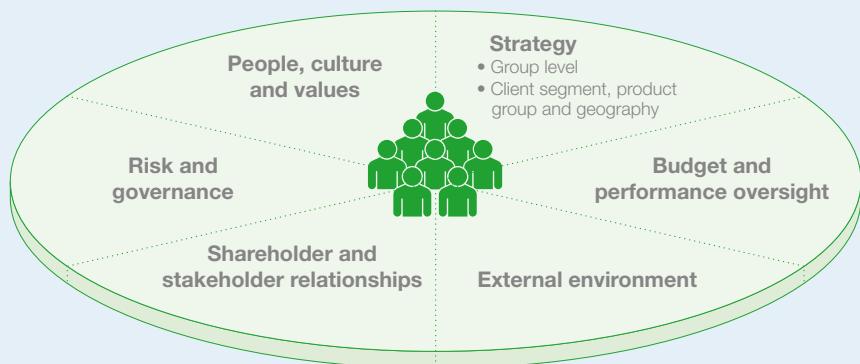
9+ years

25%



As at 31 December 2014

What the Board focused its time on in 2014



Strategy

Group level

- Reflected on the refreshed strategy at our annual two-day offsite, including consideration of those actions being taken to transition the Group back onto a trajectory of capital accretive, profitable growth
- Reviewed the full set of client propositions for the different segments and the synergies from serving on an integrated basis
- Debated the execution of the new organisation structure to better align the business to the refreshed strategy (product groups, client segments and geographies) and the corresponding financial and non-financial benefits
- Discussed the Group's approach to geographic participation and network development to strengthen our cross-border propositions and sharpen the Group's priorities, leading to the disposal of a number of non-core businesses
- Reviewed the comprehensive roadmap of strategic initiatives to deliver the strategy
- Reviewed progress on enhancing the Group's technology, innovation and operations during the year

Strategy

Client segment, product group and geography

- Approved simplification of the Group's real estate services supply arrangements across Asia
- Reviewed and discussed how to ensure that our Principal Finance group can best contribute to delivering our revised strategy
- Debated the equities review on Equity Capital Markets and the Cash Equities businesses
- Reviewed our approach to correspondent banking, including regulatory issues and the impact of the future landscape
- Approved the renewal and expansion of the Group's strategic bancassurance partnership with Prudential plc
- Discussed the performance of our Korean business and the new strategy, including the sale of the Korean consumer finance business
- Held two overseas Board meetings, in Malaysia and Singapore, with a detailed review of the strategy for each country (including a full programme of engagements and visits to provide insight)

Budget and performance oversight

- Assessed the strength of the Group's capital and liquidity position
- Approved the 2015 budget and capital plan
- Reviewed and scrutinised the performance of the business across client segments, product groups and geographies
- Discussed periodic updates from Investor Relations on the share price, performance metrics, register activity, and investor and analyst sentiment

External environment

- Received internal and external input across a range of topics, including the geo-political and regulatory environment, and the macroeconomic landscape
- Reviewed the competitive landscape in our markets, assessed our overall position in key businesses and reflected on the implications for the Group

Shareholder and stakeholder relationships

- Engaged and responded to questions from retail shareholders at the AGM
- Engaged with key clients and customers as part of the Board's overseas visits
- Discussed the views and concerns of institutional shareholders
- Engaged with the Prudential Regulation Authority on the findings of the 2014 Periodic Summary Meeting Letter and the Financial Conduct Authority on the 2014 Firm Evaluation Letter
- Debated the Group's investor communication plans
- Participated in a number of community activities and projects as part of the Board's overseas visits

Risk and governance

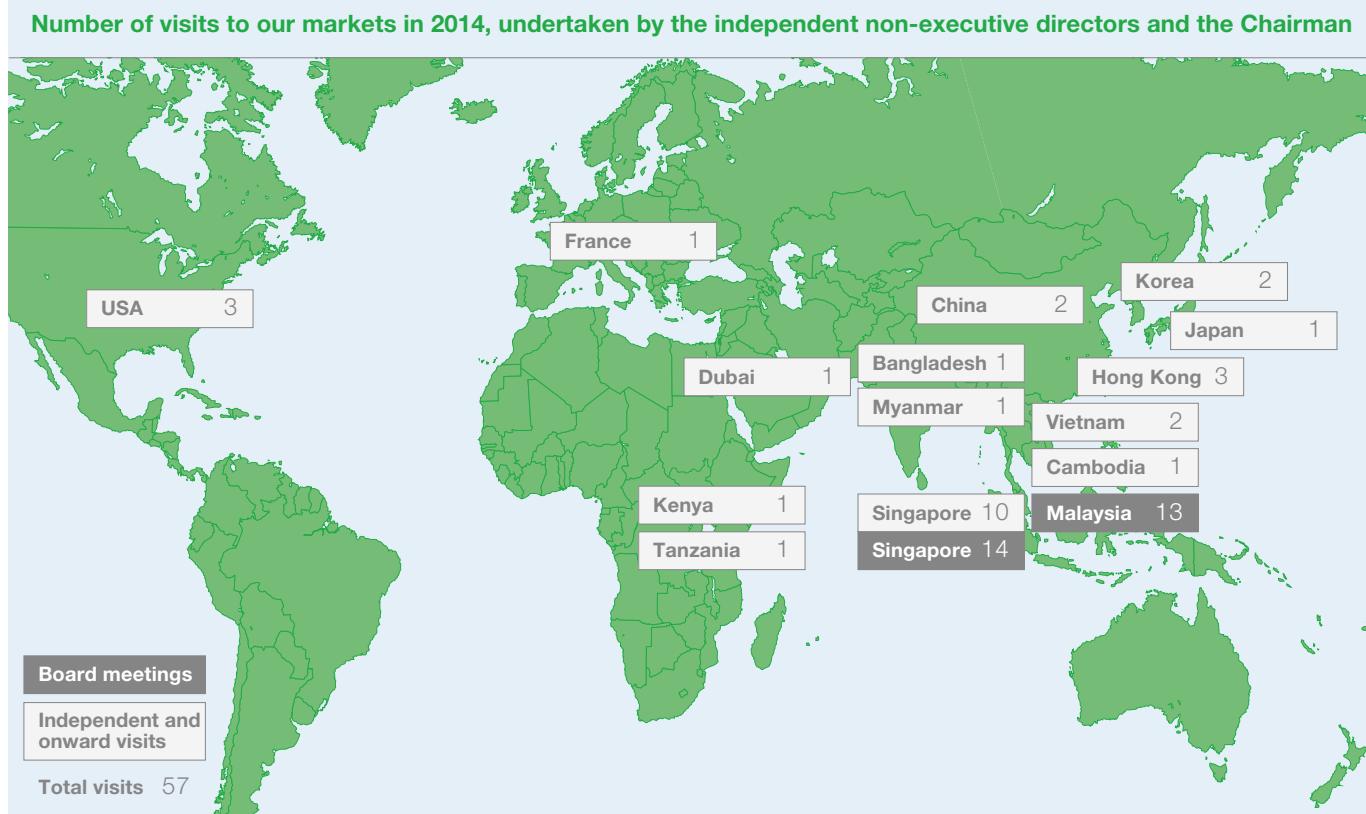
- Received regular risk reports from the Group Chief Risk Officer
- Approved the Group's risk principles, its Risk Tolerance Statement and the operational and financial top risks, satisfying itself that the 2015 budget was aligned to these
- Received assurance during the year that the Group continued to operate within its approved risk tolerance
- Agreed a number of changes to the Board's committee structure, including the establishment of the Board Financial Crime Risk Committee
- Considered the Group's anti-money laundering transaction surveillance system in its New York branch in the context of the settlement with the New York Department of Financial Services (NYDFS) in August 2014
- Reviewed and discussed the Bank of England stress test and any implications for the Group and the industry more generally

People, culture and values

- Discussed the importance of a robust conduct culture throughout the Group and the focus on the Code of Conduct, to which every employee in the Group had been requested to commit
- Continued to examine some of the key people challenges we face over the next five years and how our thinking on people strategy is evolving
- Considered the composition of the Board and its committees in the context of our multi-year Board succession plan, and approved the appointment of the new Group Finance Director and one new independent non-executive director
- Assessed the outcome of the Board effectiveness review and approved the 2015 Action Plan
- Discussed staff engagement in the context of the Group's new engagement survey
- Discussed the new organisational structure from a people perspective



The full schedule of matters reserved for the Board, together with the Board committees' terms of reference, can be viewed at [sc.com](#)



The Board believes deeply in the importance of the open and challenging, yet cohesive and collaborative, culture that exists at Standard Chartered, whereby independent non-executive directors have unfettered access to management and information, enabling us to maintain a high level of governance. This open and collaborative culture is demonstrated through the extensive trips that our independent non-executive directors make to our markets to both validate the refreshed strategy and gain an on-the-ground understanding of the opportunities and risks we face. Throughout 2014, the Chairman and our independent non-executive directors made 57 visits across our footprint, including two overseas Board meetings. During 2014, the Group estimates that each independent non-executive director spent approximately 35 to 50 days on Board-related duties and considerably more for those who chaired or sat on multiple committees.

Director induction and ongoing engagement plans

We have an extensive, robust and tailor-made induction and ongoing development programme in place for our Board members, which is kept under regular review. Each engagement programme typically consists of a mixture of briefings from across the Group on specialist topics, attendance at key management meetings, as well as meetings with investors. For those independent non-executive directors who bring to the Board non-financial services experience, the induction programmes are very in-depth and cover areas such as the basics of banking, including modules on sources of income, geographic diversity, client distribution and traditional and modern banking services. The depth and breadth, coupled with the tailor-made nature of both the induction and ongoing development programmes, are well received by the independent non-executive directors.

The directors are also supported by the Group Company Secretary and a dedicated corporate secretariat resource, and have access to independent professional advice at the Group's expense where they judge it necessary to discharge their responsibilities as directors. Processes are also in place to ensure the timely provision of information to directors. This has been made more effective through 2014 with the implementation of a more efficient and secure platform for delivery of Board packs to directors' iPads.

"I am deep into the induction process and becoming more familiar with the people, the processes and the challenges of the Group. It has been a very good process to date"

Independent non-executive director

Feedback received as part of a committee effectiveness review

Ongoing development plan 2014: independent non-executive director (Committee Chair)

This is an example of one of our independent non-executive directors' development profiles. It illustrates the breadth of the engagement that is undertaken during the year.

General development	Overseas visits/engagement
Induction <ul style="list-style-type: none"> Completed a full formal and tailored induction programme including: overview of strategy; risk; finance, capital and liquidity; geographies; corporate; introduction to legal and compliance; and governance 	As part of overseas board (Singapore) <ul style="list-style-type: none"> Client dinner with other Board members Met with Standard Chartered Bank Singapore Country Management Group, with other Board members Meeting with Monetary Authority of Singapore, with other Board members
Mandatory <ul style="list-style-type: none"> Independent non-executive director refresher training 	As part of overseas board (Kuala Lumpur) <ul style="list-style-type: none"> Client dinner with other Board members Talent and leadership lunch with other Board members
Additional <ul style="list-style-type: none"> Hosted Audit Committee lunch with Group Internal Audit Management Group Attended May Audit and Board Risk Committee's half-day session Board Regulatory Compliance Oversight Committee induction Board Financial Crime Risk Committee induction 	Community as part of overseas board <ul style="list-style-type: none"> Kuala Lumpur: HappySmile Project² Kuala Lumpur: deep-dive session on Living with HIV
Committee Chair engagement/development	
Meetings with Regulators <ul style="list-style-type: none"> Hosted Committee lunch with the Prudential Regulation Authority Met with the Dubai Financial Services Authority Met with the Deputy Chief Executive, Hong Kong Monetary Authority Met with the Senior Deputy Governor, Korean Financial Supervisory Service 	Dubai <ul style="list-style-type: none"> Meetings with Regional Head of Audit; Regional Chief Executive Officer; Chief Executive Officer of the UAE and Head of Governance, Europe, Middle East, Africa and Americas Received briefing on key clients in the region and met members of senior management
	New York <ul style="list-style-type: none"> Meetings with the Chief Executive Officer Americas; Head of Client Coverage Americas; Head of Financial Markets, Americas and Chief Finance Officer Americas Tour of Newark offices including overview of dollar clearing business
	Singapore <ul style="list-style-type: none"> Meetings with the Global Head, Small and Medium-Sized Enterprise Banking; Head of Regions, Subsidiary Governance; Chief Executive Officer Singapore; Group Head, Financial Markets; Group Head, Wealth Management; Group Head, Corporate Finance; Group Head, Strategy and Group Technology & Operations Top Team Members Branch visit
	Hong Kong <ul style="list-style-type: none"> Meetings with Chief Executive Officer Greater China and Hong Kong; Head, Corporate & Institutional Clients; Head of Retail Clients; Head of Private Banking and Vice Chair Wholesale Banking Asia Branch visit Dealing room visit
	Korea <ul style="list-style-type: none"> Meetings with local board independent non-executive directors and chairman Meetings with Chief Finance Officer; Chief Information Officer; Head of Corporate, Institutional & Commercial Risk; Head of Risk Management and Head of Legal and Compliance Attended Standard Chartered Bank Korea Executive Committee dinner Branch visit
Meetings with local KPMG Audit Partners <ul style="list-style-type: none"> Meetings with KPMG Audit Partners in Dubai, Hong Kong, New York, Singapore, Malaysia and Korea 	
Other <ul style="list-style-type: none"> Attended Bank of England chairs of Audit Committees discussion Met with the US Monitor¹ 	

1. Pursuant to the 21 September 2012 Consent Order agreed to by the New York Department of Financial Services (the NYDFS) and Standard Chartered Bank (SCB), a compliance monitor was appointed to conduct a comprehensive review of the Bank Secrecy Act/Anti-Money Laundering and Office of Foreign Assets Control compliance programmes, policies and procedures at SCB's New York branch. Pursuant to the 19 August 2014 Consent Order agreed to by the NYDFS and SCB, the compliance monitor's term has been extended for two additional years, through January 2017

2. Developed under the Youth, Health & Education pillar. Focus on the development of children with special needs: Cerebral Palsy, Autism, ADHD, Down's Syndrome, Dyslexia, slow learners

Corporate governance

During the year, directors received training on a range of topics, including: control of inside information obligations in the context of *Ian Hannam v FCA*; UK Financial Services (Banking Reform) Act 2014, including Senior Managers Regime; and the changing regulatory and macroeconomic landscape.

Directors' induction and ongoing development in 2014

	Induction training ¹	Directors' duties and corporate governance	Visits to our markets and with local management	Regulatory environment and macroeconomic landscape
Sir John Peace	n/a	■	✓	■
P A Sands	n/a	■	✓	■
O P Bhatt	n/a	■	✓	■
J S Bindra	n/a	■	✓	■
Dr K M Campbell	n/a	■	✓	■
Dr L Cheung	n/a	■	✓	■
Dr B E Grote	■	■	✓	■
A N Halford	■	■	✓	■
C M Hodgson	n/a	■	✓	■
N Kheraj	■	■	✓	■
S J Lowth	n/a	■	✓	■
R Markland	n/a	■	✓	■
A M G Rees	n/a	■	✓	■
Dr Han Seung-soo, KBE	n/a	■	✓	■
V Shankar	n/a	■	✓	■
P D Skinner, CBE	n/a	■	✓	■
O H J Stocken, CBE	n/a	■	✓	■
Dr L H Thunell	n/a	■	✓	■

1. Applicable to new directors appointed during 2014

■ These briefings took the form of a combination of presentations, discussions and the circulation of papers

Re-election of directors

The performance of all directors is rigorously reviewed annually and used as the basis for recommending the re-election of directors to shareholders. In line with the UK Corporate Governance Code, we continue to adopt the practice of proposing all of our directors for annual (re)election at the Company's AGM. All directors will stand for (re)election this year, with the exception of Peter Sands, who, as previously announced, will step down from the Board in June 2015.

Independence of directors

The Board conducted a rigorous assessment of the independence of the non-executive directors. **Ruth Markland** and **Paul Skinner**, who have both served on the Board for over 11 years, did not participate in this assessment.

Ruth Markland and Paul Skinner's in-depth knowledge of the Group, combined with the consistency they provide through their continued service, remains invaluable as we continue to ensure a smooth transition of the Board and its committees. In addition, both Ruth and Paul demonstrate superb stewardship as Chairs of their respective committees and Ruth continues to provide the Chairman with excellent support as Senior Independent Director. Given that Ruth and Paul have served on the Board for over 11 years, their appointments were the subject of particular scrutiny. However, the Board agreed that each of them continued to demonstrate the attributes of an independent non-executive director and there was no evidence that their extended tenure has impacted on their independence. With the significant change in the Board composition since 2011, there has been real value in maintaining some stability through Ruth and Paul remaining on the Board during this transition. The Board is satisfied that all of its non-executive directors bring robust independent oversight and continue to remain independent.

As previously announced Ruth and Paul will retire from the Board by the end of 2015 as it continues to progress the multi-year Board succession plan.

External directorships and other business interests

Details of the directors' external directorships can be found in their biographies on pages 128 to 131. We closely monitor the outside business interests of our directors and are satisfied that all of our directors are compliant with the Prudential Regulation Authority (PRA) requirements, which came into effect on 1 July 2014, limiting the number of directorships both executive and non-executive directors are permitted to hold. Before committing to an additional role, directors confirm that no conflicts will arise, that the role will not breach their limit as set out in the PRA rules, 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. Committee Chairs are particularly mindful of their obligations. This year, as in previous years, directors have consistently demonstrated their ability to provide any additional time commitment as needed.

The Board's executive directors are permitted to hold only one non-executive directorship of a FTSE 100 company. Of our executive directors, Andy Halford is a non-executive director of Marks and Spencer Group PLC and Jaspal Bindra is a non-executive director of Reckitt Benckiser Group plc.

Subsidiary governance philosophy and linkages

The Group continues to have an integrated approach to governance across all countries, irrespective of whether the main activities of the Group are operated through a branch or subsidiary. Governance is managed across the Group's eight geographic regions. In addition, Corporate Secretariat is run as a global function with consistent policies and standards. Management of geographic governance is structured to cover economic and political developments, financial performance, governance and risks, franchise development and people.

As at 31 December 2014, the Group had 28 banking subsidiaries and 65 independent non-executive directors (excluding our PLC Board independent non-executive directors). As the independent non-executive directors on our Board travel throughout the Group's footprint, they play a critical role in actively engaging with the banking subsidiary independent non-executive directors. An annual African Chairman's Conference is held, with Sir John Peace in attendance, where the chairmen of our African subsidiaries meet. In 2014, it was held in June in Washington DC. The ASEAN boards met in Shanghai and the Greater China boards had their annual joint strategy sessions in Hong Kong.

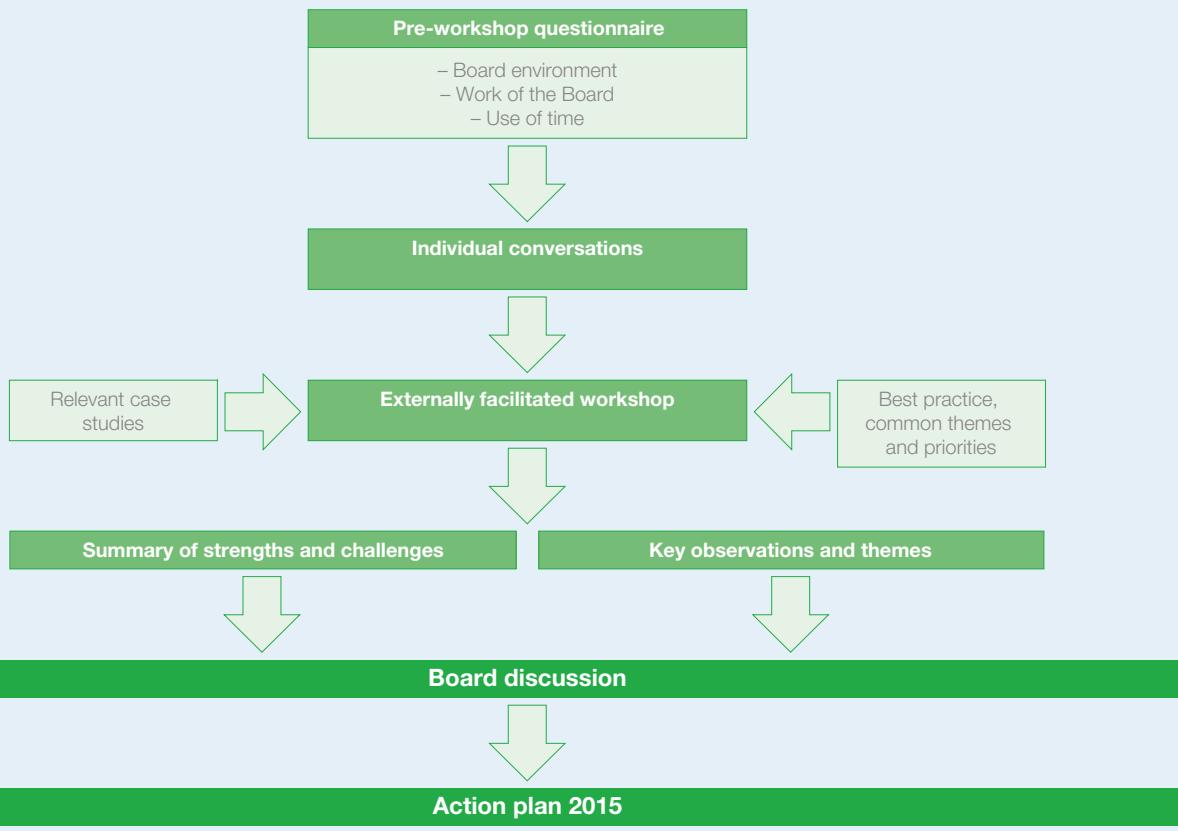
Before stepping down as Audit Committee Chair, Rudy Markham hosted an annual call with those independent non-executive directors who are members of banking subsidiary audit committees. Naguib Kheraj, as the new Audit Committee Chair, will continue to host similar annual calls. We have also set up an online forum for the subsidiary independent non-executive directors so that we can share Group information and key messages on a timely basis. We continually look at ways to improve our model for engaging the subsidiary independent non-executive directors, in order that they remain well-informed and well-equipped to make decisions that are aligned to the Group's interests.

Board effectiveness review

This year we held an externally facilitated workshop during the Board's strategy session in June, designed to discuss the Board's effectiveness. Following a full and transparent tender process, Boardroom Review Limited was selected to facilitate the discussion, which was conducted by Dr Tracy Long.

Boardroom Review do not provide any other services to the Group. Ahead of the workshop directors each completed a pre-workshop questionnaire. The workshop was preceded and informed by conversations between Dr Tracy Long and individual directors, which helped identify current strengths, future challenges, and provide valuable insights to enhance the Board's overall effectiveness.

Board effectiveness review process



Following the facilitated workshop session, two separate documents were prepared. One of these summarised the strengths and challenges for the Board and the other highlighted the key themes that arose during the workshop. All of these findings were discussed by the Board, following which an action plan was developed and agreed for the year ahead.

Directors' effectiveness

The process to assess individual directors' performance and effectiveness ahead of their proposal for re-election was completed by a one-on-one discussion with the Chairman. These discussions took place between October and December 2014 and, for each of the independent non-executive directors, included consideration of:

- Their time commitment, including (where relevant) the potential impact of any outside interests
- The current and future committee membership and structure
- The Board's composition, taking into account when each independent non-executive director envisaged stepping down from the Board

Chairman's effectiveness

The independent non-executive directors, led by the Senior Independent Director, met without the Chairman present to appraise his performance.

Summary of the key themes identified in the 2014 Board effectiveness review and 2015 action plan

2014		2013	
2014 theme/action identified	Action plan for 2015	2013 theme/action identified	Actions taken in 2014
Ensure the Board has sufficient space to focus on the key strategic and execution issues (including informal sessions)	We will continue to identify opportunities for the Board to debate key strategic issues during the course of the year (including some unstructured strategic thinking time)	Continued discussion and focus on Board composition and succession planning	The Chairman has continued to provide periodic updates to the Board on the Governance and Nomination Committee's discussions. He has also continued the practice of meeting with the independent non-executive directors informally to provide updates on evolving thinking on executive and independent non-executive succession During 2014, there have been a number of changes to the Board's composition, details of which can be found on page 137
Continued focus on the linkages between the Board and its committees	While recognising the good progress that has already been made, there is appetite for continued focus on clarifying the role of each committee and simplifying the linkages between the committees and the Board as a whole	Continued focus on the linkages between the Board and its committees	The terms of reference of all the Board committees were reviewed in 2014, with a particular focus on linkages between the Audit, Board Risk and the new Board Financial Crime Risk Committees. Further details on the outcome of this review can be found on pages 147 and 148 The membership of the committees was reviewed and a number of changes made to maintain sufficient overlap of members and ensure that appropriate skills, capabilities and fresh perspectives are maintained
Continued focus on executive succession planning	Identify further opportunities for Board members to engage with the pipeline of successors to senior management positions	Review the Board's strategic rolling agenda in light of the refreshed strategy and organisational changes	The Board's rolling agenda was further refreshed following the Board's strategy discussions in June 2014, and a number of new topics were included for debate in advance of the next strategy board in June 2015
Continued focus on sharpening the information provided to the Board, while balancing this with ensuring that directors receive the information necessary to fulfil their duties effectively	In addition to the existing one-page summary for Board papers, we are reviewing Board paper guidelines and maximising the use of our online Board portal to provide additional information to directors outside formal Board meetings	Continued focus on sharpening the information provided to the Board, while balancing this with the need to ensure that directors receive the information necessary to fulfil their duties effectively	The appointment of a new Group Finance Director in 2014 provided an opportunity for us to review the format and content of the Group Finance Director's regular report to the Board In addition to the regular risk information provided to the Board, the Group Chief Risk Officer now periodically attends Board meetings to provide updates on current and emerging risks, including macroeconomic and geo-political events
Ensure there is the right balance of input from external stakeholders into the Board's discussions	Obtain external input from a range of stakeholders into the Board's discussion, including regulators, customers, investors and employees		

Investor engagement

The Board understands the importance of regular, honest and open engagement with shareholders, not just ahead of the AGM, but throughout the year. The Board receives regular updates on the views of our key shareholders and stakeholders, and Board members openly seek the views of our shareholders, both directly and through the Group's Investor Relations function.

During 2014, the Group has focused on enhancing our engagement with both our shareholders and stakeholders, including investor voting bodies and credit rating agencies, explaining our performance and setting out our plan to refocus the Group and execute the refreshed strategy. In 2014, we have undertaken almost 850 investor meetings and have met with in excess of 400 separate institutions.

We have also spent time reflecting on the disappointing vote received on the directors' remuneration policy at the 2014 AGM. We have been listening to our shareholders. During the year we consulted with shareholders representing over half of our share register, supported by senior management, the Chairman and Chair of the Remuneration Committee, who played active roles in this process. The consultation was very useful and the constructive feedback has helped to shape a number of enhancements to the way in which the policy will be implemented in 2015.

Institutional shareholders programme

Investor Relations has primary responsibility for managing day-to-day communications with institutional investors. The function supports the Group Chairman, Group Chief Executive and Group Finance Director, other Board members and senior management in conducting a comprehensive shareholder programme spread over the year. An insight into the level of engagement undertaken during 2014 is set out below:

Formal presentation of full year and half year results to our institutional shareholders and analysts, followed by post-results investor roadshows in major investor centres across Europe, the US and Asia.

 See <http://investors.sc.com/en/financials.cfm> for further information

Interim management statement issued for the three months ending 31 March 2014 and nine months ending 30 September 2014, followed by a call with investors and analysts. We discontinued the issue of our pre-close statement in the second half of 2014.

 See <http://investors.sc.com/en/showresults.cfm?CategoryID=51>

Industry conferences attended by executive directors and senior regional and business management. Conference attendance provided an opportunity to meet a large number of investors in London, New York, Toronto, Amsterdam, the Nordic region, Hong Kong, Singapore, and Beijing.

 The presentations given at those conferences were made available on our website at <http://investors.sc.com/en/conference.cfm>

Significant engagement by the Chairman with shareholders and investor bodies, including roadshows in London and Edinburgh, to obtain shareholder feedback and consider corporate governance issues. In April 2014, the Chairman hosted a governance dinner in London attended by 18 key investors. The dinner was well received and has been a regular feature of our market communication in recent years, providing an avenue for debate on relevant AGM and topical governance issues, and, more broadly, deepening relationships with our top shareholders.

A three-day investor trip held in Hong Kong in November 2014, attended by shareholders representing around 50 per cent of the register, followed by an event for all London-based equity analysts. This was an opportunity to demonstrate how we are responding to the challenges the Group is facing, highlight the enormous opportunities that exist across our markets and demonstrate the actions being taken to execute the refreshed strategy. During the event, investors were able to interact with four Group executive directors and 25 members of senior management.

 The detailed slide packs from the event can be viewed at <http://investors.sc.com/en/trip.cfm>

Various investor lunches and meetings hosted by a combination of our Chairman, directors and other senior management, including the Group Treasurer, regional and business management.

Retail shareholders' programme

The Group Corporate Secretariat oversees communication with retail shareholders. The AGM, held on 8 May 2014, provided an opportunity for the Board to meet with our retail shareholders, to listen to their views and respond to their questions.

 The results of voting at general meetings can be viewed at <http://investors.sc.com/en/agm.cfm>

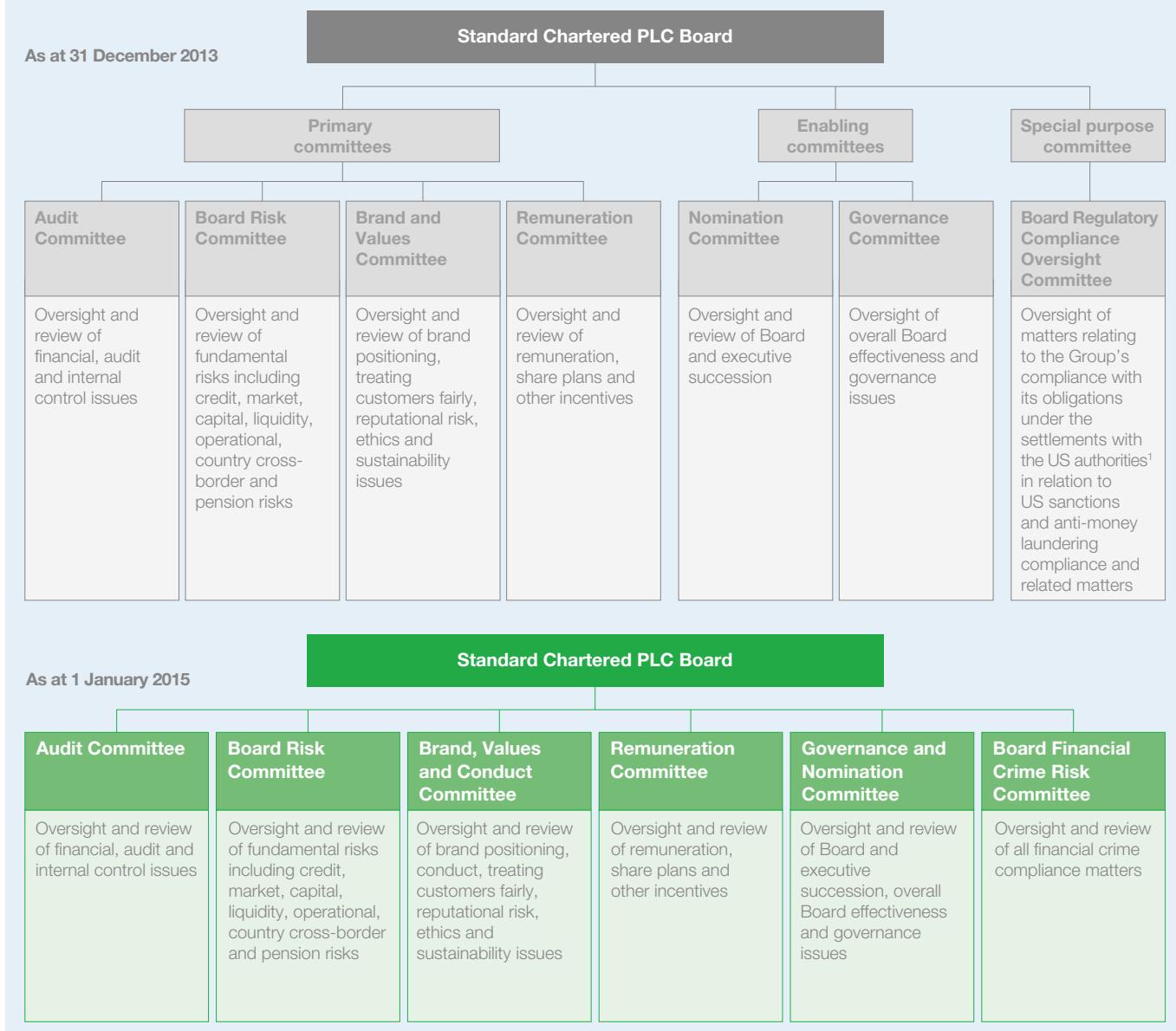
In addition, during the year, we hosted a meeting with the United Kingdom Shareholders' Association and we engaged with specialist fund managers focusing on UK retail investors.

Debt investor programme

Group Treasury manage the Group's relationships with debt investors and the three major rating agencies. Country chief executives and chief financial officers lead on management of subsidiary ratings. In 2014, we met with debt investors and rating agencies across Europe, the US and Asia. The Group is an active issuer of senior unsecured and non-equity capital so it is important to maintain regular dialogue with debt investors to ensure continued appetite for the Group's credit. The Group's credit ratings are important to the external perception of the Group's financial strength and creditworthiness.

 Further information can be found at: <http://investors.sc.com/en/group.cfm>

How the Group Board committee structure has changed



Board committees

We have implemented a number of changes to the Board committee structure as part of the Board's commitment to raise the bar on conduct and provide more effective oversight.

On 1 October 2014, the Brand and Values Committee was renamed the Brand, Values and Conduct Committee, to more accurately reflect the Committee's focus on different aspects of conduct and, in particular, to demonstrate its oversight role in the drive to significantly raise the bar in this area. In December 2014, the Nomination Committee and the Governance Committee were integrated to create a single Governance and Nomination Committee, which gives broader representation for governance-related matters.

On 1 January 2015, we established a new Board committee, the Board Financial Crime Risk Committee, which replaced the Board Regulatory Compliance Oversight Committee. The Board

Regulatory Compliance Oversight Committee was set up as a special purpose committee responsible for the oversight of matters relating to the Group's compliance with its obligations under the settlements with the US authorities¹. This included its responses to other requests, subpoenas and orders from any US Federal, State, or other relevant authority in respect of such settlements and/or the Group's historical and current compliance with US sanctions regulations. The Board Financial Crime Risk Committee will have a broader remit than the Board Regulatory Compliance Oversight Committee, providing an additional focus and oversight of all financial crime compliance matters. In addition, those aspects of the Board Risk Committee, the Audit Committee and the Brand, Values and Conduct Committee's

1. The US authorities comprise the New York Department of Financial Services (NYDFS), the Board of Governors of Federal Reserve System (FED), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Office of Foreign Assets Control (OFAC).

remit relating to financial crime have transferred to the Board Financial Crime Risk Committee. Unlike the Board Regulatory Compliance Oversight Committee, the Board Financial Crime Risk Committee is made up exclusively of independent members. Chaired by Simon Lowth, it has five independent non-executive directors, and an advisory group, consisting of at least three external experts who are neither directors nor employees of Standard Chartered but who have skills relevant to the Committee and whose input is regarded as valuable.

The Board's conscious decision to delegate a broader range of responsibilities and issues to Board committees means that it is critical we have effective linkages between the committees and the Board as a whole. This is particularly important given it is impractical for all independent non-executive directors to be members of all the committees. We have continued to explore various mechanisms to enhance these linkages and ensure that there are no gaps or unnecessary overlap or duplications between the remit of each committee. These include overlapping membership between Board committees and regular interaction between the committee Chairs. The Group also has a dedicated resource within Corporate Secretariat responsible for the effectiveness of each Board committee as well as taking a holistic approach to ensuring all the Board committees are fulfilling their oversight responsibilities.

In addition to there being common committee membership, the Board receives the minutes (or a written summary) of each of the committees' meetings (excluding the Governance and Nomination Committee). In addition to the minutes, the committee Chairs provide regular updates to the Board

throughout the course of the year. Given the continuing transition of the Board as we move through the multi-year Board succession plan, membership of all the committees has evolved during 2014, ensuring a balance between stability and fresh perspectives. The Chairs of the Audit and Board Risk Committees have also changed during the year.

The Board Risk Committee maintains Group-wide oversight of all risk types. Alongside this, each of the Board committees takes primary responsibility for relevant risk types. For instance, the Brand, Values and Conduct Committee has primary oversight of the approach by which reputational risk is managed. The Remuneration Committee oversees risk arising from remuneration. The Board Risk Committee has primary oversight of the way credit, capital, market, liquidity, operational, country cross-border and pension risk is managed, and the Audit Committee oversees the management of financial and internal controls. The roles of the Board's committees are described in more detail on pages 150 to 209.

As part of each director's tailored engagement programme, our independent non-executive directors are encouraged to attend meetings of committees of which they are not members, to gain greater insight into the work undertaken and the matters discussed. In addition, in 2014 an informal Audit and Board Risk Committee discussion was held to which all independent non-executive directors were invited. This session provided the opportunity for more in-depth discussion on structurally subordinated holding company lending, economics of large underwriting and single-name concentrations, as well as information and cyber security.

Board committee member linkages

	Board Financial Crime Risk Committee	Governance and Nomination Committee	Remuneration Committee	Brand, Values and Conduct Committee	Board Risk Committee
Audit Committee					
Board Risk Committee					
Brand, Values and Conduct Committee					
Remuneration Committee					
Governance and Nomination Committee					

As at 4 March 2015

Membership of the Board committees

As at 4 March 2015	Audit Committee	Board Risk Committee	Governance and Nomination Committee	Remuneration Committee	Brand, Values and Conduct Committee	Board Financial Crime Risk Committee ¹
Sir John Peace	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
P A Sands	<input type="checkbox"/>					
O P Bhatt		<input checked="" type="checkbox"/>				
Dr K M Campbell					<input checked="" type="checkbox"/>	
Dr L Cheung				<input checked="" type="checkbox"/>		
Dr B E Grote	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>	
A N Halford	<input type="checkbox"/>	<input type="checkbox"/>				
C M Hodgson	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
N Kheraj	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>
S J Lowth						<input checked="" type="checkbox"/>
R Markland	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Dr Han Seung-soo, KBE					<input checked="" type="checkbox"/>	
P D Skinner, CBE		<input checked="" type="checkbox"/>				
Dr L H Thunell	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>

1. The Committee also comprises three external experts

■ Chairman ■ Member □ Permanent invitee

Committee effectiveness

The effectiveness of the Board committees is reviewed annually, facilitated by Group Corporate Secretariat. In keeping with the ‘free style’ approach, which worked well in 2013, members and permanent attendees of the Audit, Board Risk, Remuneration, and Brand, Values and Conduct Committees were invited to provide their ‘top of mind’ thoughts on their committees’

effectiveness. In addition, for the Audit, Board Risk, and Brand, Values and Conduct Committees, respondents were requested to provide responses to two or three specific questions. The feedback was then formally discussed by each of the committees and an action plan was formulated to address the observations. A summary of the findings can be found at the end of each of the committee sections.



"The Audit Committee has continued to evolve as it discharges its broad mandate on behalf of the Board in matters to do with controls and financial reporting"

Naguib Kheraj
Chair of the Audit Committee

Dear Shareholder

This is my first report as Chair of the Audit Committee, having taken over from Rudy Markham on 1 May 2014.

The Committee's composition continued to evolve in 2014. Margaret Ewing, Rudy Markham, Jamie Dundas and John Paynter all stepped down from the Committee. I would like to thank them all for their valuable contribution. Lars Thunell, Christine Hodgson and Byron Grote all joined the Committee in 2014. Lars has a highly developed understanding of banking and risk management in a financial services context. Christine brings strong business leadership, accountancy, finance and technology experience to the Committee. Byron has broad commercial, financial and international experience. Ruth Markland continues as a member of the Committee and brings a deep understanding of the legal and regulatory environment. Further details of the Committee members' experience can be found on pages 128 to 131.

As in previous years, we have maintained our discursive style in reporting, with the intention of continuing to enhance engagement with stakeholders. In addition to the disclosure requirements relating to Audit Committees under the UK Corporate Governance Code 2012, the report sets out the areas of significant and particular focus for the Committee over the course of the year. Such areas have included the judgements and the significant issues concerning financial reporting, issues arising in the Group's control environment and the most significant internal investigations that the Group has conducted in 2014. The report also sets out how the Committee reached a position whereby it was satisfied that the disclosures made in the Annual Report and Accounts meet the test of the 'fair, balanced and understandable' statement made by the Board, and how the Committee has satisfied itself as to the quality of the audit conducted by the Group's statutory auditors and by its Group Internal Audit function.

I can confirm that the information the Committee has received has been balanced, appropriate and timely, and has enabled the Committee to fulfil its remit.

A handwritten signature in black ink, appearing to read "Naguib Kheraj".

Naguib Kheraj
Chair of the Audit Committee

Who sits on the Audit Committee

	Scheduled meetings: 7
N Kheraj (appointed on 1 January 2014 and Chair on 1 May 2014)	7/7
C M Hodgson (appointed on 1 May 2014)	4/4
Dr B E Grote (appointed on 1 July 2014)	3/3
R Markland	7/7
Dr L H Thunell (appointed on 1 April 2014)	4/4
Directors who stepped down during 2014/2015	
M Ewing (stepped down on 31 January 2014)	0/0
R H P Markham (stepped down as member and Chair on 1 May 2014)	3/3
J F T Dundas (stepped down on 1 May 2014)	1/3 ¹
J G H Paynter (stepped down on 31 December 2014)	5/7 ²

Other attendees at Committee meetings include:

Group Chairman; Group Chief Executive; Group Finance Director; Group Chief Risk Officer; Group Head of Internal Audit; Director, Compliance, People and Communication; Group General Counsel; Group Head Legal and Compliance; Group Company Secretary; Group statutory auditors.

As part of, and in addition to, each scheduled Committee meeting, the Committee has private members-only meetings.

 **The Committee has written terms of reference that can be viewed at sc.com. They include all of the material points recommended under the UK Corporate Governance Code**

1. Jamie Dundas was unable to attend the meetings on 6 February 2014 and 25 February 2014 due to ill health
2. John Paynter was unable to attend the meetings on 29 April 2014 and 16 October 2014 due to prior business engagements

Note: There were no ad hoc Committee meetings in 2014

The Committee's composition and role

The Committee members have detailed and relevant experience. The Board is satisfied that Christine Hodgson has recent relevant financial experience and that all the other Committee members have broad experience and knowledge of financial reporting and international businesses. Details of their experience can be found in their biographies on pages 128 to 131. All of the Committee's members are independent.

The overlapping membership between the Audit Committee and the Board Risk; Remuneration; Brand, Values and Conduct; and Board Financial Crime Risk Committees is one of the mechanisms for ensuring that the linkage between the Audit Committee and the other Board committees avoids gaps or unnecessary duplications between the remit of each committee.

The Committee's role is to review, on behalf of the Board, the Group's internal financial controls, to identify, assess, manage and monitor financial risks. It is also responsible for the oversight, and advice to the Board on matters relating to financial reporting. In discharging its responsibilities, the Committee acknowledges and embraces its role of protecting the interests of shareholders.

Given the Committee's role on behalf of the Board for oversight of internal controls, in 2014, the Committee assumed oversight of the Financial Crime Risk Mitigation Programme (FCRMP) from the Board Regulatory Compliance Oversight Committee, a comprehensive, multi-year, programme designed to review many aspects of the Group's existing approach to anti-money laundering and sanctions compliance and to enhance them as appropriate to meet this objective. A key component of the FCRMP is the response to the 2012 settlements with the US authorities¹ regarding historical sanctions compliance. This component is referred to as the US Supervisory Remediation Program (SRP). The SRP comprises work streams designed to ensure compliance with the remediation requirements contained in all of the settlement agreements. Over the course of 2014, the FCRMP has developed three-year objectives which have been discussed by the Committee, together with detailed plans to achieve those objectives designed to help the Group to meet its aspiration to lead the way in combating financial crime,

while providing quality of service to the Group's clients. Going forward, oversight of the FCRMP will be provided by the newly established Board Financial Crime Risk Committee, details of which can be found on page 169.

Financial reporting

The primary role of the Committee in relation to financial reporting is to monitor the integrity of the Group's financial statements and any formal announcements relating to the Group's financial performance, reviewing any significant financial reporting judgements contained in them.

Group Finance issues detailed instructions and guidance on reporting requirements to all reporting entities within the Group in advance of each reporting period end. These are followed up by an extensive dialogue between Group Finance and the reporting units on any new requirements, clarifying understanding and ensuring consistency in reporting. Much of the processing and related control activities are carried out in the Group's three main processing hubs and this helps drive efficiencies and consistency in the control environment. The interaction between country reporting teams and the centralised hubs is subject to a rigorous process of evaluation. Where specialist skills or judgement are required, such as credit impairment, financial instrument valuation, goodwill assessment, evaluation of significant legal cases and pension-related calculations, centralised teams manage the activity and work with the relevant country teams. The submission of financial information from each reporting entity to Group Finance is subject to certification by the responsible in-country financial officer, and analytical review procedures are carried out both in-country and at the Group level.

The Committee received reports from Group Finance on changes in accounting standards and disclosure requirements and on significant accounting issues at each reporting period. At the Committee's request it received a report on the key areas of the Group's income recognition, which are subject to management estimates and judgement, and related mitigating controls in order to look specifically at the appropriateness of income recognition practices. The Committee was satisfied that the Group's policies and practices are appropriate.

The Committee also received detailed reports from specialist functions such as Group Risk, Group Legal and Group Tax. The Committee also receive reports and updates from the

1. The US authorities comprise the New York Department of Financial Services (NYDFS), the Board of Governors of the Federal Reserve System (FED), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Office of Foreign Assets Control (OFAC)

Group's statutory auditor KPMG Audit Plc (KPMG). This year, KPMG has focused particularly on credit, goodwill and valuation. The Committee is therefore made aware of all materially relevant issues that have concerned management during the year.

For the 2014 Annual Report and Accounts, the Committee paid particular attention to the following issues:

- Impairment of loans and advances
- Goodwill impairment testing
- Valuation of financial instruments

Impairment of loans and advances

The net charge to the profit and loss account in respect of impairment losses on loans and advances and other credit risk provisions for the year ended 31 December 2014 is \$2,141 million. Through the year, the Committee requested and received information on specific names and industries based on its assessment of the external environment, developments in footprint markets and areas identified in discussions with the Board Risk Committee. There is some common membership across the Audit Committee and the Board Risk Committee and this ensures that, in addition to an assessment of current adequacy of provisions, the Committee is also afforded a forward-looking view on potential risks and their impact. The Committee also receives reports from management at each reporting period, detailing, *inter alia*, the composition of the loan book, provisioning levels and cover ratio by client segment, and the judgement exercised around the individual and portfolio impairment provisions. In 2014, this covered the following key areas:

In Corporate & Institutional Clients and Commercial Clients, major individual provisions were assessed for adequacy through a review of the assumptions underpinning possible recovery options and related cash flows. For certain significant exposures in the performing book, particularly those graded credit grade 12 and managed by Group Special Assets Management, the Committee was briefed on business plans, management assessment of the potential cash flows and collateral available. Trends in 'early alert accounts' (see pages 62 and 63) were shared and the concentration of exposures in certain sectors such as Commodities and geographies such as China and India were analysed in further detail.

In Retail Clients, where provisions are assessed more on a collective basis (other than for Mortgages), an analysis by products and geographies was provided with related delinquency trends. In respect of Korea, the charge driven by the Personal Debt Restructuring Scheme (PDRS) was analysed in respect of the unsecured book with an understanding of the characteristics of products offered, the industry experience and management response on mitigating actions through more stringent underwriting standards. The Committee also continued to gain comfort from the fact that the Retail loan book is predominantly secured and the loan-to-value ratio on the mortgage book remains low at 49.3 per cent.

The Committee has discussed impairment with management and the auditors and considers the provisions held within each of the client segments to be appropriate.

Goodwill impairment testing

The total goodwill carried on the balance sheet as at 31 December 2014 is \$4,224 million and, based on the review of forecasts and assumptions by senior management, the Committee considers that, other than as noted below, the

headroom available is sufficient to support the carrying value. This view is also supported by the independent perspective of KPMG. The Group undertakes its annual assessment of goodwill impairment as at 30 September each year and the Committee receives a detailed paper outlining the forecasts used for determining cash flows, the basis of the assumptions used (including any change from previous years), headroom availability and sensitivities of the forecasts to reasonably possible changes in assumptions. Additionally, for each interim and year-end reporting date, an update is also provided to the Committee, in particular for cash generating units (CGU) where the goodwill held is either material or more prone to pressure in a stress scenario. During the past few years and in 2014, the Committee focused in particular on the goodwill associated with the Korean business, given the challenging market environment as reflected in the reduction in forecasts used to determine future cash flows as well as the enhanced sensitivity of these numbers to changes in the discount rate. As at 31 December 2014, management identified a shortfall between the value in use and the net assets of the Korea CGU and proposed an impairment of \$726 million in respect of the goodwill associated with it. This impairment would fully write-off all goodwill allocated to the Korea CGU.

A small impairment charge of \$32 million was also proposed in respect of the goodwill ascribed to the corporate finance CGU following the announcement to close the Group's cash equities business. The Committee reviewed the forecasts and the assumptions used to derive them and agreed that the proposed impairment charges were reasonable.

The Committee considered management's proposed impairment against the carrying value of one of the Group's associate investments, including the assumptions behind it. Further details can be found in note 11, on page 252, and note 23, on pages 280 to 282.

Valuation of financial instruments

The judgements in relation to the valuation of financial instruments are more subjective in respect of Level 3 assets, where the value is based on models that use a significant degree of non-market-based inputs. For the Group, the quantum of such assets is very low; of the \$200 billion financial assets held at fair value as at December 2014, only \$3.7 billion, or 1.9 per cent, was Level 3.

The Committee receives reports at each reporting period, detailing the valuation process (which is undertaken by a unit independent of the business), the amounts reserved to cater for model and projection risks, which cover both Level 2 and Level 3 assets, and the significant valuation judgements in respect of Level 3 instruments.

The Committee discussed the proposed disclosure within this year's Annual Report and Accounts arising from:

- Amendments to International Financial Reporting Standards
- Alignment to best practice through the application of the British Banker's Association (BBA) Code for Financial Reporting Disclosure
- Bilateral discussions between the UK Prudential Regulation Authority (PRA) and the BBA, which inform best practice included in the BBA code noted above
- Enhancement of our existing disclosures in relation to the recommendations of the Enhanced Disclosure Task Force of the Financial Stability Board

The Committee scrutinised and discussed the proposed changes to the Group's Pillar 3 Disclosure arising from:

- The updated disclosure requirements required by the Capital Requirements Directive with effect from 1 January 2014
- Consideration of future disclosures in the light of the Basel Committee on 'Banking Supervision Consultative Document Review of the Pillar 3 disclosure requirements' published in June 2014

Fair, balanced and understandable

The Committee has reviewed and monitored the appropriateness and completeness of the published financial statements of the Group and any formal announcements relating to the Group's financial performance, including significant reporting judgements and estimates made by the Group. On behalf of the Board, the Committee has considered, and has satisfied itself, that the processes and procedures in place ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The statement is underpinned by the Committee's, and the Board's, belief that the Annual Report and Accounts does not exhibit any bias, 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 Financial statements.

In making its assessment, the Committee applies its accumulated knowledge and experience from Board meetings, engagement with management throughout the year and from access to management performance and information.

-  Key judgements and the significant issues reported are consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements on page 232
-  When it has been necessary to use specialist terms, these have been defined for clarity and consistency in the Glossary on pages 330 to 333

Oversight of internal controls

The Committee has considered reports in respect of the control environment in the Group's businesses.

The Committee discussed control environment issues, their root causes and management's responses and remediation activities. At each scheduled Committee meeting, Group Internal Audit provides the Committee with its view of the system of internal controls across all risk types, business and country functions. In addition, the Committee is provided with an audit issues map which highlights the most significant matters being monitored by Group Internal Audit and warrant the Committee's attention.

Group Internal Audit's reporting to the Committee has continued to evolve. During the course of 2014, Group Internal Audit has reported to the Committee on each of the themes incorporated into the 2014 audit plan. As in 2013, Group Internal Audit has provided a point-in-time assessment against each of these themes.

In addition to reporting to the Audit Committee, Group Internal Audit also provides the Board Risk Committee with a summary of Group Internal Audit's appraisal of controls across key risks subject to the Committee's oversight.

Interaction with regulators

The Committee met with one of the Group's UK lead regulators, the PRA, to discuss a number of topics, including the Committee's views on the risks associated with the strategic reorganisation (further details can be found on pages 158 and 159); resourcing both within Group Internal Audit and more broadly within the Group for regulatory work, asset quality and financial crime. In addition, as Committee Chair, Naguib Kheraj held discussions with the Dubai Financial Services Authority; the Deputy Chief Executive, Hong Kong Monetary Authority; the US Monitor¹ and Senior Deputy Governor of the Korean Financial Supervisory Service.

Speaking Up Policy

The Group's Speaking Up Policy allows our employees to raise, in confidence, any concerns that they may have about possible improprieties in matters of financial reporting or other areas. A global Speaking Up awareness campaign was successfully rolled out in 2014. The information provided to the Committee on matters reported allows the Committee to consider whether there are any trends across the Group's markets in terms of the type and nature of Speaking Up incidences together with the resolution and consequences.

Significant investigations and material disputes

As part of routine reporting to the Committee, the Committee has received an overview of the internal investigations referred to the Compliance Investigations team in 2014 and summaries of the most significant internal investigations underway. Going forward, those internal investigations that relate to financial crime will be reported to the Board Financial Crime Risk Committee.

The Committee has also received summary overviews of material disputes and significant cross-border orders facing the Group and the action taken to manage them and mitigate risk arising from them.

Group Internal Audit and Group Compliance

The Committee has reviewed the resourcing and proposed work plans for both the Group Internal Audit and Group Compliance functions, and is satisfied that both are appropriate in light of the proposed areas of focus and the expertise and skill that are required within both functions, given the current regulatory environment. The Committee is also comfortable with the independence of the Group Internal Audit function.

In addition to considering the resourcing requirements of the Group Internal Audit function, the Committee met with the function's senior leaders. In addition, over the course of the year, both the former Committee Chair, Rudy Markham, and the current Committee Chair, Naguib Kheraj, had regular meetings with the Group Head of Internal Audit.

The Committee monitored and assessed the role and effectiveness of the Group Internal Audit function. This included monitoring actions from an external benchmarking review performed in 2013 (and reported in 2014) and a review of internal Quality Assurance information. The Committee reviewed

1. Pursuant to the 21 September 2012 Consent Order agreed to by the New York Department of Financial Services (the NYDFS) and Standard Chartered Bank (SCB), a compliance monitor was appointed to conduct a comprehensive review of the Bank Secrecy Act/Anti-Money Laundering and Office of Foreign Assets Control compliance programs, policies and procedures at SCB's New York branch. Pursuant to the 19 August 2014 Consent Order agreed to by the NYDFS and SCB, the compliance monitor's term has been extended for two additional years, through January 2017

and approved Group Internal Audit's Charter, reviewed and monitored progress against its annual audit plan, and reviewed its monitoring of post audit actions.

Following the 2014 strategic reorganisation, Group Internal Audit balanced effective alignment to the new business structures with a position that allowed it to observe the changes as they unfolded. Group Internal Audit retained a client segment focus which enables end-to-end auditing of business processes and provides flexibility in stakeholder engagement. The function's change governance audit team reviewed the overall strategic reorganisation project plans, risk logs and action trackers to ensure that appropriate project standards were in place. In addition, more detailed reviews of the objectives and achievements of a sample of the 16 work streams established were reviewed. Further details concerning the Group's strategic reorganisation can be found on pages 158 and 159.

Group Compliance reports to the Committee on significant legal, compliance and regulatory risks facing the Group, and key actions being taken to address or mitigate them. Reports also include thematic observations and compliance monitoring.

Group statutory auditor

On a regular basis and outside of Committee meetings, the Committee meets with the Group's statutory auditor KPMG, the Group Finance Director, Group Head of Internal Audit, and Group Head of Legal and Compliance. These meetings allow Committee members to discuss freely matters relating to the auditor's remit and issues arising from the audit.

The Committee has exercised oversight of the work undertaken by KPMG throughout the year. As Committee Chair, Naguib met with local audit partners in Dubai, Hong Kong, Korea, Malaysia, New York and, together with Christine Hodgson, the local audit partner in Singapore. Such meetings enable the Committee members to gain greater insight as to the challenges faced in the Group's markets from a statutory audit perspective.

The Committee has discussed with KPMG the business and financial risks and has sought assurance that these risks have been properly addressed in the audit strategy and plan, which have been reviewed by the Committee. The Committee is satisfied that KPMG has allocated sufficient resource to address these risks. The Committee has sought and received assurance that no undue pressure has been asserted on the level of audit fees so as to ensure that there is no risk to audit work being conducted effectively and independently.

The current lead audit partner will rotate off the account at our 2015 annual general meeting (AGM) on 6 May 2015, having served the mandatory five years. Like her predecessor, the new lead audit partner also has a background of auditing banks and understands the markets in which the Group operates. Through the 2014 year-end process, the Committee has worked closely with the new lead audit partner in preparation for her transition into the role.

KPMG has been the Group's statutory auditor for over 25 years and has regularly rotated its lead partner in accordance with the Financial Reporting Council recommendations.

In 2013, the Committee conducted a tender for audit services, the details of which were reported in the 2013 Annual Report and Accounts. After a robust and thorough tender process and careful evaluation of what the participating firms had to offer, the Board concluded, on the recommendation of the Committee, that KPMG was the best firm to serve the Group.

As a result of the tender process and in line with increased expectations on audit committees to demonstrate effective governance, a review of the Group's existing approach to the annual performance and effectiveness assessment was performed to benchmark it against best practice. Based on information available from the large audit firms, it was felt that the existing survey could be enhanced in terms of the scope and the range and categories of questions, increased scoring of responses as well as being sent to a wider audience, including members of both the Audit Committee and subsidiary audit committee chairs. The results of the survey were discussed by the Committee. Overall, it was felt that KPMG continues to provide a good quality audit opinion as well as provide valued feedback on issues across a range of subjects, including regulatory reporting, interpretation of local accounting standards, operational and financial controls and developments in the local market. As in previous years there are a number of areas in which KPMG could improve. However, these were not considered to be material and the Committee recommended to the Board that KPMG LLP be appointed as the Group's statutory auditor at the 2015 AGM.

The Committee also considered the findings of the review undertaken by the Financial Reporting Council's Audit Quality Review team (AQR) of KPMG's 2013 audit of the Group. The AQR review was part of a thematic review across UK banks that focused on credit provisioning and related controls. The AQR's review found that limited improvements were required by KPMG. The Committee discussed the action to be taken by KPMG in response to the findings so as to satisfy itself that the issues identified would be addressed.

Non-audit services

In 2014, the Group spent \$4.1 million on non-audit services provided by KPMG and \$67.6 million on non-audit services with other audit firms.

Further details on non-audit services provided by KPMG can be found in note 8 on page 251

During the year, the Committee reviewed and approved a revised Group policy on the award of non-audit services to auditors (the 'Policy'). The Group's previous Policy was in alignment with the UK Corporate Governance Code in that it stated that the Group's statutory auditors were not the automatic choice for non-audit services and consideration should always be given to the use of other firms. If the Group's statutory auditor was appointed to provide non-audit services, the primary responsibility was to ensure that the independence and objectivity of the audit firm was not (or could not be perceived to be) compromised by the appointment.

It was felt that the Policy could be further strengthened to be more explicit by stating that the auditors should only be used when there is evidence that there is no alternative in terms of quality and cost, whether knowledge and experience of the Group is required to deliver an efficient and effective solution or where they are required to be used by regulatory requirements. Such an amendment to the Policy is also more in step with changing regulatory requirements around the provision of non-audit services by statutory auditors, particularly in view of expected EU audit reforms. The Policy clearly sets out the criteria for when the Committee's prior written approval is required. Further information on the Group's approach to non-audit services can be found on pages 217 and 218.

Note 8 on page 251 describes the types of non-audit services provided by KPMG

Linkages between the Committee and subsidiary Board audit committees

While being mindful of the need not to adversely impact the independence of the Group's subsidiary audit committees, there are documented principles in place that define the linkages between the Audit Committee and the audit committees of subsidiary companies and the role of the subsidiary audit committees. In addition, in 2014 the Group Head of Internal Audit attended subsidiary audit committee meetings. Another way in which the Committee strives to ensure appropriate linkages between the Committee and the Group's subsidiary board audit committees is by holding an annual call hosted by the Committee Chair with the chairs of the subsidiary audit committees. This call provides the opportunity to share, among other things, the Committee's priorities for the year ahead and to discuss ways in which the linkages between the subsidiaries and the Committee can be further strengthened and enhanced without compromising independence.

Overview of governance issues in the Group's footprint

On an annual basis, the Committee receives separate reports from the Group Executive Director and Chief Executive Officer, Asia, and the Group Executive Director and Chief Executive Officer, Europe, Middle East, Africa and Americas.

In 2014, these reports provided the Committee with updates on the role and structure of the geographic governance model in

light of the strategic reorganisation, key internal control issues, and the actions planned and taken to meet the governance challenges in the relevant region.

Ongoing training and development

In conjunction with the Board Risk Committee, a half-day informal session to which all directors were invited was held. The session sought to develop a better understanding of the issues in relation to structurally subordinated holding company lending, economics of large underwriting and single-name concentrations. In addition (and also in conjunction with the Board Risk Committee), an informal discussion session was held on information and cyber security.

Observations and actions taken following the 2013 and 2014 Committee effectiveness reviews

An internally facilitated effectiveness review was conducted in 2014. This was in keeping with the approach adopted by the other Board committees. This review, facilitated by Group Corporate Secretariat, involved each Committee member providing their thoughts on the Committee's effectiveness in addition to providing responses to some specific questions. The feedback was then formally discussed by the Committee. While the Committee members believed that the Committee had been performing well and was effective, there were suggestions for Committee enhancement, as set out in the following table.

Summary of the key themes identified in the 2014 Committee effectiveness review and actions taken/to be taken

2014

2013

Theme/action identified	Action plan for 2015	Theme/action identified	Actions taken
Consideration will be given to ways in which the papers provided to the Committee can be improved to better support high-quality discussions on the issues	Information provided to the Committee will be distinguished more rigorously between information the Committee must have in order to fulfil its duties and other optional information for those Committee members with an appetite to delve more deeply into a particular topic	There is possible scope to explore further opportunities for greater interaction with senior management business teams outside of formal meetings	As part of the ongoing non-executive director training, throughout the year Committee members have met with senior management teams outside of formal meetings
There is room for improvements to be made to the pre-read material to ensure that Committee members have a clear understanding of the key issues prior to discussion at the meeting	A summary sheet will be provided by paper authors for each paper highlighting the key issues for focus by the Committee	When agenda-setting, greater consideration will be given and space will be made to enable the Committee to reflect on issues being brought to its attention and consider 'bigger picture' issues, allowing greater focus on root causes	Consideration will continue to be given to the need to maintain enough time on Committee agendas for broad perspective discussions
It is important to distinguish between those topics that are for the Committee's information/education and those where the Committee needs to actively debate	Business unit heads or function heads will be invited to attend Committee meetings to enable more detailed discussion on issues and the steps being taken to address these	Opportunities for further refinement of agendas have been identified. Further enhancements will continue to be made to the quality and the content of the paper so as to continue to ensure that Committee members have a clear understanding of the key issues prior to discussion at Committee meetings	
In order to improve its effectiveness, there should perhaps be fewer items for debate, with more time allocated to each issue	Consideration will be given to factoring in more meetings with the local Group statutory auditors as part of the programme for overseas board meetings		
Consideration will be given to inviting more business unit heads or subject matter experts to meetings, to enable a more focused discussion on steps being taken to deal with issues identified	Local Group statutory auditors from the Group's markets will be invited to attend Committee meetings over the course of 2015		
It would be useful for the Committee as a whole to meet with the local Group statutory auditors when attending overseas board meetings			



"In 2014, the Board Risk Committee has been proactive in ensuring that the risks facing the Group are well understood and that steps are being taken to mitigate these"

Dr Lars Thunell
Chair of the Board Risk Committee

Dear Shareholder

I became Chair on 1 April 2014, having joined the Committee on 1 February 2013. I would like to thank the previous Committee Chair, Jamie Dundas, for his valuable contribution to the Committee since its creation in March 2010.

The overarching objective of the Committee's work is to maintain assurance that the Group continues to operate within the Board-approved strategy and Risk Tolerance Statement, and that the Group's risk management systems and controls are properly structured and implemented. In 2014, together with the Group Chief Risk Officer, as Committee Chair I jointly sponsored an exercise to review the Group's risk management and risk management frameworks. Further details can be found on pages 105 to 107 of the Risk and Capital review.

Given the continuing challenging macroeconomic conditions and the pace and complexity of changing regulatory requirements, the Board Risk Committee has been proactive in ensuring that the risks facing the Group are well understood and that steps are being taken to mitigate these.

For example, as a result of the slower economic growth in the Chinese and Indian economies and the subsequent reduction in demand for commodities, the Committee has received reports on how the Group is actively managing its commodity credit exposure. Further details can be found on pages 62 and 63 of the Risk and Capital review.

In discharging its responsibilities, the Committee has recognised the challenges facing the Group. We have considered and discussed the findings from internal reviews of the Group's largest exposures and the actions taken to address these.

In addition to the regular stress testing and overall compliance with risk appetite, a particular area of focus for the Committee during the year has been the results of a new stress test of the banking system. This focused on the eight largest UK financial institutions and was introduced by the Financial Policy Committee of the Bank of England (BoE). Further details can be found on page 116 of the Risk and Capital review. At the Committee's request, internal reviews were undertaken by Group Internal Audit concerning two of the Group's large

exposures. The Committee discussed the findings of these reviews and the actions taken.

As part of the multi-year Board succession plan, the Committee's composition continued to evolve during 2014. In addition to Jamie Dundas stepping down, Rudy Markham also stepped down from the Board and the Committee in 2014 and Simon Lowth and Ruth Markland stepped down from the Committee as a result of joining the newly established Board Financial Crime Risk Committee (further details of this new Committee can be found on page 169). Oliver Stocken also stepped down from the Committee on 28 February 2015.

I would like to take this opportunity to thank Rudy, Simon, Ruth and Oliver for their valuable contribution to the Committee. Naguib Kheraj joined the Committee on 1 January 2014. Naguib's membership has brought extensive international banking, finance and business leadership experience to the Committee.

I can confirm that the information that the Committee has received has been balanced, appropriate and timely, and has enabled the Committee to fulfil its remit.

A handwritten signature in black ink, appearing to read "Lars Thunell".

Dr Lars Thunell
Chair of the Board Risk Committee

Who sits on the Board Risk Committee

	Scheduled meetings: 6	Ad hoc meetings: 2
Dr L H Thunell (appointed Chair on 1 April 2014)	6/6	2/2
O P Bhatt	5/6 ¹	2/2
N Kheraj (appointed on 1 January 2014)	6/6	2/2
P D Skinner, CBE	6/6	2/2

Directors who stepped down during 2014/15

J F T Dundas (stepped down as Chair on 1 April 2014 and from the Committee on 1 May 2014)	0/1 ²	0/1 ²
R H P Markham (stepped down on 1 May 2014)	1/1	1/1
S J Lowth (stepped down on 1 January 2015)	4/6 ³	1/2 ³
R Markland (stepped down on 1 January 2015)	6/6	2/2
O H J Stocken, CBE (stepped down on 28 February 2015)	6/6	1/2 ⁴

Other attendees at Committee meetings include:

Group Chairman; Group Chief Executive; Group Finance Director; Group Chief Risk Officer; Group Head of Internal Audit; Group Company Secretary; Group Treasurer; and Group statutory auditors.

As part of, and in addition to, each scheduled Committee meeting, the Committee has private members-only meetings.

1. Om Bhatt was unable to attend the scheduled meeting on 14 May 2014 due to prior business engagements
2. Jamie Dundas was unable to attend the ad hoc meeting on 24 February 2014 and the scheduled meeting on 2 April 2014 due to ill health
3. Simon Lowth was unable to attend the ad hoc meeting on 9 July 2014 and the scheduled meetings on 28 July and 4 December 2014 due to prior business engagements
4. Oliver Stocken was unable to attend the ad hoc meeting on 9 July 2014 due to prior business engagements

The Committee's composition and role

The Committee's composition reflects the Group's belief that it is essential that the Committee benefit from a deep and broad experience of banking and of the risk factors affecting it, but also from the experience from other industries and professions.

Further details of the Committee members' experience can be found on pages 128 to 131.

To guard against gaps or unnecessary duplication between the Board committees, there is overlapping membership between the Board Risk Committee and the Audit, Remuneration, Brand, Values and Conduct, and Board Financial Crime Risk Committees.

The Committee's role is to exercise oversight on behalf of the Board of Group enterprise-wide risk, and to provide assurance to the Board that the overall framework for complying with the Risk Management Principles and Risk Tolerance Statement is operating effectively. In the few instances where it does not have primary oversight for a given type of risk, the Committee interacts closely with the other Board committees where the remits of those other committees clearly cover risk-related issues. For example, the Audit Committee has oversight of the Group's internal financial controls, the Remuneration Committee has oversight of the risks relating to remuneration, the Brand, Values and Conduct Committee has oversight of the mechanisms by which reputational risk is managed, and the newly established Board Financial Crime Risk Committee has oversight responsibilities in relation to financial crime compliance matters. This interaction helps the Committee to ensure that it is well-informed as to the 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.

In carrying out its responsibilities, the Committee is closely supported by the Group Chief Risk Officer, Group Finance Director, Group Head of Internal Audit and Group Treasurer, together with other business functions on risks within their respective areas of responsibility.

Risk information provided to the Committee

The Committee tracks a wide range of risk metrics through a risk information report. This report provides an overview of the Group's overall risk profile against the Group's Risk Tolerance Statement, and provides a breakdown of risk exposures for each of the major risk types, including credit risk by client segment, market, liquidity, capital risk, cross-border, reputational and pension risk. The Committee also receives reports on portfolio trends, policies and standards and stress testing. The Committee is authorised to investigate or seek any information relating to any activity within its terms of reference.

A report from the Group Chief Risk Officer is presented at every scheduled meeting. These reports cover the macroeconomic environment, geo-political outlook and ongoing risks (such as the ongoing growth challenges in the eurozone, the escalation of sanctions against and from Russia, and slower growth in India's and China's economy). In addition to these regular reports, at every scheduled meeting, the Committee also receives a report from the Group Treasurer, which covers market developments, liquidity, capital, recovery and resolution planning, rating agency and international regulatory updates.

Such information enables the Committee to discuss with management the major risks faced by the Group across the Group's business and geographies.

The Committee has had deeper discussions in 2014 on the following topics:

- Market and traded credit risk
- Retail credit risk
- Corporate & Institutional Clients credit risk
- Long-term balance sheet trends
- Cyber crime security and data leakage
- Unsatisfactory operational risk events

As part of the overseas Board meeting held in Malaysia in April 2014, the Committee held a meeting at which, in addition to the regular updates, a focused discussion was held with local management concerning the challenges, opportunities, risks and mitigants, and the proactive steps taken in relation to risk management in Malaysia.

Given the increased levels of early alerts¹ and impairments, the Committee has focused on reviewing the Group's larger exposures and those exposures relating to industry segments that are cyclical.

The Committee focused on the following at its meetings in 2014:

Risk tolerance

Every year the Committee pays careful attention to the formulation of the Group's Risk Tolerance Statement, in order to assure itself that it is effective in setting appropriate boundaries in respect of all main risk types. The Group's Risk Tolerance Statement defines the maximum level of risk the Group is ordinarily willing to take in pursuit of its strategy, in accordance with its Risk Principles. Risk tolerance constrains risk to the levels where the potential for any financial or reputational damage is consistent with the sustained pursuit of strategy and in line with the reasonable expectations of stakeholders. On behalf of the Board, the Committee reviews a range of focused risk tolerance assessments and stress tests which consider alignment with the Group's Risk Tolerance Statement.

Previously, the Group's Risk Tolerance Statement was referred to as the Group Risk Appetite Statement. During the year, the Committee Chair and the Group Chief Risk Officer jointly sponsored an exercise to review the Group's risk management and risk appetite frameworks. In conducting this exercise, the expertise of external consultants (Oliver Wyman) was drawn upon. The Committee reviewed and discussed the risk management principles, which are part of the risk management framework, and specifically supported the proposal to the Board that these incorporate more explicit statements on conduct of business. In addition, the Committee discussed and recommended to the Board:

- An updated Risk Appetite Statement, which was renamed the Risk Tolerance Statement
- The operational and financial risks that were proposed as top risks
- Risk tolerances for those top risks that represent hard constraints within which the Group must contain its risks

The Committee has satisfied itself that the Group remains within its Risk Tolerance Statement, with a strong capital and liquidity position that can be shown to be resilient to stress.

 **Further details regarding the Group's Risk Tolerance Statement can be found on page 14 of the Strategic report**

Risk management framework

During 2014, Group Internal Audit conducted an independent assessment of the Group's risk management framework.

The Group's risk management framework provides the architecture for the overall management and control of all risks and for the implementation of the risk management principles.

The Group's Code of Conduct sets the standards for individual behaviour.

The Committee discussed the findings of the Group Internal Audit's independent assessment of management's control of its own business activities. The assessment provided assurance that the overall system of control effectiveness is working as required within the risk management framework.

 **Further details regarding the risk management framework can be found on page 105 of the Risk and Capital review**

Capital and liquidity

At every scheduled meeting, the Committee considers and discusses the Group's capital and liquidity position and the regulatory environment and expectations. The Committee has been provided with an update on the performance statistics for the internal ratings-based (IRB) models in line with regulation that requires performance monitoring for IRB models be an essential part of senior management reporting. The Committee has considered the Group's Individual Liquidity Adequacy Assessment, which considers the Group's liquidity position, its framework and whether sufficient liquidity resources are being maintained to meet liabilities as they fall due. In addition to receiving regular liquidity updates, the Committee reviews the liquidity risk stress-testing framework and assumptions together with the results of the liquidity stress tests. With regard to capital, the Committee reviewed and discussed in detail the Group's Internal Capital Adequacy Assessment in order to satisfy itself that the Group's approach to capital planning is comprehensive, rigorous and consistent with both the current regulatory requirements and with developments under Basel III or other likely regulatory initiatives.

 **Further details concerning capital can be found on pages 118 to 125 and liquidity can be found on pages 114 to 117 of the Risk and Capital review**

Stress testing

The Committee tracks a wide range of risk metrics which are also periodically reported to the Board. Stress testing and scenario analysis are used to assess the financial and management capability of the Group to continue to operate effectively under extreme but plausible trading conditions. The Committee maintains oversight of the Group's overall stress-testing programme, reviewing the design, key assumptions and the outcomes of principal tests. In 2014, the regular stress testing of overall compliance with risk tolerance, capital adequacy and mandatory annual Reverse Stress Tests which were individually discussed by the Committee. The Committee also discussed the results of a new stress test of the banking systems, focused on the eight largest UK banks and introduced by the Financial Policy Committee of the BoE. The results were discussed at an ad hoc Committee meeting and reported prior to their submission to the Board and then to the BoE.

 **Further details of stress testing can be found on page 107 of the Risk and Capital review**

1. An early alert is the process for proactive identification and management of counterparty exposures exhibiting signs of weakness of a material nature requiring monitoring, supervision or close attention by management

Operational risk

The Group's management of operational risk continues to be enhanced. The Committee has been updated in relation to the Group's Operational Risk Transformation Programme. This transformation programme is designed to enable the Group to identify any processes that are operating outside of acceptable parameters in a timely fashion and to rectify any causes for deviation well in advance of any material problem developing. A high-level operational risk-roll-out plan was originally tabled to the Committee in October 2013 and work under this programme is scheduled for completion by the end of March 2015. The framework will bring further rigour in the identification of risk processes capable of producing unsatisfactory operational risk outcomes that are material to the Group.

The Committee has discussed the top operational risks facing the Group and the action being taken or to be taken to mitigate them. The operational risks include macro-prudential, regulator and external risks, together with internal processes, systems and change risks. Further details of these can be found on page 100 of the Risk and Capital review. Operational losses are one indicator of the effectiveness and robustness of the operational risk control environment. In addition internal reviews and root-cause analyses from external and internal loss events, including near misses, are used to improve processes and controls.

 **More details concerning the Group's approach to operational risk can be found on pages 115 to 117 of the Risk and Capital review**

Risk management disclosures

The Committee has reviewed the risk disclosures in the Annual Report and Accounts and the Half Year Reports and has reviewed and approved the disclosure on the work of the Committee. In reviewing the operational risk disclosures made in this year's Annual Report and Accounts, the Committee has taken into consideration The Financial Stability Board's guidelines on principles and recommendations on disclosure contained in the 'Enhancing the Risk Disclosures of Banks' report issued by the Enhanced Disclosures Task Force (EDTF) in October 2012. In addition, a comparison of the Group's 2013 disclosures with those published by peers was conducted. As a result of the review, enhancements in relation to the Group's operational risk disclosures have been made. In conjunction with the Audit Committee, the Committee also reviewed the Basel II Pillar 3 annual disclosure.

Committee reporting to the Board

The Board received summaries of the risk information report and minutes of the Committee meetings. Building on the approach adopted in 2013, there has also been formal periodic risk reporting to the Board in 2014 on risk issues, in addition to an overview from the Committee Chair on the areas of focus for the Committee, together with its main activities and the discussions held by the Committee in relation to the half and full year results.

Interaction with management

On a regular basis, Lars Thunell, as Committee Chair, meets individually with the Group Chief Risk Officer and Group Head of Internal Audit. These meetings allow free discussion of any matters relating to issues arising from the Committee's formal discussions. In addition, as Committee Chair, Lars addressed the Risk function's internal conference which was attended by over 330 employees from 30 countries. The presentation covered the Board's view of the Group's Risk function, the current environment, the strengths of the Risk function, and the challenges and opportunities for the function.

The Committee has assessed the effectiveness, resourcing and independence of judgement of the Group's risk management function, especially in light of the changes to the Group's risk management function following the strategic reorganisation.

Interaction with regulators

The Committee met with one of the Group's UK lead regulators, the Prudential Regulation Authority (PRA). The purpose of the meeting was to enable a discussion between the Committee and the PRA concerning prudentially focused topics such as financial markets risk oversight and the Operational Risk Transformation Programme.

Ongoing training and development

In conjunction with the Audit Committee, a half-day informal session, to which all directors were invited, was held. The session covered structurally subordinated holding company lending, economics of large underwriting and single-name concentrations. In addition (and also in conjunction with the Audit Committee), an informal discussion session was held on information and cyber security.

Observations and actions taken following the 2013 and 2014 Committee effectiveness reviews

In keeping with the approach to Committee effectiveness adopted by the other Board committees, in 2014 the Committee conducted an internally facilitated effectiveness review. This was facilitated by the Group Corporate Secretariat and involved each

Committee member providing their thoughts on the Committee's effectiveness in addition to providing feedback in response to a small number of specific questions. The themes arising from the feedback were then discussed by the Committee. An action plan has been formulated to address the observations and a summary of the findings appear in the following table.

Summary of the key themes identified in the 2014 Committee effectiveness review and actions taken/to be taken

2014			
Theme/action identified	Action plan for 2015	2013	
Theme/action identified	Action plan for 2015	Theme/action identified	Actions taken
<p>There is a need to continue to take steps to strike the right balance on the Committee agenda and in information provided to the Committee so as to allow time for oversight (reviewing regular reports and monitoring/challenging executive risk management), deeper dives into specific issues, 'horizon scanning' and strategic risk</p>	<p>Building on the work undertaken in 2014 following the transition to the new Committee Chair, the Committee's rolling agenda will continue to be kept under review so as to strike the right balance in the information provided to the Committee</p> <p>As the Committee is most effective when dealing with specific topics on a focused basis, there is an opportunity for the Committee to move away from standard agenda items and allocate more time to allocated specific items</p>	<p>There was scope for the Committee papers to be more concise, while balancing the need to ensure that the Committee receives the correct level of detail in order to effectively fulfil its duties</p>	<p>To ensure that the Committee was not distracted from operating effectively, work was undertaken in 2013 to further refine agendas and papers. For example, additional background information designed for optional reading is now provided separately to Committee members and is not included in the papers for Committee meetings</p> <p>As part of the transition to the new Committee Chair, the opportunity has been taken to review rolling agendas and information flows to the Committee</p>
<p>As the Group is now operating within the new strategic organisational design, the Committee could increase the time spent with the business unit heads to gain their perspective on the way risk is managed</p>	<p>Business unit heads will be invited to Committee meetings as part of an operational risk deep dive programme</p> <p>Committee members will continue to visit a variety of the Group's markets and engage with many levels of the Group's risk management across the Group's footprint</p>		



"We remain committed to our conduct agenda, ensuring we demonstrate our Here for good brand promise"

Paul Skinner, CBE

Chair of the Brand, Values and Conduct Committee

Dear Shareholder

During 2014, the Committee's name changed to the Brand, Values and Conduct Committee (previously the Brand and Values Committee). This was to emphasise the role the Committee has in the Group's conduct agenda. In addition to conduct, the Committee has oversight of the Group's culture and values, reputational risk, government and regulatory relationships, environmental and sustainability issues, and brand positioning. Throughout 2014, the Committee worked to ensure that it added value to the business, carrying out a series of in-depth reviews across its mandate.

Conduct has been a significant focus for the Committee in 2014, and we remain committed to ensuring the Group demonstrates its Here for good brand promise. It was encouraging to see the progress made on the conduct agenda, with advancement in the governance framework, strategy process and the incorporation of conduct within the Group's risk management framework. The continued integration of the Group's Code of Conduct (the 'Code') has been complemented by the introduction of a new employee engagement survey, My Voice. This survey demonstrated a strong conduct culture, with over 95 per cent of respondents understanding what the Code means to them and that they are personally committed to treating clients fairly. Employees also scored highly in not tolerating unethical behaviour and knowing what Here for good means to them individually. The Committee is confident that there is a real commitment by employees to further strengthening the Group's compliance culture.

We continue to believe that strong commitment to its culture and values can be an important differentiator for the Group. A detailed report demonstrated significant progress made in this area, including employee wellness initiatives and the Group's approach to diversity and inclusion.

The Committee has reviewed the Group's sustainability strategy and believes it is important that the business contributes to sustainable economic growth and development in key developing markets. As part of the Group's commitment to be a responsible company, the Committee seeks assurances that the Group is meeting or exceeding industry best practice in many areas such as our environmental, social and governance processes. We also continue to monitor the Group's progress in

its community investment initiatives. The Committee once again welcomed the high participation in volunteering by employees, which continues to surpass our peers.

During the year, the Committee reviewed the brand strategies of individual segments including Retail Clients, Private Banking Clients, and Corporate & Institutional Clients, giving us essential insights into the Group's strategic execution. In addition, the Committee noted the mutual success of the new 2014 brand advertising campaign, which has been adapted and customised globally across seven languages.

The Committee met the Standard Chartered Bank Malaysia board and management team while visiting the country in April. The impact of sponsorship initiatives such as Liverpool Football Club (LFC) and the Kuala Lumpur marathon was evident, as was the use of Here for good messaging, which was exemplified in a variety of forms.

The Committee reviewed the Group's reputational risk exposure at each meeting, including an analysis of the material reputational risks facing the Group and the strategies in place to protect the Group's internal and external reputation.

In December, we carried out a review of our effectiveness as a Committee to identify improvements for the future. We believe it is fundamentally important to ensure that the Committee continues, through its oversight, to add value and reduce risk across the business.

Paul Skinner, CBE

Chair of the Brand, Values and Conduct Committee

Who sits on the Brand, Values and Conduct Committee

	Scheduled meetings: 5
P D Skinner, CBE (Chair)	5/5
Dr K Campbell (appointed 1 December 2014)	1/1
Dr B E Grote (appointed 1 July 2014)	3/3
Dr Han Seung-soo, KBE	5/5
C M Hodgson (appointed 1 February 2014)	5/5
Directors who stepped down during 2014/2015	
J F T Dundas (stepped down 1 May 2014)	0/11
Dr L H Thunell (stepped down 30 September 2014)	4/4 ²

Other regular attendees at Committee meetings include:

Group Chairman; Group Chief Executive; Director of Compliance, People and Communication; Group Company Secretary; Group Head of Corporate Affairs.

1. Jamie Dundas was unable to attend the meeting on 26 March 2014 due to ill health
2. Lars Thunell stepped down from the Committee to focus on his role as Chair of the Board Risk Committee

Note: There were no ad hoc Committee meetings in 2014

Committee membership

The Committee is chaired by Paul Skinner, who has extensive experience of branded, customer-facing businesses on a global scale, sustainability/environmental issues arising in the natural resources industry, and government relationships. Dr Han, a former prime minister of the Republic of Korea, has deep experience of geo-political issues, multilateral agencies and sustainability/environmental policies, and is currently the UN Secretary-General's Special Envoy for Disaster Risk Reduction and Water, and a member of the UN Secretary-General's Advisory Board on Water and Sanitation. Christine Hodgson has a wealth of experience in the area of sustainability and is currently chair of the Capgemini UK Sustainability Board. Byron Grote, who joined the Committee in July, has extensive global experience through his variety of roles within BP plc from 1988 until 2013, including deep experience of reputational risk issues and strategies. Kurt Campbell joined the Committee on 1 December 2014, and brings geo-political government relations experience, having served as the US Assistant Secretary of State for East Asian and Pacific Affairs from 2009 to 2013.

Role and responsibilities

The Committee's remit includes oversight of the positioning of the Group's brand, reputational risk, government and regulatory relationships, environmental and sustainability issues, and our conduct, culture and values.

Conduct

The external focus on the conduct of financial institutions and their staff, with respect to their customers and markets, continued to increase. To bring even greater focus to conduct, the Brand and Values Committee was redesignated the Brand, Values and Conduct Committee in October 2014.

During 2014, the Committee was provided with an update on strategy and the progress the Group is making with its 'raising the bar on conduct' agenda, which is one of the Group's top five priorities. Conduct thinking is now further embedded into our global strategy and business model decisions. Integral to this are the tests used to determine if an activity is 'on strategy', and the Committee supported the introduction of a 'Here for good conduct test', as a key feature of this assessment.

In addition, a new conduct risk assessment has been institutionalised as a core part of any new market strategy. The Committee firmly believes that a robust governance structure is required to deliver the Group conduct programme and welcomed the establishment of project groups, led by the business and supported by second line functions, such as Legal and Compliance. The Committee welcomed the in-depth diagnostic carried out by Oliver Wyman (a leading management consulting firm) into the Group's current position relating to conduct. The Group-wide conduct programme will be tracked by the Committee throughout 2015.

Treating Customers Fairly is a key Financial Conduct Authority principle in the management of client relationships. In 2014, the Committee conducted a review into Treating Customers Fairly and considered the progress being made on key cultural drivers: the Code, Speaking Up, fair accountability processes and sales incentives. The Committee continues to endorse the focus on being 'Here for Clients' through the delivery of the Group's client-focused strategy to deepen relationships and being a force for good.

Following the relaunch of the Code in 2013, it was encouraging to see that by the end of 2014, 99 per cent of employees globally had reconfirmed their commitment to it. These results demonstrate the further commitment by both management and employees to continue strengthening the Group's compliance culture.

In January 2015, the governance structure at Standard Chartered was strengthened with the creation of the Board Financial Crime Risk Committee. This new Committee will have oversight of all material financial crime-related matters, including the Financial Crime Risk Mitigation Programme, which was previously overseen by the Audit Committee, and financial crime-related Speaking Up. The Committee's role continues to be the oversight of the 'raising the bar on conduct' agenda and ensuring all relevant aspects of conduct are covered appropriately by the Board's committees.

Reputational risk

Another significant role of the Committee is the oversight of the processes by which the Group identifies and manages reputational risk in an effective and transparent manner, consistent with the Board-approved Risk Tolerance Statement.

At each meeting, the Committee is provided with an update on the material reputational risks facing the Group from the perspective of both internal and external stakeholders. This includes reputational risks associated with politicisation of regulatory issues, remuneration, data security and privacy, and tax-related issues, with each risk type being assigned a specific owner. During the year, the Committee has sought and received assurance on the governance structure in place to identify and manage reputational risks.

Since January 2015, the Board Financial Crime Risk Committee has taken responsibility for any reputational risk associated with money laundering, sanctions abuse, bribery and corruption or any related topic.

Culture and values

The Committee considers it fundamentally important that the Group promotes an open, inclusive and collaborative working environment. To provide the Committee with deeper context on the work being undertaken within the Group to reinforce our culture and values, the Committee received detailed progress reports on the subject of employee well-being, and diversity and inclusion. The Committee supported the Group's approach to employee well-being, including access to wider healthcare provision and education awareness. As a Committee we were pleased to see that as part of the comprehensive diversity and inclusion programme, several Group-wide initiatives have been launched or embedded, further demonstrating our Here for good brand promise. The Committee supported the sustained focus on advancing gender diversity across the Group, noting the success of our signature Women in Leadership and Women's Development Programmes operating across our markets.

The Committee also welcomed the progress made in raising awareness of inclusion and disability issues, noting the use of disability networks in the UK and Singapore, and disability listening groups in Malaysia, Thailand and Oman to help shape the action plan for 2014 and 2015. A further area of focus for the Committee was how lesbian, gay, bisexual and transgender employees are supported throughout the Group. The Committee supported the establishment of networks in the US, the UK, Hong Kong and Singapore, and was pleased to see that in the UK the Group had been placed highly on the Stonewall Global Workplace Equality Index. A key element of our brand and business proposition is the diversity of our revenue streams and geographical distribution. The Committee therefore continues to support national diversity of potential candidates in hiring, promotion, succession planning and international assignments.

In late 2014, a new employee engagement survey, My Voice, was introduced across the Group, with the results being reviewed and discussed by the Committee. More than 85 per cent of employees across 68 countries completed the survey. The Committee was encouraged to see positive results across the Group on aspects of our conduct culture, and high individual commitment and engagement levels. Senior management are analysing the data across key risk and control functions, products and client segments to identify opportunities to enhance our effective collaborative working environment. The progress on action plans will be reported to the Committee in 2015.

The Chairman's Here for good Awards (the 'Awards'), launched in 2012, are designed to enable Group employees to recognise the team and individual who best represents Here for good.

The Awards have once again proved popular with employees with 552 entries and 82,000 votes received from employees. The Committee continues to support the Awards and its powerful connection to Here for good.

Sustainability

In 2014, the Committee received an update on the Group's sustainability strategy, the Group's commitment to promote sustainable social and economic development across the countries in which we operate. Sustainability is integrated into our business and is a key component of how we deliver on our Here for good brand promise.

The Committee continues to provide oversight of the Group's three sustainability priorities: contributing to sustainable economic growth, being a responsible company and investing in communities. The Committee monitors the Group's commitment to contribute to sustainable economic growth and expanded initiatives such as Power Africa and mobile payment capabilities. The Committee noted how the Group has advanced its external disclosures with detailed country-by-country tax disclosure consistent with the EU requirements.

The Committee received an in-depth review of the Group's community investment strategy, which is aligned to the core themes of health and education. The Committee acknowledged the outstanding employee volunteering efforts, with engagement levels greater than our peers and the continued focus on promoting high quality skills-based volunteering. We noted that the Group was on track to raise more than \$10 million for Seeing is Believing in 2014, including fundraising and Group matching. The Group's progress on its other programmes was also recognised, with Goal reaching more than 50,000 girls in 2014; financial education for youth engaging more than 13,100 youth in 2014 alone; and the refocusing of the Living with HIV programme through a new partnership with the MTV Staying Alive Foundation to promote education and awareness.

For the past two years, the Group has monitored developments related to integrated reporting. Emerging best practice is for companies to move away from preparing standalone sustainability reviews and instead integrate more non-financial data into a company's annual report to demonstrate how an organisation creates value. Therefore, for 2014, the Committee has supported the Group's decision to move towards integrated reporting.

Further details on sustainability can be found on pages 26 to 29.

Brand

The Committee supported a new brand advertising campaign, which was launched during 2014. Playing to our Here for good brand promise, it focused on people and companies in our markets, positioning our brand to be aspirational, and demonstrates that we are a committed, caring and knowledgeable guide to our clients. The Committee received updates from senior management in the business on how this would be implemented on the ground, including how it complemented the new Retail Clients brand strategy, and on how the Private Banking Clients segment was leveraging the key messages from the campaign.

The Committee continues to evaluate the progress being made in digital media and regularly reviews how various media channels are being utilised to develop the brand. The Committee was pleased to note that the new brand advertising campaign used 27 versions of visuals with animated pictures that would be visible on multiple devices including tablets and mobile phones.

In 2014, the Committee undertook thorough reviews into the implementation of key strategic initiatives on brand governance and measurement. The formation of the combined global Brand and Marketing function was the first significant step to improve brand governance. During the year, the Committee has focused its attention on gaining clearer insights on the return on brand and marketing investment. The Committee continues to support the use of comprehensive brand and marketing measurement tools, which has been evidenced by the launch of a new project assessing end-to-end processes and identifying marketing automation required for ongoing measurement. The Committee will continue to receive updates on this initiative during 2015.

During the Board's visit to Malaysia in April 2014, the Committee was provided with an in-depth review of the Group's brand position and strategy. It reviewed the contribution of the key sponsorship initiatives of LFC and the Kuala Lumpur marathon and was provided with context on factors affecting the brand's awareness in the market. The Committee was satisfied to see examples of Here for good implementation.

We continue to maximise our LFC sponsorship asset and to use this to drive brand awareness across our markets where LFC and football have a wide appeal. For example, the Standard Chartered Trophy (the 'Trophy') tournament earned first prize for 'Best International Marketing Campaign' at the BT Sports Industry Awards. The Trophy's qualifying tournaments took place across 14 markets in Asia, Africa, Europe and the Middle East.

Government and regulatory relationships

The Committee has continued to oversee the Group's approach to its main government and regulatory relationships across our major markets, noting the opportunities for the Group to engage positively with governments and policymakers, demonstrating

that banking can be a force for good. The Committee was mindful that, due to the Group's diverse geographic footprint, there are typically a number of supervisory matters or investigations ongoing at any time. Each major issue receives appropriate management attention and is reported to the relevant governance committee within the Group. An in-depth analysis into the government and regulatory relationships within India was conducted, which allowed the Committee to gain a fuller appreciation of the government and regulatory context in this important market.

Since January 2015, the Board Financial Crime Risk Committee has taken responsibility for the Group's compliance with any remediation or other commitments made in respect of any regulatory order, deferred prosecution agreement or other disciplinary action taken in relation to the Group arising from, or in association with, money laundering, sanctions abuse, bribery and corruption.

Committee linkages

Where there is a perceived overlap of responsibilities between the Committee and other Board committees, such as the Board Financial Crime Risk Committee, the Audit Committee and the Board Risk Committee, the respective committee chairs have the discretion to agree the most appropriate committee to fulfil any obligation. There is a clear mapping of such overlapping items to ensure each committee focuses on its area of responsibility. The linkages between committees are further enhanced through the existence of cross-membership.

Committee effectiveness review

This year, the Committee undertook an internally facilitated effectiveness review, with input from executive management and regular meeting participants. Committee members were asked to provide their thoughts and feedback on progress made by the Committee throughout 2014, suggestions for the Committee's agenda in 2015 and any top-of-mind general thoughts on the Committee's effectiveness overall. Proactive steps have been taken to consolidate the responses from the review and implement them into the Committee's 2015 agenda to improve its future effectiveness.

Summary of the key themes identified in the 2014 Committee effectiveness review and actions taken/to be taken

2014		2013	
Theme/action identified	Action plan for 2015	Theme/action identified	Actions taken
Ensure committee members have more in-depth, country-related topic sessions covering its terms of reference	We will aim to hold more sessions on a range of topics, including during overseas Board visits	The Committee could benefit from a relevant local topic-focused session during overseas Board visits	A brand session was held in March, 2014 in Malaysia, focusing on the Group's brand position and development in Malaysia
Continue to ensure input from senior representatives from the business as well as seeking greater external expert input on key topics where appropriate	We will continue to identify appropriate representatives from the business to attend specific parts of future Committee meetings. Specialist external input will be utilised to add value to key topics	The Committee should hold a discussion session with leading external practitioners on a topic within its mandate	During 2014, the Committee held detailed discussions in respect of the new brand campaign and its impact on the business. This replaced the externally facilitated discussion session
Given the Committee's increased focus on conduct, ensure that its coverage complements the role and responsibilities of other Board committees	The Committee has considered its role and coverage of conduct over the year ahead and will ensure that conduct is covered effectively, and potential gaps, areas of duplication and unnecessary complexity are avoided	The Committee should receive an update on how significant subsidiary boards and directors are addressing areas within the Committee's terms of reference and agenda	While in Malaysia during an overseas Board visit, the Committee held a session with the local board directors, including non-executive directors



“During 2014 the Governance and Nomination Committee focused intensively on the future shape and composition of the Board”

Sir John Peace
Chair of the Governance and Nomination Committee

The Committee's role

The Committee is responsible for the review of the Board's structure, size and composition, including the identification, assessment and recommendation of potential Board candidates. The Committee keeps under review the leadership needs of, and succession planning for, the Group in relation to both executive directors and other senior executives. In addition, on behalf of the Board, the Committee monitors progress towards the implementation of the Board diversity policy and considers any potential situational conflicts of interest declared by our Board members.

Following a review of the Board's committee structure in 2014, it was agreed that the role and responsibilities of the Governance Committee should be combined with the Nomination Committee, to provide broader representation of governance-related matters. This change, effective from 1 December 2014, resulted in the Committee being renamed the Governance and Nomination Committee and the Governance Committee ceasing to exist. In addition to its existing responsibilities, the Committee's role now also includes oversight of Board effectiveness and governance issues as well as the monitoring of corporate governance developments and emerging best practice across our markets.

 A copy of the Committee's full terms of reference can be found at sc.com

Committee membership

The Committee is comprised of the Group Chairman and the Chairs of each of our Board committees as at 31 December 2014. Its membership was refreshed during the year, with the appointment of Lars Thunell and Naguib Kheraj. They joined the Committee on 1 April and 1 May 2014 respectively, following their appointment as Chairs of the Board Risk Committee and Audit Committee, replacing Jamie Dundas and Rudy Markham, who both stepped down from the Committee and the Board on 1 May 2014. Biographies of the Committee members can be found on pages 128 to 131.

Committee activities

In 2014, the Committee focused intensively on the future shape and composition of the Board. This included an in-depth review of the existing non-executive directors' skills, tenure and experience against the multi-year Board succession plan. This plan, formulated in 2011, balances the need to maintain both stability and longevity on the Board, while regularly refreshing its composition. The Committee continues to play an important role in overseeing the Board's ongoing transition and, in particular, ensuring the Board maintains broad-based banking, finance, risk and accounting experience, representatives from our key markets, and has an appropriate balance of geographic, gender and other diverse perspectives.

During the year, the Committee, assisted by Lygon Group, our non-executive search firm, provided oversight of the process of appointments to the Board, including the long- and short-listing, interviewing and recommendation of Byron Grote to the Board as an independent non-executive director. Byron, who brings significant business leadership, international and finance experience, joined the Board in July 2014. The Board confirms that Lygon Group has no other connection with the Group.

The Committee also oversaw the process, started in 2014, that led to the recent announcement of two additional independent non-executive directors, Gay Huey Evans and Jasmine Whitbread. Gay and Jasmine will join the Board on 1 April 2015, allowing Ruth Markland and Paul Skinner, our two most long-standing independent non-executive directors, to step down from the Board by the end of 2015. The appointments of Gay and Jasmine will between them bring further banking, risk and UK regulatory experience to the Board, along with significant commercial leadership and first-hand experience of operating across our markets.

In addition, the Committee led the process for identifying and appointing a successor to the role of Group Finance Director, to replace Richard Meddings, who stepped down from the Board in June 2014. Assisted by one of the Group's appointed executive search firms, Heidrick & Struggles, the Committee agreed the process and the timetable, and oversaw the long- and short-listing of both internal and external candidates before recommending to the Board the appointment of Andy Halford. The Board confirms that Heidrick & Struggles is a lead supplier to the Group for senior resourcing.

Who sits on the Governance and Nomination Committee

Name of Director	Scheduled meetings 3	Ad hoc meetings 2
Sir John Peace (Chair)	3/3	2/2
N Kheraj (appointed 1 May 2014)	2/2	n/a
R Markland	3/3	2/2
P D Skinner, CBE	3/3	2/2
Dr L H Thunell (appointed 1 April 2014)	2/2	n/a

Directors who stepped down during 2014/2015

J F T Dundas (stepped down 1 May 2014)	0/1 ¹	0/1 ¹
R H P Markham (stepped down 1 May 2014)	1/1	2/2

Other attendees at Committee meetings include:

Group Chief Executive; Director, Compliance, People and Communication; Group Company Secretary

Peter Sands was a member of the Governance Committee prior to 1 December 2014. He did not join the newly integrated Governance and Nomination Committee which was established on 1 December 2014.

1. Jamie Dundas was unable to attend the scheduled meeting on 6 February 2014 or the ad hoc meeting on 26 February 2014 due to ill health.

The Committee also led the succession process, started in 2014, that resulted in the recent announcement of the change in Group Chief Executive. Assisted initially by two executive search firms, Egon Zehnder International and Russell Reynolds Associates, and then in the latter stages Egon Zehnder International alone, this process included agreeing the approach, the candidate profile, internal candidate assessments and external mapping exercises, long-listing, short-listing and interviews, which were undertaken by the members of the Committee. Following this, the Committee recommended Bill Winters' appointment to the Board. He will join the Board in June 2015 as Group Chief Executive. Peter Sands will step down in June 2015. The Board confirms that Russell Reynolds Associates is a lead supplier to the Group for senior resourcing and Egon Zehnder International undertakes senior resourcing projects.

The Committee also made further progress in relation to the succession planning for the Chairman. The discussions on this matter were led by the Senior Independent Director, and the Chairman did not take any part in these. As announced, Sir John has indicated an intention to step down from the Board during the course of 2016, allowing time for Bill Winters to transition into his new role and to ensure Board-level continuity.

Annual re-election of directors

The review of the performance of each of the directors seeking annual re-election at our annual general meeting (AGM) was carried out by the Board in 2014. For more detail on the process see page 144.

Board diversity policy

During the year, the Committee continued to oversee plans to achieve its gender diversity objective of 25 per cent female representation on the Board by 2017. The Board's diversity policy, while setting a clear ambition, is intended to ensure that diversity in its broadest sense remains at the heart of the Board. We remain committed to reaching and maintaining this ambition, while ensuring that all Board appointments continue to be based on merit, with the prime consideration of maintaining and enhancing the Board's overall effectiveness. We believe that a highly effective Board is about chemistry and behaviours, underpinned by robust processes. The Board contains individuals who have diverse skills, knowledge and

experiences that combine to provide different perspectives and effective board dynamics. In maximising the Board's effectiveness, we take a long-term, sustainable and measured approach.

To review the Board Diversity Policy, visit sc.com

For further insight into the diverse composition of the Board, including gender, see page 138.

At the end of 2014, the proportion of women on the Board was 11 per cent. The appointments of Gay and Jasmine as independent non-executive directors, announced in February 2015, will see four women on the Board (22 per cent at the time of this year's AGM), bringing us closer to our longer-term steady state of 25 per cent.

In making recommendations for appointment to the Board, the Committee continued to support the principles of Executive Search Firm Voluntary Code of Conduct on gender diversity, including diversity of candidate lists and ensuring that at least 30 per cent of the candidate long-lists are made up of women. The Committee worked with Lygon Group, Heidrick & Struggles, Egon Zehnder International and Russell Reynolds Associates during the year. These organisations are all signatories to the Code and are committed to supporting us in achieving our targets and wider Board composition ambitions.

Committee effectiveness review

When reviewing its effectiveness, the Committee considered the quality and volume of the information we receive and the mechanisms used to ensure that the Board as a whole is kept up to date regarding both executive and independent non-executive succession planning. In both cases, the Committee was satisfied that these were appropriate and should continue to be an area of focus going forward.

Situational conflicts

As part of the Committee's remit it re-appraises the authorisations previously provided to directors for those situations in which he/she had, or potentially could have in the future, a direct or indirect interest that conflicts with the interests of the Group.

Board Regulatory Compliance Oversight Committee

Who sat on the Board Regulatory Compliance Oversight Committee

	Meetings: 4
Sir John Peace (Chair)	4/4
V Shankar	4/4
A M G Rees	4/4
N Kheraj (appointed on 1 May 2014)	2/2
R Markland	4/4
P D Skinner, CBE	4/4
Dr L H Thunell (appointed on 1 May 2014)	2/2
Directors who stepped down during 2014/2015	
R H P Markham (stepped down on 1 May 2014)	2/2
J F T Dundas (stepped down on 1 May 2014)	0/2 ¹

Other attendees at Committee meetings included:

Group Chief Executive; Group Company Secretary;
Group General Counsel

¹. Jamie Dundas was unable to attend the meetings on 27 January 2014 and 26 February 2014 due to ill health

Role and responsibilities

The Committee was established at the beginning of 2013 as a special purpose committee. Its membership included the Committee Chairs of the Board committees, the Group Executive Director and Chief Executive Officer – Europe, Middle East, Africa and Americas, and the Deputy Group Chief Executive. The Chief Executive Officer, Group Company Secretary, and Group General Counsel were regular attendees.

The Committee ceased to exist with effect from 1 January 2015 following the establishment of a new permanent Board committee, the Board Financial Crime Risk Committee, further details of which are set out on page 169.

During 2014 the Committee met on an ad hoc basis to oversee, on behalf of the Board, matters relating to the Group's compliance with its obligations under the settlements with the US authorities¹. This included the Group's responses to other requests, subpoenas and orders from any US Federal, State or other relevant authority in respect of such settlements and/or the Group's historical and current compliance with US sanctions regulations.

During the year the Board performed the role of the Committee on some regulatory issues, including the final settlement made with the New York Department of Financial Services regarding deficiencies in the anti-money laundering transaction surveillance system at the Group's New York branch (announced to the market on 19 August 2014).

¹. The US authorities comprise the New York Department of Financial Services (NYDFS), the Board of Governors of the Federal Reserve System (FED), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Office of Foreign Assets Control (OFAC)

Board Financial Crime Risk Committee



"The formation of this Board committee demonstrates the importance the Group attaches to fulfilling its role in the fight against financial crime, and the level of resources it is committing to that effort"

Simon Lowth

Chair of the Board Financial Crime Risk Committee

Who sits on the Board Financial Crime Risk Committee

S J Lowth (Chair)

C M Hodgson

N Kheraj

R Markland

Dr L H Thunell

L Campos – external expert

B H Khoo – external expert

F F Townsend – external expert

Other attendees at Committee meetings will include:

Group Chairman; Group Chief Executive; Group Company Secretary; Group General Counsel; Director, Compliance, People and Communication; Global Head, Financial Crime Compliance; Special Advisor to the General Counsel's Office

Committee composition and role

As part of the Board's commitment to further strengthen its oversight of all aspects of conduct across the Group, a number of changes to the Board committee structure were made at the beginning of 2015. A new Board committee has been established to focus on financial crime compliance matters. The Board Financial Crime Risk Committee took effect on 1 January 2015.

The Committee's responsibilities include oversight of the Group's policies, procedures, systems, controls and assurance for its anti-money laundering, sanctions, compliance, corruption and tax crime prevention efforts. This Committee replaced and has taken over the work of the Board Regulatory Compliance Oversight Committee. The Committee has taken on some areas of responsibility previously overseen by the Audit Committee and the Board Risk Committee, where it has been deemed appropriate in the context of financial crime compliance oversight.

The Committee is made up exclusively of independent members. The Committee is chaired by Simon Lowth and comprises four additional independent non-executive directors. They are Naguib Kheraj (Chair of the Audit Committee), Lars Thunell (Chair of the Board Risk Committee), Ruth Markland (Chair of the Remuneration Committee) and Christine Hodgson. It also comprises an advisory group, consisting of not less than three external experts who are neither directors nor employees of the Group but have skills relevant to the Committee and whose input is regarded as valuable. The three external expert members are Lázaro Campos, Boon Hui Khoo and Frances Townsend.

The Committee will have at least four scheduled meetings a year.

Directors' remuneration report

Restoring confidence through transparency
and alignment of pay with sustained performance



"How the Committee will now determine and deliver variable compensation will support the Group's strategic priorities and lead to better alignment with long-term shareholder interests"

Ruth Markland
Chair of Remuneration Committee

- 2014 Group total variable compensation (TVC) is \$1,098 million, down 9.1 per cent from 2013
- Since 2010 Group TVC has fallen by 28 per cent compared to a fall in underlying profits of 15 per cent
- No TVC award in 2014 for the Group Chief Executive and five other current and former executive directors
- Percentage of directors' TVC subject to long-term performance conditions increased from 25 per cent to 50 per cent
- Introduction of a new scorecard for 2015 linking executive directors' TVC with the achievement of key financial and other strategic priorities

Dear Shareholder

This letter summarises the major decisions taken by the Remuneration Committee for the year and describes the context in which they were made.

At the annual general meeting (AGM) in 2014, the directors' remuneration policy received the support of only 59 per cent of shareholders. As a result of this vote, the Committee undertook a series of consultations with shareholders. The feedback was that there was a need to align reward better with the long-term interests of shareholders and provide greater transparency as well as communicating decisions more simply.

This feedback, together with the Group's financial performance, and in particular the returns to shareholders, have been reflected in the decisions the Committee has made for 2014 and how it will implement its remuneration policy for 2015.

Business context

Group financial performance for 2014 did not meet expectations. While the Group has remained highly profitable, the slowdown in emerging markets and continued regulatory capital headwinds meant that profits and returns were below target.

Key financial metrics

Metric	2014	2013	% change
Operating income (\$million)	18,334	18,777	(2.4)
Underlying profit before tax (\$million)	5,193	6,958	(25.4)
Common Equity Tier 1 ratio (%)	10.5	10.9	(40 bps)
Earnings per share (cents)	145.9	204.0	(28.5)
Return on risk-weighted assets (post-tax basis) (%)	0.9	1.3	(40 bps)
Return on Equity (%)	7.8	11.2	(340 bps)

The business context influenced the decisions the Committee made in respect of 2014 performance, covered later in this letter. However, I turn first to our response to last year's AGM vote.

Listening to and acting on shareholders' concerns

A significant part of the Committee's work in 2014 was responding to the disappointing vote received on the directors' remuneration policy at the AGM in 2014. Although shareholders strongly supported the Committee's decision-making for 2013, with a vote of 95 per cent in favour of the annual report on remuneration, the directors' remuneration policy received the support of only 59 per cent of shareholders. The Committee undertook a series of consultations to understand in detail shareholders' concerns and to discuss proposals on how to address these.

During the year, the Committee consulted shareholders representing over half of the share register, in addition to representative bodies and proxy voting agencies. The exercise was very useful and the Committee received constructive feedback: first, that the Committee needed to disclose remuneration decisions and how they had been determined in a more transparent way; second, that a higher proportion of executive directors' variable compensation should be subject to long-term performance conditions. The Committee has also responded to feedback that it should communicate decisions more simply.

The Committee received clear feedback from shareholders that they did not expect a new policy to be put forward this year, especially in the light of changes anticipated during 2015 to the Prudential Regulation Authority (PRA) and the European Banking Authority's (EBA) remuneration regulations, which may require the Committee to revisit the policy.

Following the various consultations, the Committee is making a number of enhancements to the way the policy will be implemented in 2015 in order to address shareholders' concerns. These enhancements will make the remuneration structure more transparent, with a greater linkage to long-term performance.

Aligning remuneration with long-term performance

To deliver on the long-term strategy in 2015, the Group has identified five priorities:

- Performance
- Client relationships
- Organisational effectiveness
- Efficiency
- People, culture and conduct

Across the Group, scorecards structured around these same five priorities, with clear measurable metrics, have now been cascaded to management teams in client segments, product groups, geographies and functions. Such scorecards will ensure management teams are focused on the same five priorities.

The Committee has considered how to implement its remuneration policy for 2015 in a way that strengthens the alignment of executive directors' remuneration with the long-term performance of the Group. The Committee decided:

- Executive directors' TVC decisions will be determined by reference to a new balanced scorecard. All measures in the scorecard are aligned to the strategic priorities: 50 per cent linked to financial performance, including an appropriate focus on returns and capital, and 50 per cent linked to the other strategic priorities
- Fifty per cent of executive directors' TVC awards will be subject to long-term performance conditions (increased from 25 per cent originally planned for 2014). This will be achieved through the introduction of a financial underpin, which applies to 25 per cent of TVC (underpin shares). This portion of TVC will vest only if the financial conditions are achieved over a three-year period and ensures that there is no payment for performance below the underpin

The Committee believes that these enhancements ensure that executive directors are incentivised and rewarded for delivery of the strategy in a way which is aligned with long-term shareholders' interests.

The Committee will keep its approach to executive directors' remuneration under review to ensure it remains linked to both the Group's strategy and priorities, as well as consistent with any new regulatory remuneration requirements. It is, therefore, possible that strategic considerations, as well as regulation, require changes to how the current policy is implemented. These changes may in turn require a new policy vote in 2016.

Making the right decisions for 2014

Performance for shareholders has been below expectations for 2014. The Committee was clear that Group TVC should be lower than in 2013. The final judgement made by the Committee was that Group TVC for 2014 should be \$1,098 million, compared to \$1,208 million in 2013.

Determining the Group TVC was not an easy decision for the Committee. Levels of compensation, and particularly variable compensation, may seem high in financial services relative to other sectors. The Committee is mindful of the external sentiment in some markets on bankers' pay, and is particularly conscious of the Group's disappointing financial performance, but it operates in a competitive global marketplace for talent. This requires the Committee to make, and justify, difficult decisions to ensure the Group attracts and retains the talent needed across its footprint of Asia, Africa and the Middle East to deliver its business strategy.

For several years the Committee has focused on the share of earnings between shareholders and employees. The Committee also considered the decisions it took for 2013 to reflect both performance, and risk and control matters. Against profits that were down 11 per cent in 2013, the TVC pool was down 15 per cent and executive directors' TVC reduced by at least 20 per cent. This disciplined approach to managing variable compensation has created significant competitive pressures in some key markets.

In deciding on TVC levels for 2014, the Committee ensured that risk and control matters were fully considered. This included factoring in the cost to the Group of the settlements with the US authorities¹. At the same time, the Committee also considered other factors, including returns to investors (both dividends paid and funds retained), the strength of the Group's forward-looking capital position, performance relative to peers, investor views, political sentiment on compensation in financial services, and regulatory requirements. The Committee was very conscious that the fall in Group TVC in 2014 was less than the fall in profit. However, the Committee concluded that:

- It was important to recognise the downward adjustment in Group TVC over recent years relative to financial performance. Between 2010 and 2014 Group TVC had fallen by 28 per cent compared to a reduction in underlying profits of 15 per cent
- A 2014 Group TVC lower than \$1,098 million would present a material risk to the ability of the Group to make appropriate and competitive awards to its employees
- The Group TVC pool, down 9.1 per cent in 2014, would need to be carefully allocated to mitigate the greatest areas of retention risk

The Committee also believes that the sharing of value between employees and shareholders needs to be viewed on a multi-year basis.

As the chart below illustrates, the 2014 Group TVC is 28 per cent lower than in 2010, while over the same period dividends paid grew by 51 per cent. Between 2010 and 2014 underlying profits fell by 15 per cent.

Total variable compensation and dividend paid in year \$million



Note: the percentage changes shown above are calculated showing 2010 as a base

The Committee considered that overall the 2014 TVC decision was appropriate and struck a balance between reflecting performance in 2014, and enabling the retention and motivation of its employees.

Directors' remuneration for 2014

In the light of the disappointing performance of the Group, those executive directors who had been on the Board throughout the year came to the conclusion that they should show leadership by indicating that they would not be seeking TVC awards for the year. Consequently, the Committee decided to make no TVC awards to Peter Sands, Mike Rees, Jaspal Bindra and V Shankar. In these circumstances, the Committee decided it would not be appropriate to make TVC awards to two former executive directors, Richard Meddings and Steve Bertamini.

The Committee did, however, decide to make a TVC award to Andy Halford, who had joined the Group in June 2014. In deciding how to deliver Andy's TVC, the Committee drew on the work that had been carried out on implementation of the remuneration policy for 2015 and is outlined above. After careful deliberation, the Committee decided to introduce future performance conditions to a further 25 per cent of the 2014 awards through a financial underpin. This means that, while at the beginning of the year it was envisaged that 25 per cent of TVC would be subject to future performance conditions, in light of the 2014 performance and the feedback from shareholders on the remuneration structure, the decision has been taken to increase this to 50 per cent.

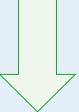
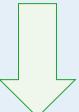
The Committee reviewed the appropriate measures and targets for the performance share awards. The conclusion was that the current performance measures (earnings per share (EPS) growth, return on risk-weighted assets (RoRWA) and total shareholder return (TSR)) continue to provide a balanced set of metrics with an equal weighting between performance, investor interests and prudent risk-taking. However, changes to the targets in relation to performance share awards in respect of 2014 are being made to reflect the Group's financial plan:

- The RoRWA target is being reset to ensure it remains stretching yet realistic over the next three years
- The EPS growth target is being increased at the top end of the performance target range
- The level of vesting for threshold performance for all three measures is being lowered from 30 to 25 per cent to reflect investor guidance

The Committee also considered the measures and targets for the underpin share awards and selected EPS growth and RoRWA as appropriate measures.

The Committee considered the remuneration of a number of senior management joiners and leavers during the year, including Steve Bertamini and Richard Meddings, who retired as executive directors, and Andy Halford, who joined the Board as an executive director. The arrangements for these joiners and leavers were dealt with in accordance with the framework of the approved directors' remuneration policies for recruitment and termination, with the remuneration for Steve and Richard consistent with the London Stock Exchange announcement on 9 January 2014. Further information on these arrangements is provided on pages 193 to 195 as outlined above.

1. The US authorities comprise the New York Department of Financial Services (NYDFS), the Board of Governors of the Federal Reserve System (FED), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Office of Foreign Assets Control (OFAC)

	2014	2013	
Group TVC (\$million)	1,098	1,208	 (9.1)%
Group Chief Executive's TVC (as a % of maximum)	0%	57%	 (57) percentage points

Board changes

On 26 February 2015, the Group announced a number of changes to the Board of Standard Chartered PLC.

It was announced that Peter Sands and Jaspal Bindra would be stepping down from the Board later this year. In line with the new UK reporting regulations, details of the relevant termination arrangements were set out in the London Stock Exchange announcement on 26 February 2015.

In addition, the Group announced that Bill Winters would be joining the Board as Group Chief Executive. Details of his remuneration were also set out in the London Stock Exchange announcement on 26 February 2015.

More information will be set out in the 2015 Directors' remuneration report.

Finally, after more than four years, John Paynter stepped down from the Committee with effect from 31 December 2014. I would like to pay tribute to John for his valuable contribution to the Committee during his appointment.

Conclusion

The Committee thanks shareholders for their continued support during a difficult period for the Group and for the time they have spent helping us to determine how the Committee should implement the policy in 2015.

The Committee has been conscious to balance the need to make difficult remuneration decisions to reflect performance in 2014 with the need to ensure the remuneration arrangements support the future performance of the Group. The Committee has been diligent in ensuring the right balance to meet the best interest of investors, and the Committee hopes to receive your support at the AGM.

The Directors' remuneration report and this letter are subject to an advisory shareholder vote at the AGM to be held in May 2015. The respective remuneration disclosures have been prepared by the Committee and approved by the Board as a whole.



Ruth Markland
Chair of Remuneration Committee

- + The remuneration policy, which was approved at the AGM on 8 May 2014, can be found at sc.com/DirectorsRemunerationPolicy. Extracts from the policy are set out at appropriate points in this report

Navigating this report

To help shareholders navigate the Directors' remuneration report, a brief summary of key content is set out below. For convenience, extracts from the approved directors' remuneration policy have been set out in the relevant sections.

Where can you find details of key remuneration decisions?

→ Where can you find a summary of the remuneration decisions made in 2014?	Pages 175 and 176
→ What was the response to shareholder feedback on the directors' remuneration policy?	Page 177
→ How will the executive directors' 2014 TVC be delivered and the remuneration policy be implemented in 2015?	Pages 177 to 179
→ What are the long-term performance conditions for the 2014 TVC awards?	Page 180
→ How much is being awarded in TVC this year?	Pages 181 and 182
→ How much is being awarded in TVC to executive directors this year?	Pages 182 to 184
→ How much were the executive directors paid in 2014?	Pages 185 to 187
→ What are the executive directors' shareholding requirements, share interests and share awards?	Pages 188 to 190
→ What is the Group Chief Executive's remuneration relative to Group performance and other employees?	Pages 191 and 192
→ What was paid to executive directors who joined the Group in 2014?	Page 193
→ What was paid to former executive directors in 2014?	Pages 194 and 195
→ Where are details of the executive directors' service contracts?	Page 195
→ What was paid to the Group Chairman and independent non-executive directors in 2014?	Pages 196 and 197
→ What did the Remuneration Committee discuss during the year?	Pages 198 to 200
→ Where are the details of the approved directors' remuneration policy?	Pages 201 to 204

Where can you find details of other remuneration disclosures?

→ Where are the Pillar III disclosures on Code Staff remuneration and disclosures on the highest paid employees?	Pages 206 to 209
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Understanding the Group's remuneration terms

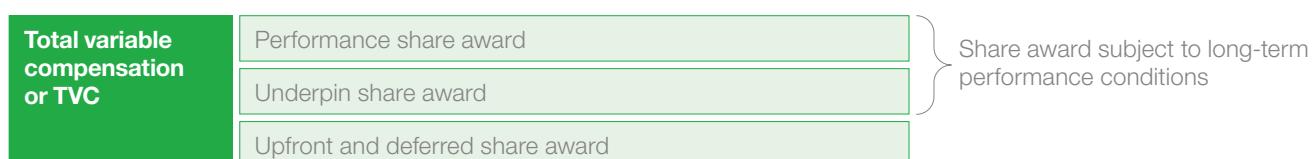
Executive directors' remuneration is comprised of fixed compensation and total variable compensation. Fixed compensation is comprised of base salary, benefits, pension and fixed pay allowances.

What is a fixed pay allowance?

In 2014 executive directors, as well as a small number of other senior employees, received fixed pay allowances. In total, these amounted to \$47 million in 2014. These allowances allow the Group to provide a market-competitive level of fixed pay reflecting the skills and experience of the individual while complying with the variable compensation requirements introduced by regulators. The Group anticipates there will be regulatory guidance on the use of such allowances. The Committee will review their use in light of any such guidance. For executive directors, the fixed pay allowance is allocated in shares normally on a bi-annual basis. The shares vest immediately but are only released over a five-year period.

What is meant by total variable compensation or TVC?

Total variable compensation (TVC) is the term used for the variable remuneration awarded to employees for sustainable risk-adjusted performance, in excess of that required to fulfil their job description as part of the terms of their employment. TVC replaces the annual performance awards and performance shares awards that were made separately last year. For executive directors, TVC is awarded as a single figure comprised of three elements:



Both the performance share award and underpin share award are subject to long-term performance conditions; the amount that vests is contingent on future financial performance. The remainder of the TVC award is known as the upfront and deferred share award.

A summary of the remuneration decisions made in 2014

Key 2014 remuneration decisions

What is the Group's total variable compensation (TVC)?

		2014	2013
Total variable compensation (\$million)		1,098	1,208

How much TVC is being awarded to each executive director?

	P A Sands		A M G Rees		A N Halford		J S Bindra		V Shankar	
	2014 \$000	2013 \$000								
Upfront and deferred awards	–	2,500	–	6,500	866	N/A	–	1,400	–	1,490
Share awards subject to long-term performance conditions	–	4,150	–	4,000	867	N/A	–	2,260	–	2,550
TVC	–	6,650	–	10,500	1,733	N/A	–	3,660	–	4,040
TVC as % maximum	0	57	0	54	58	N/A	0	52	0	56

The upfront and deferred awards were delivered in cash and shares for the 2013 performance year and will be delivered in shares only for the 2014 performance year.

How much did each executive director receive?

	P A Sands		A M G Rees		A N Halford		J S Bindra		V Shankar	
	2014 \$000	2013 \$000								
Single total figure of remuneration	5,108	6,842	6,951	9,465	4,236	N/A	2,953	4,415	2,590	3,776
Single total figure of remuneration (excluding pensions and buy-out)	3,604	5,968	3,003	8,949	2,056	N/A	2,542	3,933	2,242	3,428
Year-on-year movement in remuneration (excluding pension and buy-out)	(40)%		(66)%		N/A		(35)%		(35)%	

Following Mike Rees' appointment as Deputy Group Chief Executive, his remuneration package was changed to be more in line with the structure for the Group Chief Executive. The main changes to his remuneration were a) an increase in base salary, so as to be positioned appropriately relative to other executive directors and the Group Chief Executive and b) a reduction in maximum annual total compensation. As outlined in the 2013 Directors' remuneration report, the salary increase resulted in a material one-off increase in his accrued pension benefits, which in 2014 was approximately \$3.1 million.

As outlined in the 2013 Directors' remuneration report, Peter Sands' salary was increased by 4.2 per cent from 1 April 2014. At the time, the Committee noted that the base salary increase was appropriate taking account of the broader structural changes in his remuneration including a reduction in his maximum opportunity. The salary increase resulted in a one-off increase of \$0.4 million in his accrued pension benefit.

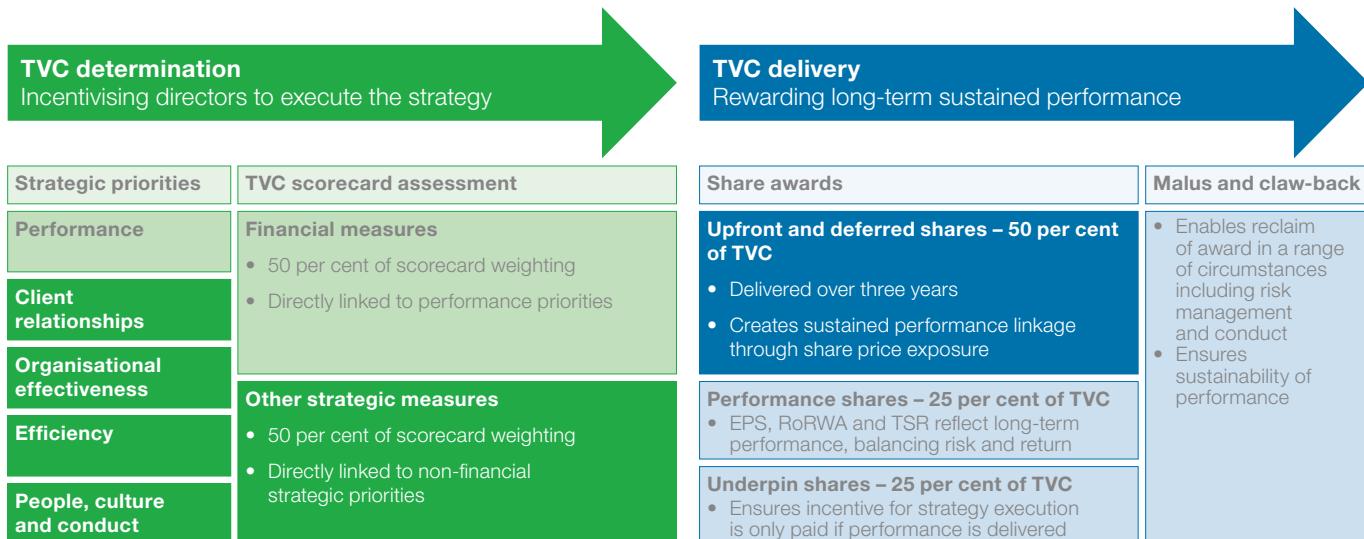
Implementation of executive directors' remuneration in 2015

	P A Sands	A M G Rees	A N Halford	J S Bindra	V Shankar
Salary \$000	1,845	1,606	1,400	838	871
2015 salary	No change	No change	No change	No change	No change
Fixed pay allowance \$000	1,100	1,000	700	575	575
2015 fixed pay allowance	No change	No change	No change	No change	No change

How the executive directors' 2014 TVC will be delivered and the policy implemented in 2015

Key features of existing policy	How 2014 TVC will be delivered	Implementation of the policy in 2015
<ul style="list-style-type: none"> Maximum of 200 per cent of fixed compensation Zero cash element – all variable compensation is delivered in shares More than 80 per cent is deferred subject to malus, with 37.5 per cent deferred for a full five years 	<ul style="list-style-type: none"> Underpin share award introduced as part of TVC, which has long-term performance conditions Increase in proportion of TVC subject to long-term performance conditions from 25 per cent to 50 per cent Reducing to 25 per cent the proportion of shares that vest for threshold performance under each of the three performance share award measures Resetting of targets for the performance shares award measures to ensure they are stretching yet realistic 	<ul style="list-style-type: none"> Balanced scorecard aligned to the Group's five strategic priorities to deliver on the new strategy Prospective disclosure of scorecard measures and weightings, and retrospective disclosure of outcomes Claw-back of cash and vested variable compensation introduced No ability to offer guaranteed variable compensation

How the Group's new approach to TVC is aligned to the Group's strategy



The combination of the scorecard containing 50 per cent financial measures and further long-term performance conditions on 50 per cent of the TVC award means that 75 per cent of any award is driven by financial and share price performance-related measures.

What was the response to shareholder feedback on the directors' remuneration policy?

Shareholder voting and shareholder engagement

The table below shows the votes cast at the AGM in May 2014 on remuneration-related matters.

	For	Against	Withheld
Advisory vote on the 2013 Directors' remuneration report	422,353,752 (95%)	24,164,622 (5%)	5,888,574
Binding vote on the remuneration policy (applies for three years)	266,680,576 (59%)	184,008,107 (41%)	1,664,073
Binding vote to make the maximum variable compensation ratio 200% of fixed remuneration (applies indefinitely)	441,361,419 (98%)	9,480,365 (2%)	1,502,695

The Committee was clearly disappointed with the level of support for the 2014 remuneration policy and has acted to address shareholders' concerns. Although shareholders and investor bodies have a range of views, some common concerns were clear, and the table below summarises the feedback received and how it has been addressed.

Shareholder concerns	Action
There was a lack of transparency in how the Committee determined the TVC awards of executive directors	A balanced scorecard will be introduced in 2015 to provide a clear and objective assessment of executive performance and used to determine TVC awards levels. The scorecard balances both key financial measures and strategic measures The measures and weightings for 2015 have been disclosed in this report. Details of the targets and the Committee's assessment of performance will be disclosed in the 2015 Directors' remuneration report
The proportion of TVC that has long-term performance conditions is too low	Twenty-five per cent of TVC will continue to be delivered in the form of performance share awards vesting after five years. This award is subject to stretch long-term performance conditions A further 25 per cent of TVC will vest only if, after three years, a threshold level of financial performance has been achieved. The underpin is a pass or fail condition

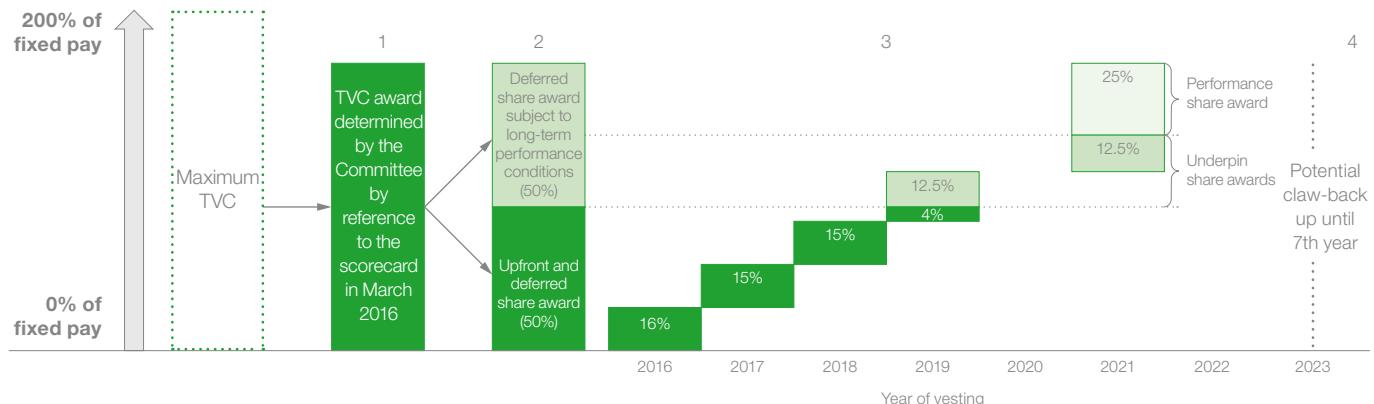
How the executive directors' 2014 TVC will be delivered and the remuneration policy will be implemented in 2015

Statement of implementation of remuneration policy for executive directors in 2015

There will be no changes in how the remuneration policy is implemented in 2015 compared to 2014 in respect of base salary, fixed pay allowances, benefits and pensions. Changes in how TVC will be determined and delivered in 2015 are explained below.

- **How will TVC be determined?** Decisions will be made by reference to a balanced scorecard, the performance measures of which are disclosed on page 179
- **How will awards be delivered?** TVC will be delivered in shares over a five-year period. Fifty per cent of the TVC (rather than 25 per cent currently) will vest only if additional long-term performance conditions are met. This will be achieved through the introduction of a financial underpin that applies to 25 per cent of TVC
- **Why?** The combination of how the Committee will now determine and deliver TVC will support execution of the Group's strategic priorities and will lead to better alignment with shareholder interests. A significant part of all executive directors' awards will pay out only if the strategic actions taken now translate into future financial performance

Illustration of how 2015 TVC will be delivered



Notes

1. The 2015 scorecard measures and weightings have been disclosed on page 179
2. A financial underpin will be attached to 25 per cent of the TVC award. Together with the existing performance share award, long-term performance conditions will therefore apply to 50 per cent of TVC
3. Awards will be paid in shares over five years. Awards will be disclosed on a face value basis, consistent with the expected value proportions in the existing policy
4. Awards will be subject to malus and claw-back for seven years from the date of award

As a result of the changes, from 2015 executive directors' remuneration at the maximum will be divided equally between a) fixed pay, b) upfront and deferred share awards, and c) share awards subject to long-term performance conditions.

Use of the new balanced scorecard

The business has been reorganised during the year and has refreshed its strategy. The Group needs to incentivise both the right strategic actions and delivery of financial performance. The new balanced scorecard reinforces this by linking TVC to the Group's five strategic priorities.

The measures and weighting of the performance measures that apply to 2015 TVC for executive directors and the proposed criteria for assessing the executive directors' annual progress against the financial performance (50 per cent weighting) and other strategic priorities (50 per cent weighting) are set out on page 179. The four financial-related measures have equal weighting to ensure an appropriate focus on capital and returns.

The specific scorecard targets take into account the Group's 2015 financial plan and its priorities for the next few years. 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 2015 Directors' remuneration report alongside the actual level of performance achieved.

The Committee will review the scorecard annually and may vary the measures, weightings and targets each year.

2015 scorecard

	Measure	Weighting %	2015 target range ¹
Financial performance	Underlying pre-tax operating profit ²	12.5	To be disclosed retrospectively
	Normalised earnings per share growth	12.5	To be disclosed retrospectively
	Return on risk-weighted assets (RoRWA) ^{3,4}	12.5	To be disclosed retrospectively
	Common Equity Tier 1 ratio ⁴	12.5	Maintain prudent buffer over regulatory capital requirements
Other strategic measures	Client relationships	20	Deepen, broaden and selectively grow client relationships, as evidenced by an increase in average multi-product or multi-market ratios Evidence that the network is more effectively leveraged
	Organisational effectiveness and efficiency	20	Deliver productivity improvements of at least \$400 million Deliver transformation in the Retail Clients segment by delivering retail branches plan and growth in retail liabilities
	People, culture and conduct	10	Satisfactory progress has been made on the 2015 conduct agenda, including any commitments made to regulators Successful execution of the 2015 milestones under the Group's financial crime risk mitigation and remediation programmes

Notes

1. There will be retrospective disclosure of financial target ranges and the outcomes against both financial and strategic measures
2. Profit will be measured on an underlying basis (with adjustments to such items as disposals, other acquisition and corporate-related activity, goodwill and own credit adjustment). Although underlying profit would ordinarily exclude the cost of any regulatory fines, for the purposes of the scorecard, such fines would be fully taken into account
3. RoRWA will be measured on a post-tax basis
4. RoRWA and CET1 are defined based on regulatory definitions and modelling assumptions as at 1 January 2015. 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

At the end of the year the Committee will follow a three-step process:

1. Consider eligibility for TVC

Confirmation that the Group's financial performance has been achieved within the Group's risk appetite and the forward-looking capital position, and therefore nothing prevents TVC awards being made. In addition, each executive director had achieved a minimum standard in terms of living the Group's values.

2. Evaluate performance against the Group's priorities

If each of the scorecard targets are met, then, subject to any further adjustment, 50 per cent of the maximum TVC would be the outcome. If performance is below target for any of the measures, the Committee will use its judgement to determine an amount below 50 per cent of the maximum. Superior performance (that is, in excess of the target) of any of the measures may receive a payout above 50 per cent. Retrospective disclosure of its assessment of annual performance against both the financial measures and other strategic priorities will be made, together with any overriding discretion exercised by the Committee.

3. Assess personal performance and finalise TVC for each executive director

The payout under the Group scorecard can be adjusted by the Committee positively and negatively for an individual director's performance and for factors such as the risk and control environment in an individual director's area of responsibility.

Taking into account the combination of the initial scorecard and the long-term performance conditions, 75 per cent of TVC will be linked to financial or shareholder-return performance measures and 50 per cent of TVC will be subject to a double hurdle of annual scorecard measures and long-term performance conditions.

The long-term performance conditions for the 2014 TVC awards

Details on the long-term performance conditions for awards to be made in 2015 in respect of 2014 performance

Given the financial performance for 2014 and the refreshed financial priorities for the next three years, the Committee determined it would be appropriate to review the target levels of performance for the performance share awards alongside setting the targets for the new underpin share awards.

The current intention of the Committee is that the measures for awards in 2016 will be similar to those awards to be granted in 2015. However, the Committee will review the measures and targets again in advance of making awards in 2016 in respect of 2015 performance, including an assessment against continued alignment with the Group's priorities.

Performance share awards

For awards in respect of 2014 performance, the Committee concluded that the current performance measures (earnings per share (EPS) growth, RoRWA and relative total shareholder return (TSR)) continue to provide a balanced set of metrics with an equal weighting between performance, investor interests and prudent risk-taking. There will therefore be no change to the measures or weightings.

The target levels for performance share awards are designed to be challenging but realistic. The Committee's starting point for determining target levels was to review the financial plan and the Group's priorities. The Committee then considered the ability of any targets to incentivise executive directors to get back to improved returns. Clearly, in the context of current performance, combined with the impact of risk-weighted asset (RWA) model changes, the starting point for returns is now lower.

The RoRWA target has therefore been changed to ensure it remains stretching yet realistic over the next three years. In contrast, the EPS growth target has been increased at the top end of the performance target range, reflecting the reduced EPS in 2014. No change to the TSR targets will be made for the forthcoming year.

The adjustment to the RoRWA targets also reflects changes in regulation regarding RWA measurement and alterations to capital requirements, which have made the existing RoRWA targets no longer realistic over the time horizon of performance share awards.

However, to acknowledge shareholder feedback, there will be a reduction in the level of vesting for threshold performance, from 30 to 25 per cent across each of the three performance measures.

Performance share awards will vest on the fifth anniversary of grant, subject to meeting the following performance conditions, measured after the third anniversary of award:

Performance measure	Weighting	Threshold (25% vesting)	Maximum vesting (100% vesting)
EPS growth ¹ (over 3 years)	One-third	15%	35% or higher
RoRWA ² (average over 3 years)	One-third	1.2%	1.4% or higher
Relative TSR against peer group (see page 189)	One-third	Median	Upper quartile or higher

Straight-line vesting applies between the threshold and maximum points for EPS growth, RoRWA and TSR.

Underpin share awards

In total, 25 per cent of a TVC award will be delivered as an underpin share award. These awards will vest on either the third or fifth anniversary of the award, subject to sustained financial performance between the date of award and the third anniversary of award. Underpin share awards are intended to provide investors with assurance that should a certain level of performance not be met, then the relevant awards will not vest.

The underpin conditions are as follows:

Performance measure	Weighting	Vesting
EPS growth ¹ (over 3 years)	One-half	The portion of the award subject to the EPS growth underpin will be forfeited if EPS growth after three years has not equalled or exceeded 10%
RoRWA ² (average over 3 years)	One-half	The portion of the award subject to the RoRWA underpin will be forfeited if the average RoRWA after three years has not equalled or exceeded 1.1%

Notes to above tables on performance share awards and underpin share awards

1. Earnings per share growth is measured on a normalised basis

2. RoRWA is calculated by reference to the three-year average normalised post-tax earnings over the four-year average of risk-weighted assets. RoRWA is defined based on regulatory definitions and modelling assumptions as at 1 January 2015. In addition, the Committee has the discretion to take into account at the end of the performance period any changes in regulatory risk-weighted asset requirements that might have been announced and implemented after the start of the performance period

How much is being awarded in TVC this year?

2014 total variable compensation

Determining 2014 TVC

The Committee views the determination of TVC in a holistic way, reviewing a number of factors (both financial and strategic) to determine an appropriate Group TVC.

An automatic risk adjustment is applied in determining Group TVC. This is calculated by using a risk-adjusted, profit-based funding mechanism (known as risk capital adjusted profit or RCAP). The Committee then quantifies other adjustments for specific risk and control matters that are not already taken into account through automatic risk adjustment. In 2014, this included consideration of the cost of the settlements with the US authorities¹, in addition to the automatic risk adjustment.

The Committee also exercises its judgement to ensure that the overall payout appropriately balances Group performance, and any other factors, such as return to investors, the strength of the Group's forward-looking capital position, performance relative to peers, investors' views, political sentiment on compensation, and regulatory requirements.

In recent years the Committee has progressively reduced the share of profits paid in TVC. Between 2010 and 2013 Group TVC fell 20 per cent, compared to a reduction in profit of less than 1 per cent. Competitors in the Group's markets have continued to pay aggressively for scarce talent. This has created significant competitive pressures in some of the Group's key markets: the annualised voluntary attrition rate continued to be high in 2014, particularly at more junior levels. The Committee is mindful of the external sentiment in some markets on bankers' pay, and is particularly conscious of the Group's disappointing financial performance, but it operates in a competitive global marketplace for talent. This requires the Committee to make, and justify, difficult decisions to ensure the Group attracts and retains the talent needed across its footprint of Asia, Africa and the Middle East to deliver its business strategy.

The final decision made by the Committee was that Group TVC for 2014 should be \$1,098 million, 9.1 per cent lower than in 2013, as shown below. The Committee concluded that a lower pool would present a material risk to the ability of the Group to make appropriate and competitive awards. The 2014 Group TVC is 27.6 per cent lower than in 2010, while over the same period dividends paid grew by 51 per cent. Between 2010 and 2014 underlying profits fell by 15.0 per cent. Total staff costs as a percentage of income is 37.2 per cent in 2014, higher than in 2013 but lower than 37.6 per cent in 2011.

	2014 \$million	2013 \$million
Non-deferred awards	897	955
Deferred awards and share awards subject to long-term performance conditions	201	253
Total TVC pool	1,098	1,208

As always, the Group rewards businesses and markets that perform more strongly year-on-year. Differentiation remains critical so the Group can reward those who have contributed significantly. Performance is assessed on both what the Group achieves and how it is achieved. The Group continues to focus on culture, conduct and values, with performance decision-making appropriately considering risk and control issues, behaviours and effective supervision. Regulation in relation to pay continues to evolve rapidly, and the Group will comply with the rules and remain supportive of the underlying sentiment behind them.

1. The US authorities comprise the New York Department of Financial Services (NYDFS), the Board of Governors of the Federal Reserve System (FED), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Office of Foreign Assets Control (OFAC)

Relative expenditure on pay and allocation of earnings

When considering Group TVC the Committee is sensitive to shareholders' concerns about relative expenditure on pay compared to the expenditure on dividends, and considers the allocation of earnings carefully. The Committee concluded that the Group had approached this allocation in a disciplined way over the past five years. As the table below illustrates, the Group TVC as a percentage of income decreased from 9.4 per cent to 6 per cent from 2010 to 2014.

Allocation of the Group's earnings between stakeholders

	Actual					Allocation				
	2014 \$million	2013 \$million	2012 \$million	2011 \$million	2010 \$million	2014 %	2013 %	2012 %	2011 %	2010 %
Staff costs	6,788	6,570	6,492	6,630	5,765	63	61	62	64	65
Corporate taxation including levy	1,896	2,099	2,040	2,007	1,708	18	20	20	19	19
Paid to shareholders in dividends	2,095	2,062	1,866	1,675	1,385	19	19	18	17	16
TVC pool as a % of income	2014	2013	2012	2011	2010					
TVC pool (\$million)	1,098	1,208	1,425	1,499	1,518					
TVC pool as % of income	6.0%	6.4%	7.6%	8.5%	9.4%					

The Committee has included the amount of corporate tax, including the bank levy, because it is a significant payment and illustrates the Group's direct contribution to society through the tax system.

How much is being awarded in TVC to executive directors in 2014?

Executive directors' TVC awarded in respect of 2014 (Audited)

Approach to determining individual TVC awards

The Committee's performance management framework was outlined in the 2013 Directors' remuneration report. At the end of 2014, the Committee agreed its overarching approach to quantum and structure. Then at its meetings in February, the Committee considered Group performance, the performance assessments for each executive director (including both their personal objectives and their contribution to the agreed Group collective agenda) and risk- and control-related matters (with input from Risk and other control functions), and made its determinations.

The Committee followed a three-step process for determining TVC awards:

Step 1: Consider eligibility for TVC

Step 2: Evaluate performance against the Group's priorities

Step 3: Assess personal performance and finalise TVC for each executive director

1. Consider eligibility for TVC

The Committee concluded that the Group remained within its risk appetite and, from a forward-looking capital position, the Committee was able to approve TVC awards. In relation to each individual executive director, the Committee considered individual performance and the performance in areas of personal responsibility. The Committee considered whether each executive director had achieved a minimum standard in terms of living the Group's values and associated behaviours, and concluded this was the case.

2. Evaluate performance against the Group's priorities

At the end of 2014, the Committee reviewed both financial performance and achievement against the Group's strategic priorities outlined at the start of the year, as a means of determining executive directors' TVC awards. In relation to financial performance, the Committee concluded that the financial performance did not meet the expectations set at the start of the year, notwithstanding the challenging market environment. The Committee noted that significant progress was made against the strategic aspirations and the other Group priorities.

Assessment of Group performance

Further details of the aspirations, measures and targets are set out in the 2013 Annual Report and Accounts on pages 8 to 11.

Measures	Assessment of performance	Determination
Deliver profitable and capital accretive growth	<ul style="list-style-type: none"> Income down 2.4 per cent to \$18.3 billion On a reported basis, pre-tax profit down 30.2 per cent. Underlying profit fell 25.4 per cent to \$5.2 billion Normalised earnings per share at 145.9 cents (down 28.5 per cent on 2013) Normalised return on equity of 7.8 per cent Income and cost performance impacted by restructuring and de-risking actions taken during the year Group remained highly liquid during the year with a period end advances-to-deposits ratio of 69.7 per cent, a liquid asset ratio of 32.2 per cent. Basel III requirements on liquidity coverage ratio and net stable funding ratio already met Common Equity Tier 1 ratio of 10.5 per cent, some 180 bps above current minimum requirements 	<p>Committee assessed that performance did not meet the expectations set at the start of the year, notwithstanding the challenging market environment</p> <p>The balance sheet was assessed in good shape with strong liquidity, leverage and capital ratios</p> <p>The overall assessment resulted in the conclusion that the starting point for awards should be significantly below target</p>
Make tangible progress on the strategic aspirations	<ul style="list-style-type: none"> The percentage of clients generating 80 per cent of the Group's income increased to 19.7 per cent, up from 17.7 per cent in 2013 Investment: a number of mandates for corporate and government bond issuances across the Group's footprint were successfully secured Wealth: assets under management have grown by 13 per cent to \$66 billion in 2014 Relevant scale: the Group has maintained scale in key hub markets (such as Hong Kong, Singapore, the UAE) while at the same time starting to reshape activity in several sub-scale markets across the Group's footprint (e.g. exiting Lebanon and Germany, and divesting the Private Bank in Geneva) 	<p>Committee noted that significant progress was made against the strategic aspirations and the other Group priorities</p> <p>Performance against these four measures combined had met expectations. However, acknowledging the settlements with US authorities¹ during 2014 and the progress still to be made in financial crime compliance, the overall assessment resulted in the conclusion that the starting point for awards should be significantly below target</p>
Innovate, digitise and simplify in order to improve productivity	<ul style="list-style-type: none"> Continued to be globally recognised for the Group's best-in-class mobile and internet banking services, winning several external awards including, the Best Global Consumer Internet Bank award from <i>Global Finance</i> magazine for the fourth consecutive year, together with 19 other individual Best Consumer Internet Bank country awards and 39 global awards Developed several successful alliances, including the co-launch with Singtel of 'Dash', which allows customers in Singapore to make mobile payments and apply for savings accounts, personal loans and travel insurance from their mobile application The implementation of the new organisation structure in 2014 resulted in delayering and increased opportunities for enhanced collaboration, productivity and efficiency. For example, a referral programme was launched across Commercial Clients, Corporate & Institutional Clients and Private Banking Clients, resulting in capturing referrals in these areas 	<p>Committee noted that significant progress was made against the strategic aspirations and the other Group priorities</p> <p>Performance against these four measures combined had met expectations. However, acknowledging the settlements with US authorities¹ during 2014 and the progress still to be made in financial crime compliance, the overall assessment resulted in the conclusion that the starting point for awards should be significantly below target</p>
Raise the bar on conduct	<ul style="list-style-type: none"> Progress has been made in 2014 in terms of the Financial Crime Risk Mitigation Programme and embedding the new Code of Conduct (with recommitment rates at 99 per cent) A Conduct Programme has been established and new risk management framework approved by the Board, including risk tolerances for the top operational risks However, it is acknowledged that there is more to do on conduct and this remains an area of focus in 2015 	
Accelerate next generation of leaders	<ul style="list-style-type: none"> Development and roll out of a new pan-bank programme for high-potential junior management Reorganisation created a range of broader leadership roles, and a new executive strategy group has brought the next generation of leaders into the strategic planning process 	

1. The US authorities comprise the New York Department of Financial Services (NYDFS), the Board of Governors of the Federal Reserve System (FED), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Office of Foreign Assets Control (OFAC)

3. Assess personal performance and finalise TVC for each executive director

2014 was a particularly challenging year for the Group. Financial performance was disappointing and below expectations, affected in part by continued low interest rates, quantitative easing, commodity price fluctuations and the sharp fall in oil prices. 2014 was also marked by robust and challenging media speculation and a substantial downward movement in the share price. The civil penalty to the New York Department for Financial Services in August 2014 for deficiencies in the transaction surveillance system took up significant management time and has damaged the Group's reputation.

In the light of the disappointing performance of the Group, those executive directors who had been on the Board throughout the year came to the conclusion that they should show leadership by indicating they would not be seeking TVC awards for the year. Consequently the Committee decided to make no TVC awards to Peter Sands, Mike Rees, Jaspal Bindra and V Shankar.

However, the Committee determined that Andy Halford, who had only joined the Group in June 2014, should receive a pro rata TVC award broadly in line for on-target performance. The Committee took the broader Group performance into account but considered that his strong personal performance enabled a TVC award to be made to him. Andy has made a very good start to his role. In his first six months, he needed to navigate two difficult trading statements, an important investor conference and a critical budget process. In a short space of time, he has identified a number of process changes that improve the effectiveness of budgeting and investment prioritisation. His leadership of the productivity cost challenge and the approach to embedding scorecards Group-wide were highlighted.

Andy's 2014 TVC is comprised of \$0.87 million upfront and deferred share awards, and \$0.87 million share awards subject to long-term performance measures.

Former directors

As the current executive directors had indicated to the Committee that they would not be seeking TVC awards for the year, the Committee decided it would not be appropriate to make TVC awards to two former executive directors, Steve Bertamini and Richard Meddings.

The table summarises the outcome of the Committee's decisions on TVC award for the 2014 performance year.

	P A Sands \$000	A M G Rees \$000	A N Halford \$000	J S Bindra \$000	V Shankar \$000	S P Bertamini \$000	R H Meddings \$000
2014 TVC awarded as a percentage of the maximum	0%	0%	58%	0%	0%	0%	0%
Maximum possible 2014 TVC ^{1,2}	8,597	7,091	2,988	5,515	4,880	2,779	2,377
Total TVC decision ^{2,3}	0	0	1,733	0	0	0	0
2013 Total TVC ²	6,650	10,500	N/A	3,660	4,040	3,390	4,525
2013 TVC awarded as a percentage of the maximum	57%	54%	N/A	52%	56%	44%	48%

Notes

1. Maximum TVC is calculated as two times fixed pay (base salary, fixed pay allowance, benefits and pension, excluding any increase in any pension capitalisation arising from changes in base salary)

2. TVC values shown on a face value basis

3. Fifty per cent of any TVC will be delivered in upfront share and deferred share awards which are disclosed in the single total figure table on page 185. The balance of any TVC is split equally between performance shares and underpin shares which will be reported in the single total figure in future years

How much the executive directors were paid in 2014

Single total figure of remuneration for the executive directors (Audited)

This table sets out salary, fixed pay allowances, benefits, pensions and one-off amounts (such as buy-out awards) received in 2014, TVC upfront and deferred shares awards receivable in respect of 2014, and performance share awards, granted in 2012, which partially vested based on performance in 2014.

Directors	Salary \$000		Fixed pay allowance \$000		Benefits \$000		TVC (upfront and deferred share awards) \$000		Vesting of performance shares \$000		Sub total \$000		YOY % Change		Buy-out award \$000		Pension \$000		Total \$000	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
P A Sands	1,826	1,680	1,100	–	289	301	–	2,500	389	1,487	3,604	5,968	(40)	–	–	1,504	874	5,108	6,842	
A M G Rees	1,507	1,149	1,000	–	182	115	–	6,500	314	1,185	3,003	8,949	(66)	–	–	3,948	516	6,951	9,465	
A N Halford ¹	761	–	379	–	49	–	867	–	–	–	2,056	–	–	1,876	–	304	–	4,236	–	
J S Bindra	838	835	575	–	934	987	–	1,400	195	711	2,542	3,933	(35)	–	–	411	482	2,953	4,415	
V Shankar	871	871	575	–	645	528	–	1,490	151	539	2,242	3,428	(35)	–	–	348	348	2,590	3,776	
S P Bertamini ²	250	1,000	–	–	345	1,248	–	1,250	208	797	803	4,295	–	–	–	100	400	903	4,695	
R H Meddings ³	659	1,250	–	–	131	330	–	1,725	265	1,013	1,055	4,318	–	–	–	399	638	1,454	4,956	

Notes

1. Andy Halford joined the Board on 1 July 2014 but joined the Group on 16 June 2014. The figures above include his remuneration since 16 June

2. Steve Bertamini resigned from the Board with effect from 31 March 2014

3. Richard Meddings resigned from the Board with effect from 30 June 2014

Additional information on the salary figure in the single total figure table (Audited)

The details of the executive directors' base salaries are set out in the table below. The increased salaries for Peter Sands and Mike Rees were reported in the 2013 Directors' remuneration report and reflect market positioning and, in Mike Rees' case, a new role and responsibilities.

Director	Base salary from 1 January 2014 \$000	Base salary from 1 April 2014 (or date of appointment) \$000
P A Sands	1,771	1,845
A M G Rees	1,211	1,606
A N Halford	N/A	1,400
J S Bindra	838	838
V Shankar	871	871
S P Bertamini	1,000	1,000
R H Meddings	1,318	1,318

Additional information on the fixed pay allowance figure in the single total figure table (Audited)

Fixed pay allowances are paid in shares. The number of shares allocated is determined based on the monetary value of the allowance and the prevailing market price of the Group's shares on the date of allocation. Fixed pay allowances are not treated as variable remuneration. Therefore, performance measures are not applicable.

Additional information on the benefits figure in the single total figure table (Audited)

All executive directors received private medical cover, life assurance, ill-health income protection, an allowance in respect of taxation advice and a car, and for some of the directors, the use of a company vehicle and driver for business purposes.

In 2013, Peter Sands, Mike Rees and Richard Meddings used a Group car service and had spouse travel expense benefits, which were taxable in the UK in the 2012/13 and 2013/14 tax years, and the Group paid the tax on these benefits. Some executive directors previously had home security installed, and some maintenance and service costs in respect of Richard Meddings' home security were incurred, which were paid for by the Group. The benefits figures shown for each of these directors have been restated from the 2013 figures (\$225,000, \$101,000 and \$104,000 respectively) to show the correct value of these benefits (and associated tax costs). The value of these Group car service, spouse travel expense and home security benefits (including applicable tax) was \$75,586, \$13,670 and \$226,357, respectively, in 2013 and \$68,578, \$51,730 and \$73,793, respectively, in 2014.

In 2013, V Shankar also received financial planning and additional international mobility benefits and his benefits figure has been restated from the 2013 figure (\$525,000) to show the correct value of these benefits. Jaspal Bindra, V Shankar and Steve Bertamini received an accommodation allowance (of \$752,643, \$492,785 and \$317,360 respectively) as they are undertaking responsibilities in an international location and, in line with market practice, received certain expatriate benefits.

Steve Bertamini also received allowances to cover the cost of education of dependent children. The Group covered the cost of the additional tax and social security on his salary and benefits, known as tax equalisation, being \$790,265. In the 2013 Directors' remuneration report, there was a typographic error in Steve's benefits figure which has been restated from the incorrect 2013 figure of \$1,242,000.

Additional information on the TVC (upfront and deferred share awards) in the single total figure table (Audited)

Where awarded, any directors' TVC is delivered in shares, with 16 per cent vesting immediately and 34 per cent being deferred and vesting over three years. Together, these comprise the TVC upfront and deferred share awards, which are disclosed in the single total figure table. These awards will be granted in March 2015.

The balance of the TVC award in respect of 2014 performance (50 per cent of the TVC award) is granted in underpin and performance share awards, which are subject to long-term performance conditions and the Group's claw-back policy. Any value realised from such awards will be shown in the single figure table disclosure for the year in which they vest.

Dividend equivalents are paid in relation to deferred share awards. Dividend equivalents will be paid on both performance and underpin share award grants effective from March 2015. Such dividends will only be paid on the portion of the award that vests.

Additional information on the vesting of performance share awards in the single total figure table (Audited)

At the date the 2013 Annual Report and Accounts were finalised, the performance share awards that vested based on performance in the 2013 financial year had not yet vested based on the time the award had been held. Therefore, the average share price for the last three months of the 2013 financial year was used to determine the value. This has been restated in the single total figure table using the share price on the date of vesting. The vesting percentage (33 per cent) has also been restated to 33.33 per cent.

The 2012 performance share awards vest in March 2015. The percentage vesting is based on performance over the years 2012 to 2014. The details are shown below.

Achievement against performance share award measures (Audited)

Vesting of these performance share awards was dependent on performance over the three financial years ended on 31 December 2014. The performance achieved against the performance targets is shown below.

Performance measure	Minimum (30% vesting)	Maximum (100% vesting)	Actual	Percentage of maximum achieved
Total shareholder return (one-third weighting)	Median	Equal to or above fifth	Below median	0%
Earnings per share growth (one-third weighting)	15%	30%	(26.3)%	0%
Return on risk-weighted assets (one-third weighting)	1.5%	1.7%	1.5%	30.0%
Total				10.0%

As the awards had not vested at the date this report was finalised, the average share price for the last three months of the 2014 financial year has been used to determine the value for the purposes of the single figure of remuneration. The awards held by the executive directors were as follows:

Performance share awards granted in 2012	No. of shares awarded	No. of shares vesting	No. of shares lapsing	Value of shares vesting ¹ \$
P A Sands	239,127	23,912	215,215	389,146
A M G Rees	192,745	19,274	173,471	313,667
J S Bindra	119,563	11,956	107,607	194,573
V Shankar	92,764	9,276	83,488	150,958
S P Bertamini	127,809	12,780	115,029	207,983
R H Meddings	162,854	16,285	146,569	265,024

Note

1. To calculate the value, the average share price for the last three months of the financial year of £9.88 has been used

Additional information on the buy-out award figure in the single total figure table (Audited)

Andy Halford received a buy-out award in respect of awards from his previous employer, which he forfeited when he joined the Group. Of the \$4.66 million buy-out award, part of this was awarded in performance share awards during 2014, which are subject to performance conditions, and disclosed on page 188. The remaining part of this buy-out award is disclosed in the single total figure table on page 185. This award will be satisfied through a transfer of shares in June 2015 with a value of \$1.88 million (less income tax and employee's national insurance costs) subject to Andy remaining an employee of the Group, and not being under notice, on that date. These shares will not be subject to performance conditions as this part of the buy-out replaced awards close to vesting with a relatively high degree of certainty as to the outcome and quantum of vesting.

Additional information on the pension figure in the single total figure table (Audited)

Peter Sands, Mike Rees and Richard Meddings are contractually entitled to participate in a defined benefit pension plan, with a headline entitlement of one-thirtieth of base salary for each year of service. The Committee continues to take into account the value of such benefits as part of total compensation.

As disclosed in the 2013 Directors' remuneration report, the increase in Mike Rees' salary in April 2014, following his change in role, gave rise to a material one-off increase in his accrued pension benefit. The 12-month averaging period for pensionable salary means that the increase in pension value will be reported over two years. Accordingly, in the 2014 pension figure of \$3.9 million, \$3.1 million relates to the increase in pensionable salary. A further \$1 million is expected to be disclosed in next year's pension figure.

The increase in Peter Sands' pensionable salary during the year gave rise to a \$0.4 million increase in his accrued pension benefit in 2014.

Jaspal Bindra previously participated in the defined benefit pension plan, but in 2013 he elected to give up his future pension accrual and replace it with an individually costed pension allowance (of 49 per cent of base salary), which was cost-neutral to the Group, and reflected the level of benefit given up. Jaspal's pension allowance was payable in cash.

Andy Halford and V Shankar received cash allowances of 40 per cent of their base salary.

Steve Bertamini received a cash allowance of 40 per cent of his base salary and he elected to receive a proportion of this as a contribution to a US defined contribution pension plan with the balance payable in cash.

Total pension entitlements (Audited)

The Group's approved defined benefit scheme is not open to new joiners, but existing members continue to accrue additional rights. This arrangement is supplemented by the Group's unfunded unapproved plan for longer-serving executive directors and senior employees. Peter Sands, Mike Rees and Richard Meddings (while he remains an employee) continue to participate in both of these arrangements and their prospective defined benefit entitlement, as at 31 December 2014 are detailed below. The retirement age for executive directors is 60, and if a director retires before this, pension benefits are reduced for early payment.

Director	Rights as at 31 December 2014
P A Sands	\$693,000 per annum
A M G Rees	\$768,000 per annum
J S Bindra	\$304,000 per annum
R H Meddings	\$605,000 per annum

The executive directors' shareholding requirements, share interests and share awards

Executive directors' share interests including share awards

Scheme interests awarded during the year (Audited)

The following share interests were awarded during the year and, other than the sharesave, relate to the 2013 performance year.

	Interest awarded ^{2,3}	Face value ¹ £'000	Percentage vesting at threshold (if applicable)	Number of shares	Performance period end date
P A Sands	Performance share award	2,505	30	201,166	31 Dec 2016
	Deferred share award	905	–	72,710	31 Dec 2013
A M G Rees	Performance share award	2,414	30	193,895	31 Dec 2016
	Deferred share award	2,354	–	189,048	31 Dec 2013
A N Halford ⁴	Performance share award	1,690	30	128,545	31 Dec 2016
J S Bindra	Performance share award	1,364	30	109,551	31 Dec 2016
	Deferred share award	507	–	40,718	31 Dec 2013
	Sharesave option	11	–	913	1 Dec 2017
V Shankar	Performance share award	1,539	30	123,608	31 Dec 2016
	Deferred share award	540	–	43,335	31 Dec 2013
S P Bertamini	Performance share award	1,291	30	103,734	31 Dec 2016
	Deferred share award	453	–	36,355	31 Dec 2013
R H Meddings	Performance share award	1,690	30	135,726	31 Dec 2016
	Deferred share award	625	–	50,170	31 Dec 2013

Notes

- Face value calculated based on the prevailing market price of shares, which is the higher of (i) the five-day average closing price and (ii) the closing price on the day before the grant date or, in the case of sharesave, the invitation date. For the performance and deferred share awards granted to the executive directors on 13 March 2014, the price was £12.45; for the performance share award granted to Andy Halford on 18 June 2014, the price was £13.15; and for the sharesave option granted to Jaspal Bindra on 8 October 2014, the price used was £12.27
- The performance share awards are exercisable between 2017 and 2024 and the deferred share awards are exercisable between 2015 and 2021, with the exception of Steve Bertamini, who received a conditional right that is automatically exercised on vesting. The sharesave option is exercisable for a period of six months until May 2018
- Deferred share awards are not subject to performance conditions and receive dividend equivalents at the date of vesting
- Andy Halford's performance share award forms part of the buy-out of his forfeited remuneration from his previous employment and is subject to the same performance measures as the performance share awards made to the other executive directors in March 2014

Executive directors' shareholding requirements and shareholdings

Remuneration policy table for executive directors approved at the AGM on 8 May 2014

How the element supports the Group's strategic objectives	Operation	Maximum potential value, payment at threshold and performance metrics
Shareholding requirement <ul style="list-style-type: none">To strengthen the alignment of the interests of executive directors with shareholders	Each director is required to hold a specified number of shares determined by the Committee. If the specified number is increased or a new appointment is made, executive directors will be given time to meet the requirement, rather than it necessarily taking effect immediately	Not applicable

Each executive director has a shareholding requirement expressed as a number of shares. Executive directors are not permitted to sell any shares until the shareholding requirement is met. The Committee requires new executive directors to meet these requirements within a reasonable time period, typically up to three years after appointment.

The table (audited) sets out the executive directors' shareholdings and interests in shares.^{1,2,3,4,5}

	Are the shareholding requirements met?				Share awards			
	Shares held beneficially	Actual shareholding requirement in number of shares	Alignment to requirement	Indicative shareholding requirement as a % of salary ⁶	Awards exercised ⁷	Vested but unexercised deferred share awards	Deferred share awards not subject to performance conditions	Deferred share awards subject to performance conditions
								Unexercised shares under any share save option
P A Sands	322,791	250,000	Met	304	153,176	–	150,269	626,622
A M G Rees	227,148	200,000	Met	279	244,342	56,197	410,646	537,129
A N Halford ⁸	11,874	150,000	Not yet met	240	–	–	–	128,545
J S Bindra ⁹	211,360	150,000	Met	401	76,386	–	82,529	329,856
V Shankar	179,087	150,000	Met	386	100,753	–	100,483	323,355
S P Bertamini ¹⁰	126,490	120,000	Met	269	43,552	–	79,049	449,278
R H Meddings ¹¹	132,686	120,000	Met	204	56,692	48,022	103,353	425,355

Notes

- All figures are as at 31 December 2014 or on the retirement of an executive director, unless stated otherwise
- The beneficial interests of executive directors and their families in the ordinary shares of the Company are set out above. The directors do not have any non-beneficial interests in the Company's shares
- No director had either (i) an interest in the Company's preference shares or loan stocks of any subsidiary or associated undertaking of the Group or (b) any corporate interests in the Company's ordinary shares
- Fixed pay allowance shares are beneficially held by each executive director but do not immediately count for the purposes of meeting their shareholding requirement
- There were no changes to any executive directors' interests in ordinary shares between 31 December 2014 and 27 February 2015
- Shareholding requirement as a percentage of salary is shown for illustration purposes and is calculated using the Company's share price on 1 January 2014 (£13.60)
- During the period when they were directors, the executive directors exercised nil cost options (being performance share awards and deferred share awards that have been reported in previous years) over a total of 674,901 shares on 11 March (343,630 shares), 14 March (201,509 shares) and 27 June (129,762 shares) 2014 at share prices of £12.43, £11.92 and £11.98, respectively. The closing share price on the day before exercise was £12.48, £11.92 and £12.03, respectively
- Andy Halford joined the Board on 1 July 2014 and will be required to meet his shareholding requirement within a reasonable period of time
- 153,000 of Jaspal Bindra's shares are subject to a charge dated 28 December 2011
- Steve Bertamini stepped down from the Board on 31 March 2014. Figures shown are as at 31 March 2014
- Richard Meddings stepped down from the Board on 30 June 2014. Figures shown are as at 30 June 2014

Performance measures used for share awards granted in 2014 in respect of the 2013 performance year

The performance share awards, and the deferred share awards relating to the 2013 performance year, were granted under the 2011 Standard Chartered Share Plan. The awards take the form of nil cost options and the number of shares awarded is determined by the monetary value of the award divided by the prevailing market price of the Group's shares.

The performance shares awarded to executive directors during the year related either to the 2013 performance year or to a buy-out award for Andy Halford. Subject to meeting the following performance conditions, the awards will be delivered in shares on or after the third anniversary of award.

Performance measure	Weighting	Minimum (30% vesting)	Maximum (100% vesting)
Total shareholder return (relative performance over three years)	One-third	Median	Equal to or above fifth
Earnings per share growth (increase over three-year performance period)	One-third	15%	30%
Return on risk-weighted assets (three-year average)	One-third	1.5%	1.7%

Note

The comparator group for the total shareholder return measure is set out below

Banco Santander	Citigroup	ICBC	Royal Bank of Scotland	United Overseas Bank
Bank of America	Credit Suisse	ICICI	Société Générale	
Bank of China	DBS Group	JP Morgan Chase	Standard Bank	
Bank of East Asia	Deutsche Bank	Kookmin	State Bank of India	
Barclays	HSBC	Oversea-Chinese Banking Corporation	UniCredito	

Current position on outstanding performance share awards

The current position on vesting for all unvested performance share awards outstanding from 2013 and 2014 based on current performance and share price is set out in the table below.

Performance share awards	Minimum (30% vesting)	Maximum (100% vesting)	Grants in 2013	Grants in 2014
Total shareholder return (relative performance over three years)	Median	Equal to or above fifth	Below median	Below median
Earnings per share growth (increase over three-year performance period)	15%	30%	(27.44)%	(6.08)%
Return on risk-weighted assets (three-year average)	1.5%	1.7%	1.28%	1.18%
Estimated vesting on current performance			Nil	Nil

Sharesave options

Sharesave options are currently granted under the Standard Chartered 2013 Sharesave Plan. The options are granted at a 20 per cent discount to the prevailing market price. The number of shares under option is calculated based on the amount of the executive director's savings in his sharesave savings contract.

The details of outstanding sharesave options are set out in the table below.

Grant date	As at 1 January 2014	Exercise price (pence)	Awarded during the year	As at 31 December 2014 (or date of retirement)			Period of exercise
				Exercised	Lapsed		
P A Sands	1 Oct 2012	789	1,140	–	–	–	789
J S Bindra	9 Oct 2009	1,407	1,104	–	–	–	1,407
J S Bindra	8 Oct 2014	–	985	913	–	–	913
S P Bertamini	9 Oct 2009	1,405	1,104	–	–	–	1,405
R H Meddings	4 Oct 2010	614	1,463	–	–	614	–
R H Meddings	9 Oct 2013	764	1,178	–	–	764	–

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 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 Management Association's Principles of Remuneration and the terms of the listing on The Stock Exchange of Hong Kong Limited.

The Group has two employee benefit trusts that are administered by an independent trustee and which hold ordinary shares to meet various obligations under the Group's share plans. As each executive director is within the class of beneficiary of these trusts, they are deemed, for the purposes of the Companies Act 2006, to have an interest in the trusts' shares.

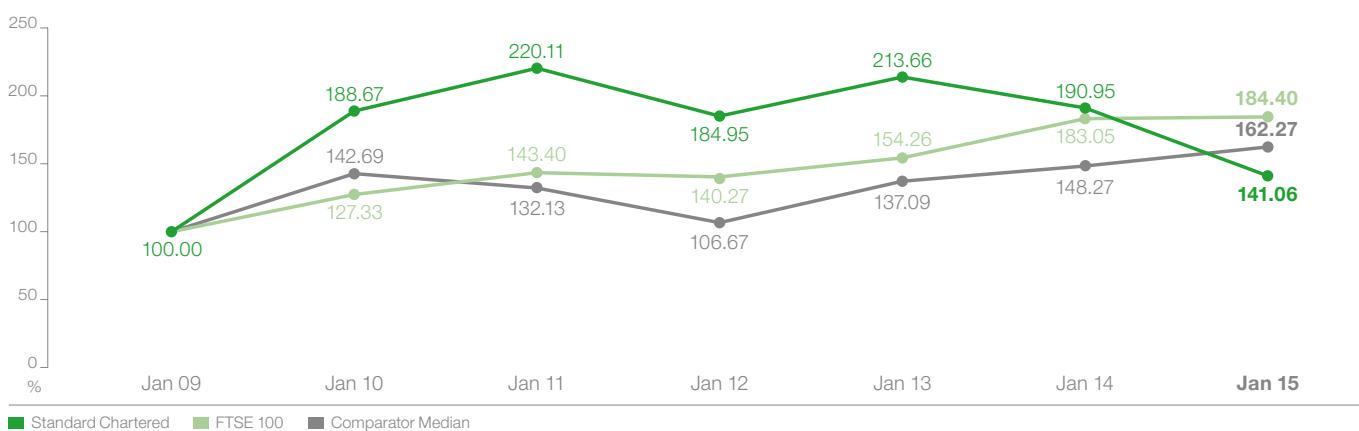
The Group Chief Executive's remuneration relative to Group performance and other employees

Performance versus the Group Chief Executive's remuneration

Summary of performance

It is important for reward to be linked to performance and for shareholders to understand this link. The graph below shows the Group's TSR performance on a cumulative basis over the past six years alongside that of the FTSE 100, and the table below shows the historical levels of remuneration of the Group Chief Executive.

The FTSE 100 provides a broad comparison group against which shareholders may measure their relative returns. Standard Chartered is a constituent member of the FTSE 100 Index and the London Stock Exchange is the principal exchange for the Group's shares. For illustrative purposes the Group's TSR performance against the peer banks that were part of the Group's performance share award comparator group in a particular year is also shown.



Percentage change in remuneration of the Group Chief Executive

The table below shows the historical levels of pay for the Group Chief Executive, Peter Sands, his awards not subject to further performance conditions, and those subject to further performance conditions, as a proportion of plan or policy maxima.

Performance year	Single figure of total remuneration \$000	Upfront and deferred share awards as a percentage of maximum opportunity %	Vesting of performance share awards as a percentage of maximum opportunity %
2014	5,108	0	10
2013	6,842	50	33
2012	11,014	63	77
2011	12,469	70	90
2010	12,305	70	90
2009	11,139	64	81

Differences in remuneration policy for all employees and the executive directors

For all employees, the performance, reward and benefits approach (summarised in the table below) supports and drives business strategy and reinforces the Group's values in the context of a clearly articulated risk appetite and a Group-wide framework.

	All employees	Code Staff	Executive directors
Base salary and benefits	Yes	Yes	Yes
Fixed pay allowances	Not applicable	Selected material risk-takers only (paid in cash and shares)	Yes (paid in shares)
TVC	<p>Most employees are eligible to be considered for an award as part of the discretionary TVC plan. Any award is paid in cash up to certain limits, at which point part is then deferred and delivered in shares</p> <p>For senior management a portion of the TVC may be delivered in performance share awards</p>	<p>Yes, eligible to be considered for an award. Any award is paid in cash up to certain limits, at which point part is then deferred and delivered in shares (or cash and shares)</p>	<p>Yes, eligible to be considered for an award. Any award is delivered in shares, with 16 per cent paid upfront and the rest deferred. Fifty per cent in total is subject to further long-term performance conditions</p>

When making remuneration decisions, the Group's policy is to consider Group performance and to differentiate based on individual performance. Market benchmarking data is used, but treated with caution, so that the Group pays only what is necessary to attract and retain the talent the Group needs to achieve the business objectives.

The Committee reviews annually, and takes into account, the remuneration trends across the Group, including the relationship between executive directors' remuneration and the remuneration of other Group employees. The Committee oversees the remuneration structures for Code Staff (defined on page 206) and works with the Human Resources team to ensure consistency of approach throughout the Group, in addition to overseeing compliance with regulations.

The percentage change in remuneration of the Group Chief Executive and all employees

The table below shows the percentage change in remuneration between the 2013 and 2014 performance years for both the Group Chief Executive and the wider employee population. To enable a comparison, for the all employees group:

- The taxable benefits for UK employees have been used, as it was deemed the most appropriate comparison for the Group Chief Executive given the varied requirements in the provision of benefits across different jurisdictions
- The base salary and TVC data for the global employee population who are eligible to participate in the discretionary TVC plan has been used, as those employees have an element of variable remuneration

Remuneration element	CEO % change	All employees % change
Base salaries	4.2	3.5
Taxable benefits	(4.0)	18.4
TVC	(100.0)	(9.1)

In line with the Committee's usual annual process, executive directors' salaries are reviewed against market data. In February 2014, the Committee noted that Peter Sands' salary had not been increased for three years. The Committee approved an increase of 4.2 per cent.

What was paid to executive directors who joined the Group in 2014?

New executive directors' remuneration

Approach on recruitment for directors' remuneration approved at the AGM on 8 May 2014

The Group's approach to reward and benefits reflects the fact that many of our employees bring international experience and expertise and that we recruit from a global marketplace. The Committee's approach to recruitment remuneration is to pay a competitive reward package that reflects our international nature and enables us to attract and retain candidates to the role. Base salary and fixed pay allowance will be set to reflect the role and the skills and experience of the candidate, and will enable payment of a market-competitive total remuneration within the limits on variable compensation set by our remuneration policy.

Where it is decided to compensate for forfeited remuneration from the individual's previous employer through a buy-out, it will typically be delivered in the form of restricted shares or performance shares. The Group looks to replicate broadly the arrangements being bought out.

The Committee recognises that in exceptional circumstances the use of a guaranteed variable compensation award can be important in securing key senior talent, albeit it acknowledges that there is a need for appropriate safeguards on how it is composed and delivered and subject to regulatory restrictions. The Committee will take into consideration the variable remuneration awarded or offered by the individual's previous employer in a similar role.

Any conditional award is subject to the prevailing deferral mechanism, claw-back policy and the maximum of 200 per cent of fixed pay as valued in line with the EBA rules.

Any new executive director's package would normally include the same elements, and be subject to the same structure as those of the existing executive directors, as shown below.

Element	Maximum percentage of salary
Base salary	Not applicable
Fixed pay allowance	100 per cent of base salary
Legacy matters	For existing employees the Group will continue to honour remuneration commitments already in place
Benefits	Dependent on circumstances but typically consists of car provision, medical insurance, life assurance and, for international hires, expatriate benefits as outlined in the policy table
Pension	40 per cent of base salary
Variable compensation	Dependent on circumstances but no more than 200 per cent of fixed pay as valued in line with the EBA rules

Recruitment arrangements for Andy Halford

In June 2014, the Board was pleased to welcome Andy Halford as a new executive director (with effect from 1 July) and Group Finance Director. It was the Committee's responsibility to set the remuneration for Andy's role and its approach was to judge carefully where to position the company relative to international banking peers so that Andy's pay (summarised below) was competitive, reflected his individual experience and was in line with the approved directors' remuneration policy, but was no more than necessary for such a role.

Remuneration element	Details
Base salary	\$1,400,000
Benefits	Car provision, medical insurance and life assurance
Pension	40 per cent of base salary
Fixed pay allowance	\$700,000 paid in shares, released over five years
TVC	Entitlement to participate in the discretionary TVC plan up to 200 per cent of fixed pay
Buy-out of forfeited compensation	To be granted replacement share awards with a face value of \$4.66 million, which reflected the value of the awards forfeited from his previous employment. The replacement awards consisted of a \$1.88 million share award to be made in June 2015 and a performance share award of \$2.78 million made in June 2014

What was paid to former executive directors in 2014?

Payments to former executive directors

Policy on payment for loss of office approved at the AGM on 8 May 2014

Standard provision	Policy	Details	Other provisions in service contracts
Notice periods in executive directors' service contracts	<ul style="list-style-type: none"> 12 months' notice from the company 12 months' notice from the executive director 	<ul style="list-style-type: none"> Executive directors may be required to work during the notice period or may be provided with pay in lieu of notice if not required to work the full notice period 	
Compensation for loss of office in service contracts and treatment of annual performance award under plan rules	<ul style="list-style-type: none"> No more than 12 months' salary, pension and benefits Variable compensation is awarded at the Committee's discretion 	<ul style="list-style-type: none"> Payable quarterly and subject to mitigation if the executive director seeks alternative employment Good leavers (as determined by the Committee) may be eligible for variable compensation, although there is no automatic entitlement. Typically the amount is pro rata to the period of service during the year The Committee has discretion to reduce the entitlement of a good leaver in line with performance and the circumstances of the termination 	<ul style="list-style-type: none"> In the event of a compromise or settlement agreement, the Committee may make payments it considers reasonable in settlement of potential legal claims. This may include an entitlement to compensation in respect of their statutory rights under employment protection legislation in the UK or other jurisdictions. The Committee may also include in such payments reasonable reimbursement of professional fees in connection with such arrangements
Treatment of unvested deferred restricted share awards and performance share awards on termination under plan rules	<ul style="list-style-type: none"> The Committee has the discretion under the relevant plan rules to determine how 'good leaver' status should be applied on termination. The current approach provides that discretion will be afforded in cases such as death, disability, redundancy and mutual separation 	<ul style="list-style-type: none"> For good leavers, vesting may be subject to non-solicit and non-compete requirements Awards vest in full over the original timescale and remain subject to the Group's claw-back arrangements (unless otherwise specified in the rules). This is reflective of the increased level of deferred compensation over recent years due to changes in regulatory requirements. The Committee has discretion to vary the level of vesting Awards lapse for employees not designated good leavers 	

Payments to Steve Bertamini, Richard Meddings and other former directors (Audited)

Steve Bertamini and Richard Meddings retired from the Board during the year. The remuneration they received when they were directors is set out in the single total figure table on page 185 of this report. Details of how they were to be remunerated were set out initially in the announcement to the London Stock Exchange on 9 January 2014.

Following their retirement from the Board, they each received the following payments, on a monthly basis, in the period from the date they ceased to be a director to 31 December 2014, in accordance with their contracts of employment.

Remuneration element	Richard Meddings (ceased to be a director on 30 June 2014)	Steve Bertamini (ceased to be a director on 31 March 2014)
Base salary	\$659,000	\$750,000
Benefits and pension	\$530,000	\$1,334,000

In line with market practice, the Group paid for appropriate professional legal fees incurred by both directors in respect of finalising their termination arrangements, which amounted to circa \$11,118 for Richard, and \$20,590 for Steve.

In addition, the Committee exercised its discretion in accordance with the rules of the share plans, under which both directors held unvested awards, and determined that they should be treated as good leavers, and as such be allowed to retain any unvested share awards, which will vest over the original vesting periods subject to the application of malus and the satisfaction of the performance conditions. This discretion was exercised by the Committee after considering the nature of the executive directors' departure and their track record of performance while they were executive directors.

As reported in previous years, when Steve Bertamini joined the Group in 2008 he received an award to replace forfeited deferred compensation from his previous employer. This award took the form of a deferred compensation arrangement, under which \$6,500,000 was allocated into an interest-bearing account for Steve to invest at his discretion; this vested in three tranches (in 2010, 2012 and 2014). In accordance with the original vesting schedule, the final tranche of this award (\$2,065,000) was paid during the year.

No payments to other former directors were made during the year.

Details of the executive directors' service contracts

Service contracts for executive directors

Copies of the executive directors' service contracts are available for inspection at the Group's registered office. These contracts have rolling 12-month notice periods and the dates of the executive directors' service contracts are shown below.

Executive directors are permitted to hold a non-executive directorship position 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. The following executive directors served as non-executive directors elsewhere and received fees or other benefits for the period covered by this report.

	Date of employment contract	Details of any non-executive directorship	Fees retained for any non-executive directorship (local currency)
P A Sands	31 December 2003	MAS International Advisory Panel	Fee of SGD10,000 given to charity
		The Department of Health	Fee of £15,000 waived
A M G Rees	7 January 2010	–	–
A N Halford	19 May 2014	Marks and Spencer Group plc	£85,000
J S Bindra	8 May 2013	Reckitt Benckiser Group plc	£48,750
V Shankar	14 April 2010	Majid Al Futtaim Holding LLC	\$300,000
S P Bertamini	22 April 2008	–	–
R H Meddings	12 December 2003	3i Group plc	£56,985

What was paid to the Group Chairman and independent non-executive directors in 2014

Remuneration arrangements for the Group Chairman and independent non-executive directors

Single figure of remuneration of the Group Chairman and independent non-executive directors (Audited)

The Chairman and independent non-executive directors do not participate in any of the Group's discretionary TVC or retirement plans.

Sir John Peace's total fee remained £1,150,000 and this continued to be paid partly in cash and partly in shares (allocated in two equal tranches). Sir John was also provided with a car and driver for business purposes, and private healthcare.

The independent non-executive directors were paid in 12 equal monthly instalments during the year. UK-based independent non-executive directors were able to use up to 100 per cent of their monthly post-tax base fees to acquire shares in the Group (Monthly Share Purchase Scheme).

The table below shows the fees and benefits received by the Group Chairman and non-executive directors in 2014.

	Fees \$000		Benefits \$000		Total remuneration \$000		Shares held beneficially as at 31 December 2014	Vested share awards as at 31 December 2014	Unvested share awards as at 31 December 2014
	2014	2013	2014	2013	2014	2013			
Chairman									
Sir John Peace	1,894	1,801	6	45	1,900	1,846	29,382	113,889	48,908
Independent non-executive directors									
Current non-executive directors									
O P Bhatt	214	188	44	20	258	208	2,000	N/A	N/A
Dr K M Campbell	169	84	10	–	179	84	–	N/A	N/A
Dr L Cheung	214	185	67	3	281	188	2,000	N/A	N/A
Dr B E Grote ¹	132	–	–	–	132	–	25,000	N/A	N/A
C M Hodgson	292	68	–	–	292	68	2,000	N/A	N/A
N Kheraj ²	324	–	1	–	325	–	2,000	N/A	N/A
S J Lowth ³	214	203	3	–	217	203	10,854	N/A	N/A
R Markland	453	386	5	–	458	386	4,152	N/A	N/A
Dr Han Seung-soo, KBE	214	198	326	221	540	419	2,572	N/A	N/A
P D Skinner, CBE	387	352	6	–	393	352	16,467	N/A	N/A
Dr L H Thunell	356	228	3	10	359	238	6,773	N/A	N/A
Former non-executive directors									
J F T Dundas ⁴	129	373	2	–	131	373	3,141	N/A	N/A
M Ewing ⁵	22	219	1	–	23	219	2,037	N/A	N/A
R H P Markham ⁶	118	354	1	–	119	354	4,390	N/A	N/A
J G H Paynter ⁷	264	245	3	–	267	245	12,500	N/A	N/A
O H J Stocken, CBE ⁸	214	203	–	–	214	203	17,915	N/A	N/A

Notes

1. Byron Grote joined the Board on 1 July 2014

2. Naguib Kheraj joined the Board on 1 January 2014

3. The number of shares that Simon Lowth holds beneficially has increased by 112 shares in the period from 31 December 2014 to 27 February 2015, due to his participation in the Monthly Share Purchase Scheme

4. Jamie Dundas resigned from the Board with effect from 1 May 2014

5. Margaret Ewing resigned from the Board with effect from 31 January 2014

6. Rudy Markham resigned from the Board with effect from 1 May 2014

7. John Paynter resigned from the Board with effect from 31 December 2014

8. Oliver Stocken resigned from the Board with effect from 28 February 2015

The beneficial interests of directors and their families in the ordinary shares of the Company are set out above. The directors do not have any non-beneficial interests in the Company's shares

No director had 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

The non-executive directors are required to hold shares with a nominal value of \$1,000. All the directors, other than Kurt Campbell, have met this requirement. Shareholders approved a resolution to disapply the shareholding qualification in relation to Kurt Campbell at the Company's annual general meeting in May 2014

Other than Simon Lowth, there were no changes to any of the other non-executive directors' interests in ordinary shares between 31 December 2014 and 27 February 2015

Additional information to explain the single total figure table for the Group Chairman and independent non-executive directors

Benefits primarily consist of travel and subsistence costs in relation to Board and Committee meetings and other Board-related events which are taxable in the UK. Spouses may also accompany the directors to meetings. These costs (and any associated tax costs) are paid by the Group.

Sir John is entitled to a car and driver for business travel, and an element of this benefit was taxable in the UK in the 2013/14 tax year; the Group paid the tax on this benefit. The benefits figure for Sir John has been restated from the 2013 figure (£1,892) to show the value of this benefit (and associated tax cost).

The benefits figures shown for each of Om Bhatt, Kurt Campbell, Louis Cheung, Dr Han Seung-soo and Lars Thunell have been restated from the 2013 figures (\$58,000, \$5,000, \$61,000, \$288,000, and \$28,000 respectively) to reflect the benefits for the 2012/13 tax year so as to be aligned with the reporting of similar benefits received by the executive directors.

Fees (Audited)

The independent non-executive directors' fees were not reviewed during 2014. The fees were determined based on the duties, time commitment and contribution expected and on alignment to fees paid to independent non-executive directors in banks and other companies of a similar scale and complexity.

The following fees were paid to the independent non-executive directors in 2014:

	£000
Board member	100
Additional responsibilities	
Senior Independent Director	40
Chairman of Audit Committee or Board Risk Committee	70
Chairman of Remuneration Committee or Brand, Values and Conduct Committee	60
Membership of Audit Committee, Brand Values and Conduct Committee, Remuneration Committee or Board Risk Committee	30
Membership of Governance and Nomination Committee	15

A new Board committee, the Board Finance Crime Risk Committee, has been established effective 1 January 2015, which will focus on financial crime compliance matters.

Changes to implementation of remuneration policy for the Group Chairman and independent non-executive directors in 2015 compared to 2014

There will be no changes to how the remuneration policy is implemented in 2015 compared to 2014.

Non-executive directors' letters of appointment

The non-executive directors do not have service contracts and copies of their letters of appointment are available for inspection at the Group's registered office. Details of the non-executive directors' dates of appointment are set out on pages 128 to 131 of the report.

What the Remuneration Committee discussed during the year

The Remuneration Committee

Remuneration Committee members, attendance and attendees

The table below sets out the attendance at the Committee's meetings during the year.

	Scheduled meetings (7)	Ad hoc meetings (4)
R Markland (Chair)	7/7	4/4
Dr L Cheung	7/7	4/4
C M Hodgson	7/7	4/4
P D Skinner, CBE	7/7	1/4 ¹
Directors who stepped down during 2014/2015		
M Ewing (stepped down 31 January 2014)	n/a	0/2 ²
J G H Paynter (stepped down 31 December 2014)	7/7	1/4 ³

Other attendees at Committee meetings include:

Group Chairman; Group Chief Executive; Director, Compliance, People and Communications; Global Head, Performance, Reward and Benefits; Group Company Secretary; Group Finance Director; Group Risk Officer; Group General Counsel.

Notes

1. Paul Skinner missed ad hoc meetings on 7 and 8 January and 24 November 2014 due to immovable personal commitments
2. Margaret Ewing missed ad hoc meetings on 7 and 8 January 2014 due to ill health
3. John Paynter missed ad hoc meetings on 7 and 8 January and 24 November 2014 due to immovable personal commitments

The Committee recognises, and manages, any conflicts of interest when receiving views from executive directors or senior management on executive remuneration proposals, and no director is involved in deciding his or her own remuneration.

The Committee was assisted in its considerations by PricewaterhouseCoopers LLP (PwC), which was appointed by the Committee as its remuneration advisor in November 2013, after a rigorous process. Following a further review process in September 2014, PwC's appointment was extended until May 2016. During this process, Paul Skinner, who sits on an advisory board for PwC, absented himself in view of a potential conflict of interest.

PwC is a signatory to the voluntary code of conduct in relation to remuneration consulting in the UK. PwC also provides professional services in the ordinary course of business, including assurance, advisory and tax advice to the Group, and the Committee is satisfied that there are processes in place to ensure that the advice the Committee receives is objective and independent. In light of PwC's role as advisor to the Committee on remuneration matters, the Committee considered this position and determined that there was no conflict or potential conflict arising. The fee paid to PwC was £217,000, which was charged on an agreed per diem fee basis. This fee includes advice provided on matters within the Committee's remit but not relating to executive directors' remuneration.

Management's advice to the Committee was supported by:

- The provision of market data from Towers Watson
- Advice on the design and operation of the Group's share plans and issues relating to executive directors' contracts and independent non-executive directors' letters of appointment and remuneration policy advice from Clifford Chance LLP
- Remuneration policy advice from Slaughter and May

Committee role and focus

The Remuneration Committee has oversight of all reward policies for Standard Chartered employees. It is responsible for setting the principles and governance framework for all compensation decisions.

In particular, the Committee:

- Determines and agrees with the Board the framework and broad policy for the remuneration of the Group's Chairman, Group Chief Executive, the executive directors and such other senior executives as it is designated to consider
- Approves any proposal to award a high remuneration package to new recruits or a high-level TVC award to a Group employee
- Ensures that the remuneration policy is appropriate and consistent with effective risk management
- Approves the Group TVC on an annual basis

The Committee's key activities during 2014

Meeting	Fixed and variable compensation	Governance, risk and other matters
January	<ul style="list-style-type: none"> • N/A – ad hoc meeting 	<ul style="list-style-type: none"> • Approve termination arrangements for retiring executive directors
February	<ul style="list-style-type: none"> • Consider and approve aggregate Group 2013 TVC • Review and approve TVC awards for executive directors as well as other senior management and Code Staff • Approve 2014 fixed remuneration for executive directors as well as other senior management • Review a) achievement of conditions for performance share awards vesting in March and b) appropriateness of the measures and targets for grants in 2014 • Review the Group Chairman's remuneration arrangements 	<ul style="list-style-type: none"> • Update on risk and control matters and application of ex-post risk and performance adjustment • Review and finalise the 2013 Directors' remuneration report
May	<ul style="list-style-type: none"> • N/A – ad hoc meeting 	<ul style="list-style-type: none"> • Approve remuneration arrangements for new executive director
June	<ul style="list-style-type: none"> • Review future approach to executive directors' remuneration in light of investor feedback and AGM outcomes 	<ul style="list-style-type: none"> • Discuss feedback from regulators in respect of 2013 remuneration cycle • Performance update for recent new joiners • Approve revisions to Group's identification of material risk-takers policy
September	<ul style="list-style-type: none"> • Discuss future approach to executive directors' remuneration 	<ul style="list-style-type: none"> • Update on risk and control matters • Review appointment of Remuneration Committee advisor • Review approach to 2014 Directors' remuneration report • Update on progress against CRD IV remuneration requirements • Approve revisions to Group's policies, including on claw-back
November	<ul style="list-style-type: none"> • Further discussions of executive directors' remuneration in relation to latest investor feedback 	
December	<ul style="list-style-type: none"> • Consider the approach to the Group-wide 2014 performance, pay and potential review • Review the approach to risk adjustment for the Group TVC and individual awards • Consider future approach to executive directors' remuneration 	<ul style="list-style-type: none"> • Update on risk and control matters • Approve the Group's Remuneration Policy Statement submission to the PRA • Assessment of Remuneration Committee effectiveness • Consider the 2014 Directors' remuneration report messaging and structure • Performance update for specific recent new joiners

At each scheduled meeting, the Committee also discussed the emerging regulatory and investor trends, and tracked the level and nature of remuneration paid to higher-paid new employees.

Summary of the themes identified in the 2014 Committee effectiveness review and actions taken/to be taken

At the end of most meetings, Committee members provided real-time feedback to enhance the Committee's effectiveness. In addition, as part of the effectiveness review for the entire Board, a formal evaluation of the Committee was undertaken. This involved each Committee member providing their thoughts on the Committee's effectiveness. A summary of the themes and actions is set out below.

2014		2013	
Theme/action identified	Action plan for 2015	Theme/action identified	Actions taken
Given the rapid change in the financial services regulatory environment, enhance the process by which Committee members are kept abreast of developments ahead of Committee meetings	Opportunities for informal briefings ahead of Committee discussions and as part of individual inductions and ongoing engagement plans for Committee members will be identified	Explore opportunities for Committee members to gain insights on local remuneration practices	Ahead of overseas Board visits, Committee members received and will continue to receive a written briefing on remuneration in the market
Allow more time on the Committee agenda for the Committee's adviser to provide reflections on market practice, particularly in the regulatory space	The agenda for Committee meetings will be reviewed so as to allow input from any adviser to be given in a more structured way	Committee papers to be as concise as possible while balancing this with the need to ensure that the Committee receives the correct level of detail in order to effectively fulfil its duties	Committee papers are briefer and more concise

Priorities for the Committee in 2015

Specific priorities for the Committee in 2015, in addition to its usual scheduled activities, will be:

- Continue to monitor regulatory developments. As appropriate, review the executive directors' remuneration policy and, in addition, any arrangements for other Code Staff employees
- Monitor market trends to ensure the Group's compensation remains competitive
- Review structure of Group TVC including deferral arrangements

Details of the approved directors' remuneration policy

Approved policy on directors' remuneration

Policy table on executive directors' fixed remuneration

How the element supports the Group's strategic objectives	Operation	Maximum potential value, payment at threshold and determination of performance metrics
Base salary		
<ul style="list-style-type: none"> Support the recruitment and retention of executive directors, recognising the size and scope of the role and the individual's skills and experience Set at a level that enables the Group to operate fully flexible variable compensation plans (including the ability to pay zero variable compensation) 	<ul style="list-style-type: none"> Normally reviewed annually, with any increases generally applying from April When determining base salary levels, consideration is given to the following: <ul style="list-style-type: none"> The individual's skills and responsibilities Pay at international banks of a similar size and international scope, including the UK banks within the FTSE 20 Group and individual performance 	<ul style="list-style-type: none"> Ordinarily, salary increases will be in line with increases awarded to other employees in major operating businesses of the Group. However, increases may be made above this level at the Committee's discretion, to take account of individual circumstances such as: <ul style="list-style-type: none"> Increase in scope or responsibility Increase to reflect the individual's development and performance in role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level) Alignment to market competitive levels No performance metrics, although overall performance of the individual is considered by the Committee when setting and reviewing salaries annually
Fixed pay allowances		
<ul style="list-style-type: none"> Provide a market competitive level of fixed pay reflecting the skills and experience of the executive while complying with the variable compensation requirements under CRD IV 	<ul style="list-style-type: none"> When determining the level of fixed pay allowances, market competitive levels of total compensation for the role are considered, against the same peer groups as outlined for base salary. In making these comparisons, benchmarking is undertaken on a total compensation basis to reflect the different structures of pay delivery, particularly for EU and non-EU banks, but also for different banks within the EU. The aim is to deliver total fixed pay which is competitive and appropriate for the role, and which enables competitive expected value of total compensation, when added to target TVC and other elements of fixed pay The fixed pay allowance for executive directors will be allocated in shares that vest immediately on a bi-annual basis or any other frequency that the Committee considers to be appropriate Fixed pay allowances will not count towards any entitlements, benefits or payments which are calculated by reference to salary and can be reduced, increased, terminated or withdrawn The shares will be released over a five-year period. There is in effect a retention period of up to five years, with 20 per cent released every 12 months following allocation Shares benefit from the payment of dividends during the holding period 	<ul style="list-style-type: none"> Fixed pay allowances will be set at an appropriate level, subject to a maximum of one times salary No performance metrics used

Policy table on executive directors' fixed remuneration continued

How the element supports the Group's strategic objectives	Operation	Maximum potential value, payment at threshold and determination of performance metrics
Benefits		
<ul style="list-style-type: none"> Provide a competitive benefits package that is consistent with our values and supports executives to carry out their duties effectively Provide directors with an opportunity to invest voluntarily in the Group 	<ul style="list-style-type: none"> The Group provides a range of benefits, which may include the provision of a car (or cash equivalent), private medical insurance, permanent health insurance, life insurance and financial advice Additional benefits may also be provided where an executive director is relocated or spends a substantial portion of their time in more than one jurisdiction for business purposes. Such benefits may include, but are not limited to, relocation, housing allowance and education fees, and any tax and social security that may be due on such benefits. Other benefits may be offered if considered appropriate and reasonable by the Committee Sharesave is an all employee plan where directors are able to open a three-year savings contract <ul style="list-style-type: none"> Option price is set at a discount of up to 20 per cent of the share price at the date of invitation In countries where it is not possible to offer Sharesave, typically due to securities or regulatory issues, an equivalent cash plan is offered 	<ul style="list-style-type: none"> The maximum opportunity for benefits is defined by the nature of the benefit itself and the cost of providing it. As the cost of providing insurance benefits varies according to premium rates and the cost of other benefits is dependent on market rates and other factors, there is no formal maximum monetary value Set at a level that the Committee considers provides a sufficient level of benefit, based on the role and individual circumstances, such as relocation No performance metrics used
Pension	<ul style="list-style-type: none"> Facilitate long-term retirement savings 	<ul style="list-style-type: none"> Defined benefit (DB) scheme closed to new entrants Cash allowance available for those not participating in DB scheme Executive directors are able to opt for an individually costed pension allowance on a broadly cost-neutral basis to the Group for future service Executive directors who cannot accrue a full pension at retirement are able to waive base salary to increase their pension
		<ul style="list-style-type: none"> Under the DB scheme, a pension of one-thirtieth of final salary for each year of service payable at the age of 60 For those not in the DB scheme an annual allowance of 40 per cent of salary is payable No performance metrics used

Policy table on executive directors' TVC

How the element supports the Group's strategic objectives	Operation	Maximum potential value	Payment at threshold and determination of performance metrics
Structure	Proportion (on an expected value basis)		
• Provide a portion of total compensation that is performance-related and in part is linked to specific, measurable performance criteria	TVC is delivered as follows:		<ul style="list-style-type: none"> • The maximum value of TVC can in no circumstances exceed 200 per cent of each executive director's fixed pay as valued in line with the EBA rules
• Ensure a market competitive package and link total reward to achievement of the Group's objectives	Upfront in shares	20%	<ul style="list-style-type: none"> • The approach to the determination of individual TVC awards will be similar to that adopted in previous years
	Deferred in shares with a three-year phased vesting period, subject to claw-back	55%	<ul style="list-style-type: none"> • Payments can be made at any point from zero to maximum. Delivery of a target level of performance would be expected to result in payment of target TVC
	Deferred in shares with a five-year cliff vesting period, subject to claw-back	12.5%	<ul style="list-style-type: none"> • The level of TVC for a target level of performance is set in combination with fixed pay to deliver a competitive level of total compensation for the role on an expected value basis against peer groups
	Deferred in shares with a five-year cliff vesting period, subject to claw-back and satisfaction of performance conditions (see notes below)	12.5%	<ul style="list-style-type: none"> • While the above proportions are on an expected value basis, on a face value basis the proportion of TVC delivered in performance shares would be approximately 26 per cent of TVC • Where a portion of TVC is deferred in the form of shares, the Committee may award dividend equivalents on those shares to plan participants • The Committee can, in circumstances determined by the Committee, apply claw-back to all or part of any unvested share award • Performance shares are the award of nil-cost options, subject to a three-year performance period, exercisable after the fifth, but before the tenth anniversary of the date of grant, subject to continued employment and performance conditions being met over the first three years • The rules of the 2011 Standard Chartered Share Plan provide the Committee with the discretion to adjust vesting of share awards and/or the number of shares underlying an award on the occurrence of corporate events and other reorganisation events

Policy table on the remuneration for the Group Chairman and independent non-executive directors

How the element supports the Group's strategic objectives	Operation	Maximum potential value (performance metrics not applicable)
Fees		
<ul style="list-style-type: none"> To attract a Chairman and independent non-executive directors who, together with the Board as a whole, have a broad range of skills and experience to determine our strategy and oversee its implementation 	<ul style="list-style-type: none"> Chairman and independent non-executive directors' fees may be paid in cash or shares Chairman and independent non-executive directors' fees are reviewed periodically. Independent non-executive directors' fees are set by the Board as a whole. The Remuneration Committee sets the Chairman's fees. The Chairman and independent non-executive directors excuse themselves from any discussion on their respective fees Non-executive directors are able to use up to 100 per cent of their monthly post-tax base fees to acquire shares in Standard Chartered PLC Expenses incurred during the performance of independent non-executive directors' duties for the Company may be reimbursed or paid for directly by the Company as appropriate, including any tax due on the payments. Non-UK-based independent non-executive directors may receive UK tax return assistance. independent non-executive directors may, from time to time, be accompanied by their spouse or partner to meetings/events. The costs associated with this are met by the Company and, in some instances, they are deemed to be taxable and therefore treated as benefits for the independent non-executive directors Separate to the base fee, independent non-executive directors may additionally be paid fees for chairmanship and membership of Board committees and to the Senior Independent Director 	<ul style="list-style-type: none"> Overall aggregate base fees paid to all independent non-executive directors will remain within the limits stated in our Articles of Association, currently £1,500,000 Fees are set at a level that reflects the duties, time commitment and contribution expected from the Chairman and independent non-executive directors Fees are reviewed and appropriately positioned against those for the Chairman and independent non-executive directors in banks and other companies of a similar scale and complexity No recovery or withholding provisions apply to fees Current base fee levels, as well as those fees for additional responsibilities, are disclosed on page 197

Service contracts and policy on payment for loss of office for the Chairman and non-executive directors

- The Chairman is provided with a notice period of up to 12 months
- Non-executive directors are appointed for a period of one year unless terminated earlier by, and at the discretion of, either party upon giving three months' written notice. Their appointment and any subsequent re-appointment are subject to the provisions of the Company's Articles of Association and to the usual re-election by the shareholders of the Company

Notes

The Committee reserves the right to honour any remuneration commitments that were entered into before this new policy takes effect, even if they would not otherwise be consistent with the policy in place at the time the commitment is fulfilled

If the Group is required to make changes to the policy for legal or regulatory reasons, payments outside this policy will be made to ensure compliance

It is usual for organisations to give share awards an expected value to recognise the time taken for an award to vest, the risk that the award might not vest and the possibility that the award is forfeited. It is represented as a percentage of the face value. Face value is the monetary value of the award at the date of award. In the 2014 Directors' remuneration report, unless specifically noted, all disclosures are on a face value basis. This means that some of the numbers in this year's report may look different to the 2013 Directors' remuneration report.

Additional remuneration disclosures

Income statement charge for Group TVC

	2014 \$million	2013 \$million
Total approved variable compensation pool	1,098	1,208
Less: deferred TVC that will be charged in future years	(139)	(186)
Plus: current year charge for deferred TVC from prior years	158	212
Income statement charge for variable compensation	1,117	1,234

Year in which income statement is expected to reflect deferred variable compensation	Actual	Expected		
	2013 \$million	2014 \$million	2015 \$million	2016 and beyond \$million
Variable compensation deferred from 2012 and earlier	212	82	46	9
Variable compensation deferred from 2013	66	76	58	46
Variable compensation deferred from 2014	–	62	63	76
Total	278	220	167	131

TVC risk adjustment

Details of how the Committee considers risk adjustment to Group TVC is set out on page 181.

In addition, at an individual level, risk adjustment can also be achieved through the following so-called ex-post adjustments:

- **Balance of deferred and non-deferred TVC awards:** In 2014, the Committee considered the balance of TVC that was deferred and not deferred. As well as ensuring senior employees take a longer-term view, ex-post adjustments are effective because appropriate levels of deferrals are delivered. Deferrals are used for TVC awards exceeding \$70,000
- **Performance adjustment:** Potential diminution in the value of any deferred TVC award through non vesting due to performance measures and share price movement until vesting
- **Malus:** Applied to TVC awards in accordance with the policy described in the table, which applies to all employees. Malus may apply either on an individual basis or at a business unit level or Group level
- **Claw-back:** Introduced for TVC awards from 1 January 2015

The application of the malus and claw-back policy is summarised in the table below.

	Event	Application
Individual level	<ul style="list-style-type: none"> ● Termination for cause ● Deemed to have (i) caused in full or in part a material loss for the Group as a result of reckless, negligent or wilful actions or (ii) exhibited inappropriate values and behaviours or applied a lack of appropriate supervision 	<ul style="list-style-type: none"> ● Unvested and vested awards lapse ● Malus and claw-back applied to whole 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 financial statements ● Significant failure in risk management ● Discovery of endemic problems in financial reporting ● As a result of financial losses, a material breach of regulatory guidelines ● The exercise of regulatory or government action to recapitalise the Group following material financial losses 	<ul style="list-style-type: none"> ● Malus and claw-back applied to whole or part of an award at the Committee's discretion

Additional Companies Act disclosures

The aggregate amount of remuneration (salary, fees, benefits and non-deferred TVC) paid to or receivable by directors in respect of qualifying services during the year was \$22.0 million (2013: \$30.7 million).

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 all disclosures to the US dollar are set out in the table below.

	2014	2013
AED	3.673	3.673
EUR	0.7535	0.7532
GBP	0.6071	0.6398
HKD	7.7547	7.7567

Pillar III disclosures on Code Staff remuneration and disclosures on the highest-paid employees

Code Staff remuneration disclosures for 2014

The table below summarises the groups of employees who have been identified in accordance with the regulatory requirements as material risk-takers for remuneration purposes, otherwise known as Code Staff.

Quantitative criteria	Qualitative criteria
<p>The quantitative criteria captures employees who:</p> <ul style="list-style-type: none"> ● Have been awarded total remuneration of EUR500,000 or more in the previous financial year ● Are within the 0.3% of the number of staff on a global basis who have been awarded the highest total remuneration in the preceding financial year ● In the preceding financial year were awarded total remuneration that was equal to or greater than the lowest total remuneration awarded that year to certain specified groups of employees <p>Note: certain employees can be excluded from the list of Code Staff if they have no material impact on the Group's risk profile</p>	<p>The qualitative criteria broadly captures the following employees:</p> <ul style="list-style-type: none"> ● Group directors (both executive and non-executive) ● Employees who perform a significant influence function, and members of the Group's senior executive team and their immediate direct reports who have significant business or function responsibilities with risk and/or profit and loss accountability <p>Note: these two categories are referred to in the subsequent disclosures as 'senior management'.</p> <ul style="list-style-type: none"> ● Senior employees within the Audit, Compliance, Legal and Risk functions (both at a Group and business level) ● Senior employees within material business units ● Employees who sit on certain committees ● Employees who are able to initiate or approve credit risk exposures above a certain threshold and sign off on trading book transactions at or above a specific value at risk limit

Remuneration for Code Staff was delivered in 2014 through a combination of base salary, benefits, TVC and, for a small number of employees, a fixed pay allowance.

Variable compensation for Code Staff is structured in line with the PRA's Remuneration Code requirements. For the 2014 performance period, employees who are not directors will see between 40 and 60 per cent of their TVC deferred over a period of up to five years. Non-deferred TVC will be delivered 50 per cent in upfront shares and 50 per cent in cash. Deferred TVC is delivered entirely in shares unless an eligible employee elects for 50 per cent of their deferred award to be delivered as deferred cash. TVC awards are subject to the Group's claw-back policy. Deferred TVC (cash and shares) is subject to continued employment (which may be terminated by the Group in the event of material misconduct). Both upfront and deferred shares are subject to the Group's shareholding and retention requirements.

The following tables show the remuneration decisions made by the Group in respect of 2014 for the employees whose professional activities could have a material impact on the Group's risk profile.

Code Staff employees' aggregate 2014 remuneration by business

	Client segments \$000	Financial markets \$000	Other businesses \$000	Corporate functions \$000	Independent functions \$000	Management \$000
2014	98,438	174,015	140,408	63,814	89,209	27,662

Notes

Client segments include employees supporting clients in Corporate & Institutional Clients, Commercial & Private Banking Clients, and Retail Clients

Other businesses include employees covering products such as Corporate Finance, Transaction Banking and Wealth Management

Management includes all Group executive directors and non-executive directors

Code Staff 2014 remuneration by fixed/variable compensation

	Senior management \$000	Other Code Staff \$000
Fixed compensation	88,121	264,746
Variable compensation	57,190	183,489
Upfront cash	12,704	57,967
Upfront shares	14,014	46,569
Deferred cash	10,639	25,415
Deferred shares including any performance shares	19,833	53,538
Number of Code Staff	101	548

Notes

Fixed compensation includes base salary, cash allowance and fixed pay allowance and, in the case of non-executive directors, any fees

The ratio between fixed and variable compensation for all Code Staff in 2014 was 1:0.68

Code Staff deferred remuneration in 2014

	Senior management \$000	Other Code Staff \$000
Analysis of deferred remuneration		
Start of the year (1 January)	222,935	80,158
Impact of changes to Code Staff populations including leavers during 2013 and joiners in 2014	56,610	304,677
Start of the year (1 January) (after adjustments)	279,545	384,835
Awarded during the financial year	120,503	165,424
Vested during the year	(70,507)	(136,780)
Non-vested due to performance adjustments	(43,791)	(43,249)
Close of the year (31 December)	285,750	370,230

Notes

Value of deferred remuneration awarded during the year is based on the share price at grant

Value of deferred remuneration is based on awards which have lapsed during the year as a result of (i) performance measures not being satisfied or (ii) application of malus and/or claw-back

Code Staff sign-on and severance payments in 2014

	Senior management \$000	Other Code Staff \$000
Sign-on payments (zero employees)	—	—
Severance payments (seven employees; highest payment of \$986,341)	533	2,491

Remuneration at or above EUR1 million

The table below shows the number of individuals whose remuneration (base salary, fixed pay allowances and TVC) awarded in respect of the 2014 performance year was EUR1 million or more. The remuneration bands are EUR500,000 for EUR1 million to EUR5 million and EUR1 million for more than EUR5 million.

Remuneration band EUR000	\$000 equivalent	Number of employees
1,000 to 1,500	1,327 to 1,991	88
1,501 to 2,000	1,992 to 2,654	22
2,001 to 2,500	2,655 to 3,318	13
2,501 to 3,000	3,319 to 3,981	1
3,001 to 3,500	3,982 to 4,645	3
3,501 to 4,000	4,646 to 5,309	1
4,001 to 4,500	5,310 to 5,972	2
4,501 to 5,000	5,973 to 6,636	—
5,001 to 6,000	6,637 to 7,963	—
6,001 to 7,000	7,964 to 9,290	—
7,001 to 8,000	9,291 to 10,617	—
Total		130

Ten highest-paid employees beneath the Board

The following table sets out, on an anonymised basis, the remuneration of the 10 highest-paid employees for the year ended 31 December 2014 who are not executive directors. This disclosure is not limited to those persons discharging management responsibility (PDMRs).

Employee	Variable compensation					Total \$000
	Fixed compensation \$000	Non-deferred cash \$000	Upfront shares \$000	Deferred cash \$000	Deferred shares \$000	
1	2,251	673	673	—	2,019	5,616
2	2,401	545	545	—	1,635	5,126
3	2,411	425	425	638	638	4,537
4	1,064	150	150	—	3,033	4,397
5	2,253	377	377	—	1,131	4,138
6	2,236	360	360	—	1,080	4,036
7	802	108	108	—	2,439	3,457
8	1,992	—	210	—	1,103	3,305
9	1,539	300	300	450	450	3,039
10	2,188	170	170	255	255	3,038

Notes

Fixed compensation includes base salary, fixed pay allowances, benefits and allowances paid in respect of 2014 and, where appropriate, on a pro rata basis for new joiners. Deferred shares include the face value of any shares subject to long-term performance conditions and, if appropriate, any distribution from any carried interest plan paid in 2014.

Remuneration of the five highest-paid individuals and the remuneration of senior management

In line with the requirements of The Hong Kong Stock Exchange, the following table sets out, on an aggregate basis, the remuneration of the five highest-paid employees and PDMRs for the year ended 31 December 2014.

Components of remuneration:	Five highest-paid \$000	Senior management \$000
Base salary, fixed pay allowances and benefits in kind	11,747	17,889
Pension contributions	6,152	8,221
TVC awards paid or receivable	7,824	5,348
Payments made on appointment	1,876	1,876
Compensation for loss of office (contractual or other)	–	3,273
Other	–	–
Total	27,599	36,607
Total HKD equivalent	214,015	283,877

Notes

For 2014, the five highest-paid individuals include three executive directors (Peter Sands, Mike Rees and Andy Halford). Senior management includes Richard Meddings and Steve Bertamini who stepped down as Group directors on 31 March 2014 and 30 June 2014 respectively

Variable compensation paid or receivable excludes any performance awards or commissions linked to profits generated by the individual collectively or with others engaged in similar activities. It includes the deferred element of any TVC award and performance share awards made on joining

The table below shows the emoluments of the five highest-paid and PDMRs for the year ended 31 December 2014.

Remuneration band HKD000	\$000 equivalent	Number of employees	
		Five highest-paid	Senior management
HKD18,000,001 – HKD18,500,000	2,321,173 – 2,385,650	–	1
HKD18,500,001 – HKD19,000,000	2,385,650 – 2,450,127	–	1
HKD21,000,001 – HKD21,500,000	2,708,036 – 2,772,513	–	1
HKD21,500,001 – HKD22,000,000	2,772,513 – 2,836,990	–	2
HKD26,500,001 – HKD27,000,000	3,417,283 – 3,481,760	–	1
HKD27,500,001 – HKD28,000,000	3,546,237 – 3,610,714	–	1
HKD36,500,001 – HKD37,000,000	4,706,823 – 4,771,300	1	1
HKD39,500,001 – HKD40,000,000	5,093,686 – 5,158,163	1	1
HKD41,000,001 – HKD41,500,000	5,287,117 – 5,351,594	1	–
HKD45,000,001 – HKD45,500,000	5,802,933 – 5,867,410	1	–
HKD51,000,001 – HKD51,500,000	6,576,657 – 6,641,134	1	1
Total		5	10



Ruth Markland

Chair of Remuneration Committee
4 March 2015

Other disclosures

Directors' report

The Directors' report for the year ended 31 December 2014 comprises pages 128 to 218 of this report (together with the sections of the Annual Report and Accounts incorporated by reference). Both the Strategic report and the Directors' report have been drawn up and presented in accordance with reliance upon 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 and Transparency Rules relating to the Annual Report and Accounts, information required by Listing Rule 9.8.4 to be included in the Annual Report and Accounts where applicable, is set out in the table below and cross-referenced.

Information to be included in the Annual Report and Accounts (LR 9.8.4)

Relevant Listing Rule	Page
LR 9.8.4 (1) (2) (5-14) (A) (B)	n/a
LR 9.8.4 (4)	188-190

Fair, balanced and understandable

On behalf of the Board, the Audit Committee has reviewed the Annual Report and Accounts and the process by which the Group believes that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Group. Following its review, the Audit Committee has advised the Board that such a statement can be made in the Annual Report and Accounts.

 The Strategic report can be found on pages 2 to 55

Code for Financial Reporting Disclosure

The Group's 2014 financial statements have been prepared in accordance with the principles of the British Bankers' Association 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 Audit Plc) 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 the foreseeable future and therefore continued to adopt the going concern basis in preparing the financial statements.

Sufficiency of public float

As at the date of this report, the Company has maintained the prescribed public float under the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the HK Listing Rules), based on the information publicly available to the Company and within the knowledge of the directors.

Research and development

During the year, the Group invested \$504 million (2013: \$475 million) in research and development, primarily relating to the planning, analysis, design, development, testing, integration and deployment of technology systems.

Political donations

No political donations were made in the year ended 31 December 2014.

Areas of operation

Our Group comprises a network of more than 1,200 branches and outlets in 71 markets.

 Further details on the branches can be found on our website sc.com

Directors and their interests

The membership of the Board, together with their biographical details, are given on pages 128 to 131 and incorporated into this report by reference. 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 189 and 196. 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 36 to the financial statements

Other disclosures

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the HK Listing Rules and still considers all of the non-executive directors to be independent. Details concerning the provisions for providing compensation to directors for loss of office or employment (including in the context of a takeover bid) can be found on page 194 of the Directors' remuneration report.

At no time during the year did any director hold a material interest in any contracts of significance with the Company or any of its subsidiary undertakings.

In accordance with the Companies Act 2006, we have established a robust process requiring directors to disclose proposed outside business interests before any are entered into. This enables prior assessment of any conflict or potential conflict of interest and any impact on time commitment. On behalf of the Board, the Governance and Nomination Committee reviews actual or potential conflicts of interest annually to consider if they continue to be appropriate, and also to revisit the terms upon which they were provided. The Board is satisfied that our processes in this respect continue to operate effectively.

Subject to company law, the Articles of Association and the authority granted to directors in general meeting, the directors may exercise all the powers of the Company and may delegate authorities to committees. The Articles of Association contain provisions relating to the appointment and removal of directors.

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 2014, and remain in force at the date of this report.

Significant agreements

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Future developments in the business of the Group

An indication of likely future developments in the business of the Group is provided in the Strategic report on pages 2 to 55.

Results and dividends

Ordinary shares

Paid interim dividend of 28.80 cents per share
(2013: 28.80 cents per share)

Proposed final dividend of 57.20 cents per share
(2013: 57.20 cents per share)

Total dividend, 86.00 cents (2013: 86.00 cents)

The final dividend, if approved at the 2015 Annual General Meeting (AGM), will be paid in either sterling, Hong Kong dollars or US dollars on 14 May 2015 to shareholders on the UK register of members at the close of business in the UK (10:00pm London time) on 13 March 2015, and to shareholders on the Hong Kong branch register of members at the opening of business in Hong Kong (9:00am Hong Kong time) on 13 March 2015. The final dividend will be paid in Indian rupees on 14 May 2015 to Indian Depository Receipt holders on the Indian register at the close of business in India on 13 March 2015, in accordance with the Deposit Agreement.

It is intended that shareholders on the UK register and Hong Kong branch register will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend arrangements will be sent to shareholders on or around 27 March 2015. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

Share capital

The issued ordinary share capital of the Company was increased by 45,312,444 during the year. 7,736,568 ordinary shares were issued under the Company's employee share plans at prices between nil and 1,463 pence. 37,575,876 ordinary shares were issued under the Company's share dividend scheme. The Company has one class of ordinary shares, which carries no rights to fixed income. On a show of hands, each member present has the right to one vote at our general meetings. On a poll, each member is entitled to one vote for every \$2 nominal value of share capital held. The issued nominal value of the ordinary shares represents 80 per cent of the total issued nominal value of all share capital. The remaining 20 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 34 to the financial statements

Other disclosures

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.

Authority to purchase own shares

At the AGM held in May 2014, our shareholders renewed the Company's authority to make market purchases of up to 242,950,114 ordinary shares, equivalent to approximately 10 per cent of issued ordinary shares as at 18 March 2014, and up to all of the issued preference share capital. These authorities were not used during the year and remained in force at 31 December 2014. In accordance with the terms of a waiver granted by The Stock Exchange of Hong Kong Limited (HKSE) on 16 April 2008, which was modified on 30 April 2009, 25 July 2011 and 9 October 2013, the Company will comply with the applicable law and regulation in the UK in relation to holding of any shares in treasury and with the conditions of the waiver, in connection with any shares it may hold in treasury. Shareholders will be asked to renew these authorities at the forthcoming AGM, and will receive details within the Notice of AGM. No treasury shares were held during the year.

 Further details can be found in note 34 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 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 Group Corporate Secretariat at group-corporate.secretariat@sc.com

Major interests in shares and voting rights

As at 31 December 2014, Temasek Holdings (Private) Limited (Temasek) is the only shareholder that has an interest of more than 10 per cent in the Company's issued ordinary share capital carrying a right to vote at any general meeting.

The Company has been notified, pursuant to the requirement of Rule 5 of the Financial Conduct Authority Disclosure and Transparency Rules, by the following companies of their interest in the total voting rights of the Company as at 31 December 2014 and has not, as at 27 February 2015, been notified of any changes in such interests since that date with the exception of Dodge & Cox, whose interest was announced to the market on 19 January 2015:

Shareholder	Number of ordinary shares	Percentage of voting rights direct	Percentage of voting rights indirect
Temasek Holdings (Private) Limited ¹	438,346,486	–	17.73
Aberdeen Asset Management PLC's fund management operating subsidiaries	237,157,919	–	9.59
BlackRock, Inc	131,568,071		5.32
Dodge & Cox	125,858,653		5.09

1. Temasek Holdings (Private) Limited's interests are held indirectly through Dover Investments Pte. Ltd

Related party transactions

Details of transactions with directors and officers and other related parties are set out in note 45 to the financial statements.

Connected/continuing connected transactions

By virtue of its shareholding of more than 10 per cent in the Company, Temasek and its associates are related parties and connected persons of the Company for the purposes of the UK Listing Rules and the Listing Rules of The Stock Exchange of Hong Kong Limited¹ respectively (together known as 'the Rules').

The Rules are intended to ensure that there is no favourable treatment to Temasek or its associates (as defined under the Rules) as a result of such shareholding to the detriment of other shareholders in the Company. Unless transactions that the Company and its subsidiaries undertake with Temasek or its associates are specifically exempt under the Rules or are subject to a specific waiver, they may require a combination of announcements, reporting and independent shareholders' approval.

The HKSE adopted an exemption (the 'Passive Investor Exemption') on 3 June 2010 for 'transactions with associates of a passive investor' (Rules 14A.99 and 14A.100). The Company considers that Temasek meets the criteria for a passive investor under Rule 14A.99. Therefore, any connected transactions or continuing connected transactions of a revenue nature in the ordinary and usual course of business and on normal commercial terms with an associate of Temasek are exempt from the announcement, reporting, annual review and independent shareholders' approval requirements of the HK Listing Rules. The Passive Investor Exemption is not applicable in respect of the passive investor itself.

On 21 October 2013, the HKSE granted the Company a waiver for all banking transactions of a revenue nature with Temasek itself (the '2013 Waiver'). Under this waiver, the announcement requirement and the requirement to enter into a written agreement and set an annual cap and the reporting (including annual review) requirement under the relevant rules in Chapter 14A have been waived for the three-year period ending 31 December 2015 on the conditions that:

- i) the Company will disclose details of the 2013 Waiver (including the nature of the revenue banking transactions and reasons for the 2013 Waiver) in its subsequent annual reports
- ii) the Company will continue to monitor the revenue banking transactions with Temasek during the three-year period ending 31 December 2015 to ensure that the 5 per cent threshold for the revenue ratio, calculated in accordance with Chapter 14 of the HK Listing Rules will not be exceeded

The Company set out the following main reasons for seeking the 2013 Waiver. In view of the nature and terms of the transactions, which may vary from time to time, from client to client and from transaction to transaction, particularly the foreign exchange and derivatives and financial markets transactions, having fixed-term written agreements (as required under the HK Listing Rules) would not be suitable to accommodate the various banking needs of the Company's customers (including Temasek). It would be impractical and unduly burdensome to require the Company to enter into fixed written agreements with Temasek in respect of those banking transactions of a revenue nature.

The Company also explained that it would be impracticable for the Company to estimate and determine an annual cap on the banking transactions of a revenue nature. The volume and aggregate value of each of those transactions that may be undertaken by Temasek are uncertain and unknown to the Company as a banking group and depend on multiple factors. They include the range of banking products and services offered by the Company, fluctuations in the wide range of industries in which Temasek and its associates operates, and external financial market and economic conditions.

Accordingly the Company was of the view that it was appropriate to apply for a waiver from strict compliance with the announcement, written agreements and annual caps requirements with respect to the banking transactions of a revenue nature with Temasek.

While the amount of revenues generated from banking transactions of a revenue nature, such as foreign exchange and derivatives and financial markets transactions, was minimal, the notional amounts of these transactions could be significant. Without the availability of a waiver from the HKSE or an applicable exemption, these revenue banking transactions would be subject to various percentage ratio tests which cater for different types of connected transactions and as such may produce anomalous results and bring no value to minority shareholders of the Company in terms of safeguards.

As a result of the Passive Investor Exemption and the 2013 Waiver, the vast majority of the Company's transactions with Temasek and its associates fall outside of the connected transactions regime. However, non-revenue transactions with Temasek or any of its associates continue to be subject to monitoring for connected transaction issues on a transaction by transaction basis.

The Company confirms that, to the best of its knowledge and belief after due inquiry, it did not have any transactions with Temasek or its associates in 2014 that would have required announcement, reporting, annual review or independent shareholders' approval. The Company also confirms that the revenue transactions entered into with Temasek in 2013 were below the 5 per cent threshold for the revenue ratio test under the HK Listing Rules, and therefore satisfied the conditions attached to the 2013 Waiver.

1. The Hong Kong Listing Rules citations in this section refer to the current version of Chapter 14A, which was amended on 1 July 2014

Other disclosures

The Group has internal systems, processes and procedures in place to identify and monitor non-exempt connected and continuing connected transactions. These are reviewed and updated periodically and their adequacy and effectiveness are subject to internal audit process. The Company will continue to monitor through its internal systems the revenue figures generated from the ongoing banking transactions with Temasek itself during 2015 to ensure that the 5 per cent threshold for the revenue ratio will not be exceeded.

If none of the exemptions under the Rules or the waivers obtained from HKSE are applicable in relation to a transaction with Temasek or its associates, the Company will comply with the applicable announcement, reporting, annual review and independent shareholders' approval requirements.

Fixed assets

Details of additions to fixed assets are presented in note 27 to the financial statements.

Loan capital

Details of the loan capital of the Company and its subsidiaries are set out in note 31 to the financial statements.

Risk management

An ongoing process for identifying, evaluating and managing the significant risks that we face is in place.

 **The Risk and Capital review on pages 105 to 117 sets out our approach to risk management, including our risk management principles, an overview of our risk management framework and the policies and practices for each risk type. The Risk Tolerance Statement can be found on page 14 of the Strategic report**

Internal control

The effectiveness of our internal control system is reviewed regularly by the Board, its committees, the Executive Management Committee, and Group Internal Audit. The Audit Committee has reviewed the effectiveness of the Group's system of internal control during the year ended 31 December 2014 and reported on its review to the Board. The Committee's review was supported by an annual business self-certification process, which was managed by Group Internal Audit. Group Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Group through its programme of business audits. The work of Group Internal Audit is focused on the areas of greatest risk as determined by a risk-based assessment methodology.

Group Internal Audit reports regularly to the Audit Committee, the Chairman and the Group Chief Executive. The findings of all adverse audits are reported to the Audit Committee, the Chairman and the Group Chief Executive where immediate corrective action is required. The Board Risk Committee has responsibility for overseeing the management of the Company's fundamental risks as well as reviewing the effectiveness of the Company's risk management framework. The Audit Committee monitors the integrity of the Company's financial reporting, compliance and internal control environment.

 **The Risk and Capital review on pages 58 to 125 describes the Group's risk management structure**

Our business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk, including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk, credit risk and financial crime risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. Executive risk committees regularly review the Group's risk profile. The performance of the Group's businesses is reported regularly to senior line management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are monitored closely. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions. In respect of handling inside information, we have applied relevant controls on employees who are subject to handling inside information, including controls over the dissemination of such information and their dealings in the Company's shares.

Employee policies and engagement

With more than 90,000 employees representing 133 nationalities across 71 markets, the Group has a number of communication mechanisms that inform employees about matters affecting or of interest to them. A mix of communications channels is used to inform employees of key business activity at a global, regional and business level. The primary channel is iConnect, the Group's intranet, which is available to over 96 per cent of employees across 70 markets. This is supported by Group and local newsletters, a single global screensaver, targeted audio calls – for business area or management level – videos and town hall events. Business or time-critical information can be sent directly to employee inboxes through a measurable email marketing platform.

This mix ensures that employees receive information promptly regardless of their business area, geography or access to the intranet.

At an individual level, regular team meetings and discussions with line managers enable employees to discuss and clarify any questions they have about news within and performance of the Group. The twice-yearly formal performance review also provides the opportunity to discuss how the employee, their team and business area contributed to the overall performance of the Group and how any compensation awards relate to this.

 **We continue to communicate with employees who have left the Group via our Alumni network and all employees, past, present and future, via our 'BeyondBorders' blog on sc.com and social networking messages via the Bank's LinkedIn network**

For over a decade, our employee engagement survey, which ran annually and had an average response rate of 96 per cent, has been an important way of gathering feedback across the organisation. Our engagement approach, which has helped to create our distinctive culture, has also been recognised externally, winning two Gallup awards. In 2014, a new employee engagement survey, My Voice, was launched globally. The new survey measures the engagement drivers across the Group relating to a variety of business factors, including leadership, strategy and conduct. Participation in My Voice was voluntary, and more than 85 per cent of employees across 68 countries completed the survey. The insight gained is being used to inform action plans that intend to resolve highlighted issues.

Less formal measures of sentiment and engagement include quick polls and comment facilities on the global intranet. In addition, targeted local surveys and focus groups seek views on particular topics or from particular groups of employees. Across the Group, many business areas or project groups facilitate employee forums and message boards, actively seeking opinion and feedback. Combined with over 30 employee networks across 17 countries and numerous champion groups, these insights are invaluable in shaping our thinking and future planning.

In 2014, the Group has refreshed its Group Equal Opportunities, Diversity, Inclusion and Dignity at Work Policy, reinforcing the Group's commitment to providing equality of opportunity and fair treatment in employment, and it does not accept unlawful discrimination in its recruitment and employment policies, terms, procedures, processes and decisions on the grounds of: race; colour; nationality; national or ethnic origins; gender; parental status; marital or civil partner status; sexual orientation; gender identity, expression or reassignment; HIV or AIDS status; employment status; flexibility of working arrangements; disability; age; religion; or belief. The Group appoints, trains, develops, rewards and promotes employees on the basis of their merit and ability. If employees become disabled, every endeavour is made to ensure their employment continues, with appropriate training where necessary.

Action may be taken to address disadvantage or under-representation among specific groups, with the aim of ensuring that employment decisions are free from bias.

The Group does not tolerate any bullying or harassment of, discrimination against, or victimisation of staff, clients, or visitors of the Group, whether verbal, written, physical or psychological. All staff have a duty to treat all those with whom they come into contact through work with dignity and respect at all times. This is also enshrined in our Group Code of Conduct, which states that colleagues must be treated fairly and with respect, and that all employees are entitled to a safe working environment that is inclusive and free from discrimination, bullying and harassment. Treating our colleagues as partners helps our people to deliver on the brand promise, resulting in a positive effect on our business results.

Sharesave is provided to engage employees in the Group's performance and offer them an opportunity for long-term savings and a share in the financial success they help to create.

Major customers

Our five largest customers together accounted for 3.4 per cent of our total interest income and other operating income in the year ended 31 December 2014.

Group Code of Conduct

The Board has adopted a Group Code of Conduct (the 'Code') relating to the lawful and ethical conduct of business and this is supported by the Group's core values. The Code was refreshed in 2013 and has been communicated to all directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates. Employees are asked to recommit to the Code annually, and this was done during November 2014. Further details concerning the Code can be found on pages 23 to 25.

Environmental and social risk management

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 risks associated with clients' operations and their potential impact on the environment and local communities. The Board recognises its responsibility to manage these risks and that failure to manage them adequately would have an adverse impact on our business.

The Board receives regular information to identify and assess significant risks and opportunities arising from environmental and social matters. These issues are overseen on behalf of the Board by the Brand, Values and Conduct Committee. The Brand, Values and Conduct Committee reviews the Group's sustainable business priorities, and oversees the Group's development of, and delivery against, public commitments regarding which activities and/or businesses it will or will not accept in alignment with our Here for good brand promise.

Environmental and social risks are explicitly identified in the Group's policies and procedures. We have disclosed a series of 20 sector-specific and thematic Position Statements that apply to the provision of debt, equity and advisory services to all clients. Additionally, we have adopted the Equator Principles that set requirements for identifying, assessing and mitigating the environmental and social impacts associated with the financing of projects and related advisory services.

The Group reports on its environmental and social performance through the Group's Annual Report and Accounts and through the sustainability section of the Group's website.

Environmental impact of our operations

As part of our environmental priorities, we are committed to measuring our operational impact. Using an online system, energy, water, paper and waste data are collected from all properties over 10,000 square feet – representing 75 per cent of our total occupied footprint. This data forms the basis of our Greenhouse Gas (GHG) emission management as well as our

drive to reduce energy, water and paper use against set targets. In addition, staff air travel is closely monitored.

 For more information on our environmental strategy, including a full breakdown of our GHG emissions, please refer to the Environment section of our website

Total Scope 1, 2 and 3 Greenhouse Gas emissions for 2013 and 2014

	2013	2014	Units
Full-time employees (FTE) covered by reporting	86,640	90,940	FTE
Net internal area of occupied property covered by reporting	1,354,541	1,308,959	m ²
Annual operating income (1 October 2013 to 30 September 2014)	19,298	18,105	\$million
Greenhouse Gas emissions			
Scope 1 emissions (combustion of fuels)	23,878	20,144	tonnes CO ₂ eq/year
Scope 2 emissions (purchased electricity)	226,727	192,403	tonnes CO ₂ eq/year
Total Scope 1 & 2 emissions	250,605	212,547	tonnes CO ₂ eq/year
Scope 3 emissions without distance uplift (air travel)	55,127	55,296	tonnes CO ₂ eq/year
Scope 3 emissions with distance uplift (air travel)	60,087	60,273	tonnes CO ₂ eq/year
Total Scope 1, 2 & 3 emissions	305,732	267,843	tonnes CO ₂ eq/year
Total Scope 1, 2 & 3 emissions/FTE	3.53	2.95	tonnes CO ₂ eq/FTE/year
Total Scope 1, 2 & 3 emissions/m ²	226	205	kg CO ₂ eq/m ² /year
Total Scope 1, 2 & 3 emissions/operating income	15.84	14.79	tonnes CO ₂ eq/\$m/year

 For additional information, review the reporting criteria on sc.com/EnvironmentCriteria

Our reporting criteria document sets out the principles and methodology used to report all carbon emissions data by Standard Chartered PLC and its subsidiaries (together known as 'the Group') in the Annual Report and Accounts.

Our reporting methodology is based upon the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition).

We report on all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations. Using conversion factors from the UK Government's 2014 GHG Conversion Factors for Company Reporting, emissions are reported in metric tonnes of carbon dioxide equivalent (CO₂e)¹, 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, 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.

Scope 3

Scope 3 emissions are defined as occurring as a consequence of the Group's activities, but arising from sources not controlled by us. Currently the Group reports on Scope 3 emissions arising from air travel.

The emissions within our inventory correspond to a reporting period of 1 October 2013 to 30 September 2014. 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. Emissions arising from the operation of assets in which the Group owns an interest but has no control are excluded. In some cases this is divergent from the Group's financial reporting but consistent with international carbon reporting practice, enabling comparison to peers. The Group does not use any form of offsets such as green electricity to offset Scope 1 or Scope 2 emissions.

Starting this year, our Scope 3 emissions will be included as part of a third-party audit along with Scope 1 and 2 emissions to enhance credibility of our GHG reporting.

A key measure of our performance is the level of energy efficiency relative to operating income across our markets. We have achieved better efficiency for the past three years.

 World Resources Institute and World Business Council for Sustainable Development (WRI/WBCSD). (2004), The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition), WRI/WBCSD. Department for Fisheries and Rural Affairs (Defra), Government conversion factors for company reporting (2014). www.ukconversionfactorscarbonsmart.co.uk

1. A tonne of carbon dioxide equivalent means one metric tonne of carbon dioxide or an amount of any other Greenhouse Gas with an equivalent global warming potential (calculated consistently with international carbon reporting practice).

GHGs include those listed by the Kyoto Protocol: carbon dioxide (CO₂); methane (CH₄); nitrous oxide (N₂O); hydrofluorocarbons (HFCs); perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).

Community investment

We work with our stakeholders to help promote social and economic development across our markets. In 2014, we invested a total of \$64.2 million to support our local communities. This includes cash contributions of \$25.2 million and indirect contributions such as \$23.6 million in employee time. Our community programmes focus on health and education, with youth as a target demographic. Global community programmes include Seeing is Believing, which addresses avoidable blindness; Living with HIV, which promotes education and awareness of HIV and AIDS; and Goal, which combines sports training with life skills, financial education and workforce development to empower girls. We also promote financial education through training programmes for small businesses and youth. We offer our employees three days paid leave to volunteer. In 2014, staff contributed over 86,900 days to employee volunteering.

HIV and AIDS Procedures

HIV and AIDS remain a serious challenge across our markets, impacting our employees, their families and their communities. The HIV and AIDS Procedures, as part of the Group Equal Opportunities, Diversity, Inclusion and Dignity at Work Policy, outline our commitment to support our employees. The HIV and AIDS Procedures apply globally to all staff and their families in a manner consistent with existing medical cover.

 For more information, please refer to sc.com/sustainability

Electronic communication

The Board recognises the importance of good communications with all shareholders. Our directors are in regular contact with our institutional shareholders and general presentations are made when we announce our financial results. The AGM presents an opportunity to communicate with all shareholders. Our shareholders are encouraged to receive our corporate documents electronically. The annual and interim financial statements, Notice of AGM and dividend circulars are all available electronically. If you do not already receive your corporate documents electronically and would like to do so in future, please contact our registrars at the address on page 329.

 Shareholders are also able to vote electronically on the resolutions being put to the AGM through our registrars' website at www.investorcentre.com

Annual General Meeting

Our AGM will be held at 11:00am (London time) (6:00pm Hong Kong time) on 6 May 2015 at etc.venues, 200 Aldersgate, St Paul's, London EC1A 4HD. Details of the business to be conducted are contained in the Notice of AGM.

Our 2014 AGM was held on 8 May 2014 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 variable-to-fixed compensation ratio for impacted Group staff (known as Code Staff) and the power to allot ECAT1 Securities for cash without certain formalities. All resolutions were passed at the meeting.

Non-audit services

The Group's non-audit services policy (the 'Policy') was reviewed and approved by the Audit Committee in 2014. The policy is based on a number of core principles. The overriding principle is that the Group's auditors should only be used when there is evidence that there is no alternative in terms of quality and cost, whether knowledge and experience of the Group is required to deliver an efficient and effective solution or where the Group's auditors are required to be used by regulatory requirements. The policy clearly sets out the criteria for when the Audit Committee's prior written approval is required. Subject to this overriding principle, the Audit Committee's view is that KPMG can be of value in a wider range of activities than just financial statement audit, and, where a non-audit service demands these qualities, KPMG should be allowed to tender, subject to the Accounting Practices Board's (APB) ethical standards and the terms of the policy. The policy requires a conservative approach to be taken to the assessment of requests for KPMG to provide non-audit services.

The APB sets out various threats to audit independence including self-interest, self-review, familiarity, taking of a management role or conducting advocacy. In particular, maintaining KPMG's independence from the Group requires KPMG to avoid taking decisions on the Group's behalf. It is also recognised as essential that management retain the decision-making capability as to whether to act on advice given by KPMG as part of a non-audit service. This means not just the ability to action the advice given, but to have sufficient knowledge of the subject matter to be able to make a reasoned and independent judgement as to its validity. Accordingly, the Group is required to take a conservative approach to interpreting the potential threats to auditor independence and requires commensurately robust safeguards against them, if a non-audit service is to be permitted.

After due consideration, the Audit Committee decided not to reduce the policy to a proscribed list of non-audit services that KPMG 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.

KPMG's objectivity is of particular value to the Group in the context of providing non-audit services that relate to the provision of an independent view, benchmarked either against external laws, regulations or requirements, or the audit firm's own knowledge of best practices. The policy also specifically incorporates the APB's recommended prohibitions and restrictions on the types of non-audit services that are able to be provided by the audit firm.

Other disclosures

By way of (non-exhaustive) illustration of the application of the principles set out in the policy, the following types of non-audit services are:

- Likely to be permissible under the policy:
 - Audit-related services as defined by the APB – the Group would also extend this to work on investor circulars in most foreseeable circumstances
 - An objective view as to whether the Group has applied external laws and regulations appropriately, such as checks over regulatory compliance
 - Testing the robustness of controls infrastructure
 - Due diligence over potential purchases or sales
- Not permissible under the policy:
 - Any services that are prohibited (or to the extent they are restricted) by the APB's published guidance from time to time
 - Aggressive tax or regulatory structuring proposals
 - Any services where fees are paid on a contingent basis (in whole or in part)
 - Consulting services 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

 **Details relating to KPMG's remuneration as the Group statutory auditor and a description of the broad categories of the types of non-audit services provided by KPMG are given in note 8 to the financial statements on page 251**

There were no significant engagements of KPMG in 2014 for the provision of non-audit services.

Auditor

The Audit Committee reviews the appointment of the Group statutory auditor, its effectiveness and its relationship with the Group, which includes monitoring our use of the auditors for non-audit services and the balance of audit and non-audit fees paid. Following a review of the independence and effectiveness of our Group statutory auditor (details of which can be found on page 154 of the Corporate governance report), resolutions to appoint KPMG LLP and to determine its remuneration will be proposed at the 2015 Annual General Meeting.

Each director believes that there is no relevant information of which our Group statutory auditor is unaware. Each has taken all steps necessary as a director to be aware of any relevant audit information and to establish that KPMG Audit Plc is made aware of any pertinent information.

By order of the Board



Annemarie Durbin
Group Company Secretary
4 March 2015

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Group and Company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (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 year. 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 and prudent
- State whether they have been prepared in accordance with IFRS as adopted by the EU
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' report, Strategic report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's performance, business model and strategy.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board



A Halford
Group Finance Director
4 March 2015

Standard Chartered has been in India for 155 years,
making it the country's oldest foreign bank



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Independent Auditor's report to the members of Standard Chartered PLC

1) Opinions and conclusions arising from our audit

Our opinion on the financial statements is unmodified.

We have audited the financial statements of Standard Chartered PLC (the Group) for the year ended 31 December 2014 set out on pages 225 to 307. 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 2014 and of the Group's profit for the year then ended
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards Regulation

2) Our assessment of the risks of material misstatement

The starting point for our audit was a consideration of the inherent risks to the Group's business model and how these have been mitigated. This included understanding the strength of the Group's capital and liquidity position, the diversification of its assets, the flexibility and tenor of its balance sheet and the management of its cost base. We assessed and challenged the inherent risks with reference to:

- IMF economic forecasts and commentary
- The perspectives of our in-country audit teams on their local economies and banking industries
- The views of our specialists in a number of areas including bank regulation, IT, tax and financial crime prevention
- The views of the Prudential Regulatory Authority
- Checking for consistency between (among others) the Group's budgets, regular forecasts, stress testing, reporting to the Audit, Board Risk and Group Risk Committees and the many discussions we have with senior management in different countries

We also considered the Group's control environment and in particular whether its systems were processing transactions completely and faithfully, and included appropriate controls designed to prevent fraud. Our work included testing the key controls over the processing of transactions and the key inter-system, bank and custodial reconciliations as well as trade confirmations. In addition we sought to apply industry lessons learned from recent dealing room issues at other banks in our testing of controls.

Finally we considered the potential impact of regulatory investigations (see pages 103 and 104) on the Group, including considering the views of the Group's external and internal counsel.

These assessments enabled us to form a judgement on going concern and also highlighted the key areas of financial statement risk on which our audit has focused. By looking at both broad risk themes across the Group and particular concerns in specific geographies and businesses, we were able to calibrate our work to financial statement risk more precisely. The developments in issues identified last year and new issues identified in 2014 are as follows, with commodity and Chinese exposures becoming of sufficient audit focus that we separately explain our procedures on them (see further below). The South Korea loan book has required less audit focus and so our work is not separately explained:

- Economic conditions in India have improved since its election in May 2014. However, certain counterparties continue to struggle with high

debt and stressed business models and continue to present a risk of future default

- Economic growth in South Korea has improved to 3.7 per cent in 2014 from 3.0 per cent in 2013, but consumer debt levels remain high and the banking industry continues to suffer from low margins and profitability. As a consequence, the Group's profitability in its Korean operation remains depressed. However, the stress in the Group's Retail portfolio in Korea has eased, partly because certain higher-risk portfolios are running off and partly because there have been reduced claims by customers to restructure debt
- The UAE economy grew by 4.3 per cent in 2014 and property prices continued to improve. Certain legacy issues from the financial crisis remain, but the risk associated with them is reducing
- The demand in developing markets for commodities to fuel economic growth means that it is inevitable that both they and the Group are affected by recent falls in commodity prices. However, in almost all cases there is no direct correlation between a fall in commodity prices and the health of a particular business. Instead the effect of price movements is amplified or mitigated by a wide range of factors, including business model, risk positions, financial strength and management quality. A diversified portfolio should also insulate the effect to manageable pockets of weakness rather than present a pervasive risk across the whole book and pages 61 and 62 present management's insight into this. At present, the stressed part of the Group's commodity-related loan portfolio is primarily parts of the lower rated oil and coal producer sector, together with some oil support companies
- In China, growth has slowed to 7.4 per cent in 2014 from 7.7 per cent in 2013 and there are signs of stress in some sectors. Stress is by no means pervasive across the whole economy, however, and in the Group's case is limited to lower-grade counterparties in the energy, metals and mining sectors
- The Group's financial markets activities continue to be mostly in assets and liabilities, whose prices are observable in the market place (Level 1 and 2 instruments in accounting parlance – see pages 258 to 260). The level of liquidity underlying those instruments continues to be sufficient to enable transparent valuation of them

Having addressed the going concern assumption and whether the Group's database of transactions was a sufficient underlying basis for the accounts, the risks of material misstatement lay in decisions over loan and goodwill impairments and the valuation of financial instruments. This is because they require significant judgement in assessing subjective and uncertain estimates. In forming our unmodified opinion on the financial statements, we undertook the following principal procedures on each of these areas as follows.

Impairment of loans and advances

The risk is that bad debts may be misstated. Corporate & Institutional Clients, Commercial Clients and the Private Bank (collectively 'Larger Clients') represents 74 per cent (\$279 billion) of the Group's loan portfolio, while Retail Clients represents 26 per cent (\$98 billion). These portfolios are different in nature and require a different approach to loan impairment. The Larger Client's portfolio comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on knowledge of each individual borrower. However, the Retail portfolio comprises much smaller value loans to a very much greater number of customers. Loans are not monitored on an individual basis, but are grouped by product into homogeneous portfolios. Portfolios are then monitored through delinquency statistics, which also drive the assessment of loan loss provisions.

Our response We undertook the following base audit procedures in all in-scope countries:

- For both Larger Clients and Retail our in-country teams used their local knowledge to assess the trends in their local credit

environments and considered the likely impact on the Group's portfolio to focus their testing on key risk areas

- For Larger Clients, we tested the key controls over the credit grading process, to assess if the risk grades allocated to counterparties were appropriate. We then performed detailed credit assessments of all loans above \$50 million in credit grades 13 and 14 (see pages 75 and 76) and key loans above \$100 million on the Group's early alert list (see page 109) together with a selection of other loans. In doing these, we critically assessed the reasonableness of the forecast of recoverable cash flows, realisation of collateral and other possible sources of repayment. We checked the consistency of key assumptions and compared them to progress against business plans and our own understanding of the relevant industries and business environments. We also checked them where possible to externally derived evidence, such as commodity prices and forecasts, real estate valuations and regulatory approvals
- For Retail, the impairment process is based on projecting losses based on the prior historical payment performance of each portfolio, adjusted for current market conditions. We tested the accuracy of the key inputs (e.g. year-end balances, repayment history) into the models. We used our own valuation specialists to assess the appropriateness of the impairment calculation methodology. We evaluated whether the output of the models are consistent with historical payment performance. We then challenged the appropriateness of the adjustments made by management to reflect current market conditions, with reference to our own knowledge and to market and economic conditions

Our focus in particular risk areas was as follows:

- For Indian exposures we analysed the portfolio to identify those that remain more vulnerable to default, including those exposed to the infrastructure sector and to government and state dependent entities
- In the UAE, we revisited restructured legacy exposures to assess whether they were still performing as expected and whether the recovery assumptions remained appropriate
- For commodities exposures we broke the portfolio down into its component parts in order to identify which areas were most stressed. In doing so, we took account of the size and financial strength of counterparties, the tenor of the debt (much of Standard Chartered's exposure is short term) and the rate at which counterparties were moving into early alert and credit grades 12-14, which are monitored more closely. The data for doing this was tested using the base procedures set out above. We then compared the outcome of this work with the Group's stress testing to see if there were any further areas of risk that should be subject to our base testing. We challenged the Group's stress tests by: reviewing the Group's stress testing compilation process to assess its independence and integrity; compared the output to our in-country audit teams' views of stress to check for consistency; and used our risk specialists to challenge the key assumptions used
- Similarly we broke the China portfolio down into its component parts using a similar process to that used for commodities. We then focused on the areas where stress was apparent as described above
- Finally we assessed whether the financial statement disclosures appropriately reflect the Group's exposure to credit risk

Goodwill

The risk is that goodwill in the balance sheet may not be supported by the future cash flows of the underlying business. Total goodwill in the balance sheet is \$5.2 billion but approximately \$2.7 billion of this relates to businesses where post-acquisition growth in cash flows now provides substantial headroom over the goodwill balance. We regard these as very low risk from a misstatement perspective. Our work was therefore focused on the acquisitions where the headroom is lower, amounting to \$2.5 billion.

Our response We used our own valuation specialists to assess the appropriateness of the Group's forecasting approach and its derivation of discount rates. We compared the latter to external sources. Our challenge to the cash flow forecasts included: confirming the internal consistency of assumptions and comparing them to progress against business plans and our knowledge of the local banking environment; comparing forecasts to past performance and to GDP forecasts from the IMF; and checking non-financial assumptions to evidence where necessary.

As in 2013, our primary focus was on South Korea. Given the complex interplay of factors relating to the local economic, regulatory, and social conditions, the Senior Statutory Auditor again visited Seoul to gain a deeper insight into the issues. In addition: we assessed the vulnerability of the business to further loan losses, drawing on our work on loan impairment described above; we sought supporting evidence for key non-financial improvements to the business (such as the introduction of new products); and we critically assessed the reasonableness of forecast product mixes against historical outcomes. In addition we assessed the Group's ability to reduce Korea's carrying value by paying out dividends.

Finally we assessed whether the financial statement disclosures, including sensitivity to key inputs, are appropriate.

Valuation of financial instruments in the balance sheet

The risk is that financial instruments may be mispriced in the balance sheet, because they are not based on objective external prices or, where these are not easily observable, the best estimate of what they may be. Of the financial instruments that are carried at fair value or as available-for-sale in the Group's balance sheet, 99 per cent qualified as Level 1 or 2 as at 31 December 2014. This means they were valued using prices that were observable in the market place or through models with market observable inputs, resulting in the valuation risk being low. However, liquidity has drained rapidly from emerging and developing markets in past periods and it is important to ascertain that prices are liquid enough to be genuinely observable in the market. The remaining 1 per cent (\$4 billion) of financial instruments are classed as Level 3, because certain pricing inputs to them are unobservable. The determination of these prices is considerably more subjective.

Our response For financial instruments we checked for a selection that pricing inputs used were externally sourced and were correctly input into pricing models. We used our own valuation specialists to assess that the models were appropriate and they valued a selection of the Group's debt securities and derivative positions independently and compared their valuation to the Group's valuation.

In order to assess the liquidity of the prices for Level 1 and 2 instruments, we tested a selection of instruments to establish how many institutions contributed to pricing inputs and how wide the ranges of observable quotes were. We checked that these factors were taken into account by the Group.

In 2014, Level 3 instruments mainly comprised unlisted private equity investments and a small number of illiquid, thinly traded loans and debt securities. For this portfolio, we performed additional procedures over a selection of investments, critically assessing key inputs, assumptions and models, considering alternative valuation methods and assessing sensitivities to key factors. For example, for unlisted private equity positions, we assessed the appropriateness of the pricing multiples available from comparable listed companies and for material loans and debt instruments, we assessed the reasonableness of the forecast cash flows and discount rates used by comparing them to similar instruments.

Finally we assessed whether the financial statement disclosures, including sensitivity to key inputs, appropriately reflect the Group's exposure to financial instrument valuation risk.

3) Our application of materiality and an overview of the scope of the audit

The materiality for the Group financial statements as a whole was set at \$300 million. This was determined with reference to a benchmark against normalised Group profit before tax adjusted for the impairment loss from Korea goodwill as disclosed in note 26 and the Civil Penalty from the US branch as disclosed in note 8 because they are discrete (of which it represents 5.7 per cent).

We agreed with the Audit Committee to report to it any uncorrected misstatement affecting Group profit and loss or Group shareholders' funds of more than \$10 million and any uncorrected misstatement affecting Group assets and liabilities only of more than \$100 million. In addition we agreed to report any other audit misstatements below these thresholds that we believed warranted reporting on qualitative grounds.

How we scoped our audit

Audits for Group reporting purposes were performed at 31 branches and subsidiaries in 24 countries, together with the necessary supporting test work at the Group's eight central hubs that perform or support many of its financial processes. More limited audit testing was performed at a further three branches, primarily because they either hold significant amounts of liquid assets or because they clear significant volumes of transactions. Our audit testing at these three branches, when combined with work we did at central hubs, ensured coverage of these and other higher risk areas. The entities scoped into these two categories of testing included all significant dealing room activities.

The audit work undertaken for Group reporting purposes at these branches, subsidiaries and hubs, (together key reporting 'components'), were all performed by the component auditor to materiality levels set by, or agreed with, the Group audit team. These materiality levels were set individually for each component and ranged from \$1 million to \$66 million. The key reporting components represent 96 per cent of Group profit before tax and 97 per cent of total assets.

As well as drawing up the scope, Group audit instructions and exercising overall oversight, the Group audit team performed the work on valuation of financial instruments and goodwill impairment itself. In addition it performed quality assurance checks on loan loss audit judgements made by component auditors for all key loans above \$50 million in credit grades 13 and 14 (see pages 75 and 76) and key loans above \$100 million on the Group's early alert list (see page 109). Further, the Senior Statutory Auditor and other members of the Group audit team visited key locations to gain first-hand knowledge of key risks and issues. This year, they visited Hong Kong, Singapore, India, the UAE, China, Taiwan, Indonesia, the US and South Korea.

A particular focus was managing the audit of the centralised hubs, which require component audit teams to cooperate effectively. Common audit objectives were coordinated through common global audit programmes, which set out the responsibilities of each component team on a test-by-test basis. This process was overseen by the Group audit team and a group of audit partners, based in each of the Group's key regions, who oversaw their region in more detail and helped to ensure that the audit approach was fully understood and that key issues were properly addressed.

4) Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006
- The information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

5) We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report and Accounts that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading. In particular, we are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the Annual Report and Accounts and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy
- The Corporate Governance section of the Annual Report and Accounts describing the work of the Group Audit Committee does not appropriately address matters communicated by us to the Group Audit Committee

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us
- The parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns
- Certain disclosures of directors' remuneration specified by law are not made
- We have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

- The directors' statement, set out on page 219, in relation to going concern
- The part of the Corporate Governance Statement on page 135 relating to the Company's compliance with the 10 provisions of the 2012 UK Corporate Governance Code specified for our review

We have nothing to report in respect of the above responsibilities.

6) Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statements set out on page 219, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and subject to important explanations and disclaimers regarding our responsibilities, published on our website at kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.



John Hughes

Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
4 March 2015

Consolidated income statement

For the year ended 31 December 2014

	Notes	2014 \$million	2013 \$million
Interest income	3	16,984	17,593
Interest expense	4	(5,981)	(6,437)
Net interest income		11,003	11,156
Fees and commission income	5	4,651	4,581
Fees and commission expense	5	(472)	(480)
Net trading income	6	1,896	2,514
Other operating income	7	1,256	1,006
Non-interest income		7,331	7,621
Operating income		18,334	18,777
Staff costs	8	(6,788)	(6,570)
Premises costs	8	(910)	(877)
General administrative expenses	8	(2,708)	(2,032)
Depreciation and amortisation	9	(639)	(714)
Operating expenses		(11,045)	(10,193)
Operating profit before impairment losses and taxation		7,289	8,584
Impairment losses on loans and advances and other credit risk provisions	10	(2,141)	(1,617)
Other impairment			
Goodwill	11	(758)	(1,000)
Other	11	(403)	(129)
Profit from associates and joint ventures		248	226
Profit before taxation		4,235	6,064
Taxation	12	(1,530)	(1,864)
Profit for the year		2,705	4,200
Profit attributable to:			
Non-controlling interests	35	92	110
Parent company shareholders		2,613	4,090
Profit for the year		2,705	4,200
		cents	cents
Earnings per share:			
Basic earnings per ordinary share	14	102.2	164.4
Diluted earnings per ordinary share	14	101.6	163.0

The notes on pages 232 to 307 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	Notes	2014 \$million	2013 \$million
Profit for the year		2,705	4,200
Other comprehensive income:			
Items that will not be reclassified to income statement:			
Actuarial (losses)/gains on retirement benefit obligations	33	(61)	79
Items that may be reclassified subsequently to income statement:			
Exchange differences on translation of foreign operations:			
Losses taken to equity		(1,090)	(1,206)
Net gains/(losses) on net investment hedges		20	(35)
Share of other comprehensive income from associates and joint ventures	23	17	(15)
Available-for-sale investments:			
Net valuation gains taken to equity		479	171
Reclassified to income statement		(423)	(248)
Cash flow hedges:			
Net losses taken to equity		(116)	(83)
Reclassified to income statement		13	6
Taxation relating to components of other comprehensive income	12	(22)	34
Other comprehensive income for the year, net of taxation		(1,183)	(1,297)
Total comprehensive income for the year		1,522	2,903
Total comprehensive income attributable to:			
Non-controlling interests	35	63	79
Parent company shareholders		1,459	2,824
		1,522	2,903

Consolidated balance sheet

As at 31 December 2014

	Notes	2014 \$million	2013 \$million
Assets			
Cash and balances at central banks	15, 38	97,282	54,534
Financial assets held at fair value through profit or loss	15, 16	32,623	29,335
Derivative financial instruments	15, 17	65,834	61,802
Loans and advances to banks	15, 18	83,890	83,702
Loans and advances to customers	15, 19	284,695	290,708
Investment securities	15, 21	104,238	102,716
Other assets	15, 22	38,689	33,570
Current tax assets		362	234
Prepayments and accrued income		2,647	2,510
Interests in associates and joint ventures	23	1,962	1,767
Goodwill and intangible assets	26	5,190	6,070
Property, plant and equipment	27	7,984	6,903
Deferred tax assets	28	518	529
Total assets		725,914	674,380
Liabilities			
Deposits by banks	15	54,391	43,517
Customer accounts	15	405,353	381,066
Financial liabilities held at fair value through profit or loss	15, 16	22,390	23,030
Derivative financial instruments	15, 17	63,313	61,236
Debt securities in issue	15, 29	71,951	64,589
Other liabilities	15, 30	31,274	27,338
Current tax liabilities		891	1,050
Accruals and deferred income		5,915	4,668
Subordinated liabilities and other borrowed funds	15, 31	22,947	20,397
Deferred tax liabilities	28	246	176
Provisions for liabilities and charges	32	92	107
Retirement benefit obligations	33	413	365
Total liabilities		679,176	627,539
Equity			
Share capital	34	1,236	1,214
Reserves		45,196	45,032
Total parent company shareholders' equity		46,432	46,246
Non-controlling interests	35	306	595
Total equity		46,738	46,841
Total equity and liabilities		725,914	674,380

The notes on pages 232 to 307 form an integral part of these financial statements.

These financial statements were approved by the board of directors and authorised for issue on 4 March 2015 and signed on its behalf by:

Sir John Peace

Chairman

P A Sands

Group Chief Executive

A Halford

Group Finance Director

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Share capital \$million	Share premium account \$million	Capital and capital redemp- tion reserve ¹ \$million	Merger reserve \$million	Available- for-sale reserve \$million	Cash flow hedge reserve \$million	Trans- lation reserve \$million	Retained earnings \$million	Parent company share- holders equity \$million	Non- control- ling interests \$million	Total \$million
As at 1 January 2013	1,207	5,476	18	12,421	478	81	(885)	26,566	45,362	693	46,055
Profit for the year	–	–	–	–	–	–	–	4,090	4,090	110	4,200
Other comprehensive income	–	–	–	–	(32)	(66)	(1,221)	53 ²	(1,266)	(31)	(1,297)
Distributions	–	–	–	–	–	–	–	–	–	(77)	(77)
Shares issued, net of expenses	5	19	–	–	–	–	–	–	24	–	24
Net own shares adjustment	–	–	–	–	–	–	–	(124)	(124)	–	(124)
Share option expense, net of taxation	–	–	–	–	–	–	–	240	240	–	240
Capitalised on scrip dividend	2	(2)	–	–	–	–	–	–	–	–	–
Dividends, net of scrip	–	–	–	–	–	–	–	(2,068)	(2,068)	–	(2,068)
Other decreases ³	–	–	–	–	–	–	–	(12)	(12)	(100)	(112)
As at 31 December 2013	1,214	5,493	18	12,421	446	15	(2,106)	28,745	46,246	595	46,841
Profit for the year	–	–	–	–	–	–	–	2,613	2,613	92	2,705
Other comprehensive income	–	–	–	–	10	(72)	(1,042)	(50) ²	(1,154)	(29)	(1,183)
Distributions	–	–	–	–	–	–	–	–	–	(60)	(60)
Shares issued, net of expenses	3	8	–	–	–	–	–	–	11	–	11
Net own shares adjustment	–	–	–	–	–	–	–	(93)	(93)	–	(93)
Share option expense, net of taxation	–	–	–	–	–	–	–	247	247	–	247
Capitalised on scrip dividend	19	(19)	–	–	–	–	–	–	–	–	–
Dividends, net of scrip	–	–	–	–	–	–	–	(1,451)	(1,451)	–	(1,451)
Other increases/(decreases) ⁴	–	–	–	–	–	–	–	13	13	(292)	(279)
As at 31 December 2014	1,236	5,482	18	12,421	456	(57)	(3,148)	30,024	46,432	306	46,738

1. Includes capital reserve of \$5 million and capital redemption reserve of \$13 million

2. Comprises actuarial losses, net of taxation and non-controlling interests of \$47 million (2013: gain of \$58 million)

3. Relate to the impact of losing control in a subsidiary after divesting from the Company

4. Further details are available in note 35

Note 34 includes a description of each reserve.

The notes on pages 232 to 307 form an integral part of these financial statements

Cash flow statement

For the year ended 31 December 2014

	Notes	Group		Company	
		2014 \$million	2013 \$million	2014 \$million	2013 \$million
Cash flows from operating activities					
Profit before taxation		4,235	6,064	1,483	2,150
Adjustments for non-cash items and other adjustments included within income statement	37	4,470	4,121	(747)	(1,488)
Change in operating assets	37	(13,657)	(44,138)	89	(50)
Change in operating liabilities	37	59,321	45,252	265	1,273
Contributions to defined benefit schemes	33	(98)	(168)	—	—
UK and overseas taxes paid		(1,708)	(1,716)	—	150
Net cash from operating activities		52,563	9,415	1,090	2,035
Cash flows from investing activities					
Purchase of property, plant and equipment	27	(189)	(205)	—	—
Disposal of property, plant and equipment		67	156	—	—
Acquisition of investment in subsidiaries, associates, and joint ventures, net of cash acquired	23	(64)	(46)	(4,759)	(5,753)
Purchase of investment securities	21	(196,054)	(142,892)	(3,698)	(2,501)
Disposal and maturity of investment securities	21	192,055	137,161	1,801	925
Dividends received from investment in subsidiaries, associates and joint ventures	23	13	5	1,494	2,096
Net cash used in investing activities		(4,172)	(5,821)	(5,162)	(5,233)
Cash flows from financing activities					
Issue of ordinary and preference share capital, net of expenses		11	24	11	24
Purchase of own shares		(110)	(154)	(110)	(154)
Exercise of share options through ESOP		17	30	17	30
Interest paid on subordinated liabilities		(1,090)	(813)	(434)	(93)
Gross proceeds from issue of subordinated liabilities		4,684	5,448	4,684	5,448
Repayment of subordinated liabilities		(2,114)	(2,616)	—	(925)
Repayment to non-controlling interests		(298)	(104)	—	—
Interest paid on senior debts		(740)	(563)	(605)	(439)
Gross proceeds from issue of senior debts		6,579	6,816	5,048	3,054
Repayment of senior debts		(6,408)	(3,730)	(4,063)	—
Dividends paid to non-controlling interests and preference shareholders, net of scrip		(161)	(178)	(101)	(101)
Dividends paid to ordinary shareholders, net of scrip		(1,350)	(1,967)	(1,350)	(1,967)
Net cash (used in)/from financing activities		(980)	2,193	3,097	4,877
Net increase/(decrease) in cash and cash equivalents		47,411	5,787	(975)	1,679
Cash and cash equivalents at beginning of year		84,156	79,518	18,558	16,879
Effect of exchange rate movements on cash and cash equivalents		(1,697)	(1,149)	—	—
Cash and cash equivalents at end of year	38	129,870	84,156	17,583	18,558

The notes on pages 232 to 307 form an integral part of these financial statements.

Company balance sheet

As at 31 December 2014

	Notes	2014 \$million	2013 \$million
Non-current assets			
Investments in subsidiary undertakings	23	24,881	20,122
Current assets			
Derivative financial instruments	46	865	1,053
Investment securities	46	12,309	10,411
Amounts owed by subsidiary undertakings	46	17,583	18,558
		30,757	30,022
Current liabilities			
Derivative financial instruments	46	477	346
Other creditors		407	434
Taxation		50	49
Deferred income	45	18	18
		952	847
Net current assets		29,805	29,175
Total assets less current liabilities		54,686	49,297
Non-current liabilities			
Debt securities in issue	46	18,638	18,650
Deferred income	45	—	18
Subordinated liabilities and other borrowed funds	31, 46	14,177	8,955
		32,815	27,623
Total assets less liabilities		21,871	21,674
Equity			
Share capital	34	1,236	1,214
Reserves		20,635	20,460
Total equity		21,871	21,674

The notes on pages 232 to 307 form an integral part of these financial statements.

These financial statements were approved by the board of directors and authorised for issue on 4 March 2015 and signed on its behalf by:

Sir John Peace
Chairman

P A Sands
Group Chief Executive

A Halford
Group Finance Director

Company statement of changes in equity

For the year ended 31 December 2014

	Share capital \$million	Share premium account \$million	Capital and capital redemption reserve ¹ \$million	Merger reserve \$million	Retained earnings \$million	Total \$million
As at 1 January 2013	1,207	5,476	18	12,421	2,346	21,468
Profit for the year	–	–	–	–	2,136	2,136
Shares issued, net of expenses	5	19	–	–	–	24
Net own shares adjustment	–	–	–	–	(124)	(124)
Share option expense	–	–	–	–	238	238
Capitalised on scrip dividend	2	(2)	–	–	–	–
Dividends, net of scrip	–	–	–	–	(2,068)	(2,068)
As at 31 December 2013	1,214	5,493	18	12,421	2,528	21,674
Profit for the year	–	–	–	–	1,482	1,482
Shares issued, net of expenses	3	8	–	–	–	11
Net own shares adjustment	–	–	–	–	(93)	(93)
Share option expense	–	–	–	–	248	248
Capitalised on scrip dividend	19	(19)	–	–	–	–
Dividends, net of scrip	–	–	–	–	(1,451)	(1,451)
As at 31 December 2014	1,236	5,482	18	12,421	2,714	21,871

1. Includes capital reserve of \$5 million and capital redemption reserve of \$13 million

Note 34 includes a description of each reserve.

The notes on pages 232 to 307 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

(a) Statement of compliance

The Group financial statements consolidate those of Standard Chartered PLC (the Company) and its subsidiaries (together referred to as the Group) and equity account the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU). EU endorsed IFRS may differ from IFRS published by the International Accounting Standards Board (IASB) if a standard has not been endorsed by the EU.

In publishing the parent company financial statements together with the Group financial statements, the Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

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

- a) 'Regulatory compliance, review, request for information and investigations; and 'Risk of fraud and other criminal acts' on pages 103 and 104;
- b) From the start of 'Risk profile' on page 64 to the end of the 'Pension risk' section on page 100 excluding:
 - Asset backed securities, page 85
 - Mapping of market risk items to the balance sheet, page 92
 - Encumbered assets, page 95 and
 - Liquidity Coverage Ratio and Net Stable Funding Ratio, page 95 and
- c) From the start of the 'CRD IV capital base' section on page 119 to the end of 'Movement in total capital' section on page 120.

(b) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of cash-settled share-based payments, available-for-sale assets, and financial assets and liabilities (including derivatives) at fair value through profit or loss. The Company financial statements have been prepared on a historical cost basis, as modified by cash-settled share-based payments and the revaluation of financial assets and liabilities (including derivatives) at fair value through profit or loss.

(c) Significant accounting estimates and 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, are set out in the relevant disclosure notes for the following areas:

- Loan loss provisioning (refer to Risk and Capital review on page 81)
- Taxation (refer to note 12)
- Fair value of financial instruments (refer to note 15)
- Goodwill impairment (refer to note 26)
- Provisions for liabilities and charges (refer to note 32)
- Retirement benefit obligations (refer to note 33)
- Share-based payments (refer to note 36)

(d) Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets and income of the Group.

(e) New accounting standards adopted by the Group

On 1 January 2014, the Group adopted the following amendments to standards and new interpretation.

- Amendment to International Accounting Standards (IAS) 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* clarifies the requirements for offsetting financial assets and liabilities and addresses inconsistencies noted in current practice when applying the offsetting criteria in IAS 32. These amendments were applied retrospectively and did not have a material impact on these consolidated financial statements

Amendment to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* removes the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives have been allocated when there has been no impairment or reversal of impairment of the related CGU.

Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of asset or CGU is measured at FV less costs of disposal. The application of these amendments has had no material impact on these consolidated financial statements.

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement: Novation of Derivatives and Continuation of Hedge Accounting* clarifies that there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendments were applied retrospectively and did not have a material impact on these consolidated financial statements
- IFRIC 21 *Levies* provides guidance on when to recognise a liability for a levy imposed by a government. IFRIC 21 identifies the obligating event for the recognition of a liability. If that obligating event occurs over a period of time, the levy is recognised proportionately. If it is triggered by a minimum threshold, the liability is recognised when that threshold is reached. This interpretation was applied retrospectively and did not have a material impact on these consolidated financial statements
- There are a number of IFRS improvements that were effective from 1 January 2014. Those changes did not have a significant impact on these consolidated financial statements

(f) New accounting standards in issue but not yet effective

A number of new standards and amendments to standards and interpretations are effective for periods beginning after 1 January 2015 and have not been applied in preparing these consolidated financial statements. These include:

IFRS 9 Financial Instruments

IFRS 9 was issued in July 2014 and has an effective date of 1 January 2018. The standard has not yet been endorsed by the EU. IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and introduce new requirements for the classification and measurement of financial assets and financial liabilities, a new model for recognising loan loss provisions based on expected credit losses and provide for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

1. Accounting policies continued

Classification and measurement

Financial assets are classified on the basis of the business model within which they are held, and their contractual cash flow characteristics. The standard also introduces a 'fair value through other comprehensive income' (FVOCI) measurement category for particular simple debt instruments. The requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39, however, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk and, in particular, the presentation of gains and losses within other comprehensive income.

Impairment

IFRS 9 incorporates an expected loss approach for recognising credit losses. Under this approach expected credit losses or lifetime expected credit losses for all amortised cost and FVOCI debt instruments would be recognised depending on whether or not significant credit deterioration has occurred since origination or acquisition. Where significant deterioration has not occurred, a provision equating to 12 months of expected credit losses would be recognised whereas if there is a significant deterioration in credit risk, lifetime expected credit losses would be recognised.

Hedge accounting

The general hedge accounting model aligns hedge accounting more closely with risk management and establish a more principle-based approach to hedge accounting. Dynamic hedging of open portfolios is being dealt with as a separate project and until such time as that project is complete, entities can choose between applying the hedge accounting requirements of IFRS 9 or to continue to apply the existing hedge accounting requirements in IAS 39. The revised hedge accounting requirements in IFRS 9 are applied prospectively.

For annual periods beginning before 1 January 2018, an entity may elect, subject to EU endorsement, to early apply only the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss.

The impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 9 on these consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

The effective date of IFRS 15 is 1 January 2017 with early adoption permitted. IFRS 15 has not yet been endorsed by the EU.

The standard provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively. While it is expected that a significant proportion of the Group's revenue will be outside the scope of IFRS 15, the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 15 on these consolidated financial statements.

(g) IFRS and Hong Kong accounting requirements

As required by the Hong Kong Listing Rules, an explanation of the differences in accounting practices between EU endorsed IFRS and Hong Kong Financial Reporting Standards is required to be disclosed. There would be no significant differences had these accounts been prepared in accordance with Hong Kong Financial Reporting Standards.

(h) Prior year restatements

Details of prior year restatements are set out in note 41.

The accounting policies set out below have been applied consistently across the Group and to all years presented in these financial statements.

(i) Consolidation

Subsidiaries

Subsidiaries are all entities, including structured entities, which the Group controls. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. 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 de-consolidated from the date that control ceases, and where any interest in the subsidiary remains, this is remeasured to its fair value and the change in carrying amount is recognised in the income statement. Details of the Group's principal subsidiaries are given in note 23.

Structured entities are consolidated when the substance of the relationship between the Group and the structured entity indicates the Group's power over the structured entity. Details of the Group's use of structured entities are set out in note 24.

Associates and joint arrangements

Joint arrangements are where two or more parties either have rights to the assets, and obligations of the joint arrangement (joint operations) or have rights to the net assets of the joint arrangement (joint venture). The Group evaluates the contractual terms of joint arrangements to determine whether a joint arrangement is a joint operation or a joint venture. At 31 December 2014 the Group did not have any contractual interest in joint operations.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition (net of any accumulated impairment loss). The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate, 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.

Details of the Group's interest in associates and joint ventures are provided in note 23.

Investment in subsidiaries, associates and joint ventures

In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received prior to 1 January 2009, if any.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group accounts.

1. Accounting policies continued**Business combinations**

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Note 25 provides details on business combinations entered into by the Group during 2014.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill (see note 26 for details on goodwill recognised by the Group). If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the income statement.

Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, adjustments arising from their subsequent finalisation are not reflected in the income statement if (i) they arise within 12 months of the acquisition date (or relate to acquisitions completed before 1 January 2013) 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.

Details of the Group's interest in associates and joint ventures are provided in note 23.

(j) Foreign currencies

Items included in the Group financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency of that entity). Both the Company and Group financial statements are presented in US dollars, which is the functional and presentation currency of the Company and the presentation currency of the Group.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost, or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the income statement or shareholders' equity depending on the treatment of the gain or loss on the asset or liability.

Foreign currency translation

The results and financial position of all the entities included in the Group financial statements that have a functional currency different from the Group's presentation currency are accounted for as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date
- Income and expenses for each income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly
- All resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or capital repatriated they are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(k) Income recognition**Income from financial instruments**

Gains and losses arising from changes in the fair value of financial instruments held at fair value through profit or loss are included in the income statement in the period in which they arise. Contractual interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

If the financial asset has been reclassified, subsequent increases in the estimates of future cash receipts as a result of increased recoverability are recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Dividends on equity instruments are recognised in the income statement within other income when the Group's right to receive payment is established.

1. Accounting policies continued

Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided or significant act performed. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself, or retained a part at the same effective interest rate as for the other participants. Portfolio and other management advisory fees and service distribution fees are recognised based on the applicable contracts, usually on a time apportionment basis.

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, on demand and overnight balances with central banks (unless restricted) and balances with less than three months maturity from the date of acquisition, including treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

(m) Financial assets and liabilities classification (excluding derivatives)

The Group classifies its financial assets into the following measurement categories: a) financial assets held at fair value through profit or loss; b) loans and receivables; c) held-to-maturity; and d) available-for-sale.

Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition or, where applicable, at the time of reclassification. Details of financial assets and liabilities held by the Group are provided in notes 15, 16 and 17.

Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis
- A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis
- The assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately

For certain loans and advances and debt securities with fixed rates of interest, interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these loans and advances and debt securities have been designated at fair value through profit or loss. Details of financial assets designated at fair value are disclosed in notes 15 and 16.

The Group has also designated certain financial liabilities at fair value through profit or loss where either the liabilities:

- Have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered into with the intention of significantly reducing interest rate risk
- Are exposed to foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes
- Have been acquired to fund trading asset portfolios or assets, or where the assets and liabilities are managed, and performance evaluated, on a fair value basis for a documented risk management or investment strategy

Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost expense recognition. Details of financial liabilities designated at fair value are disclosed in note 15.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

Available-for-sale

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

Further details on the application of these policies is set out in note 15.

Financial liabilities held at amortised cost

Financial liabilities, which include borrowings, not classified held at fair value through profit or loss are classified as amortised cost instruments.

Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in the absence of the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risks or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. 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 financial assets classified as held-to-maturity and available-for-sale are initially recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers. All financial instruments are initially recognised at fair value, which is normally the transaction price plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs.

1. Accounting policies continued

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement.

The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the net trading income line in the income statement.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to the available-for-sale reserve within equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Financial liabilities are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

In addition to these instruments, the carrying value of a financial instrument carried at amortised cost that is the hedged item in a qualifying fair value hedge relationship is adjusted by the fair value gain or loss attributable to the hedged risk.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group considers the following factors in assessing objective evidence of impairment:

- Whether the counterparty is in default of principal or interest payments
- When a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation
- Where the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation
- Where the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments
- Where the Group sells a credit obligation at a material credit-related economic loss; or where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets

Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Further details on collateral held by the Group is discussed in the Risk and Capital review on page 70. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process which considers asset type, industry, geographic location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are based on the probability of default inherent within the portfolio of impaired loans or receivables and the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Further details on the application of these policies is set out in the Risk and Capital review on pages 58 to 125.

1. Accounting policies continued

Available-for-sale assets

Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is reclassified from equity and recognised in the income statement. A significant or prolonged decline in the fair value of an equity security below its cost is considered, among other factors in assessing objective evidence of impairment for equity securities.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Renegotiated loans

Loans whose original terms have been modified including those subject to forbearance strategies are considered renegotiated loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment and the loan is assessed accordingly.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Further details on offsetting are set out in note 15.

Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets must be reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the income statement over the remaining life of the financial asset, using the effective interest method.

Details of reclassifications are set out in note 15.

Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) remain on the balance sheet; the counterparty liability is included in deposits by banks, or customer accounts, as appropriate. Securities purchased under agreements to resell (reverse-repos) are recorded as loans and

advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

Details of repo and reverse Repo transactions entered into by the Group are provided in note 15.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income'.

(n) Derivative financial instruments and hedge accounting

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond held, are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or (3) hedges of the net investment of a foreign operation (net investment hedges).

1. Accounting policies continued

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The Group and Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Details of the derivative financial instruments held by the Group, including those held for hedge accounting are provided in note 17.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity or derecognition.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is disposed of.

Further details on the application of these policies are set out in note 17.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instruments not qualifying for hedge accounting are recognised immediately in the income statement.

(o) Leases**Where a Group company is the lessee**

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the Group is a lessee under finance leases, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in Other liabilities. Finance charges payable are recognised over the period of the lease

based on the interest rate implicit in the lease to give a constant periodic rate of return.

Where a Group company is the lessor

When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax cash flows.

Assets leased to customers under operating leases are included within Property, plant and equipment and depreciated over their useful lives. Rental income on these leased assets is recognised in the income statement on a straight-line basis unless another systematic basis is more representative.

(p) Intangible and tangible fixed assets**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in Intangible assets. Goodwill on acquisitions of associates is included in Investments in associates. Goodwill included in intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments (as set out in note 2) as the Group views its reportable segments on a global basis. Note 26 sets out the major cash-generating units to which goodwill has been allocated.

Acquired intangibles

At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (4 to 16 years). At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortised on the basis of expected useful life (three to five years). Costs associated with maintaining software are recognised as an expense as incurred. At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

1. Accounting policies continued

Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated although it is subject to impairment testing. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	up to 50 years
Leasehold improvements	life of lease, up to 50 years
Equipment and motor vehicles	three to 15 years
Aircraft and Ships	up to 25 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. At each balance sheet date, assets are also assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately to the recoverable amount.

Gains and losses on disposals are included in the income statement.

(q) Taxation

Income tax payable on profits is based on the applicable tax law in each jurisdiction and is recognised as an expense in the period in which profits arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted as at the balance sheet date, and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the current or deferred gain or loss.

Details of the income statement tax charge is produced in note 12 and of deferred taxation in note 28.

(r) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where a liability arises based on participation in a market at a specified date (such as the UK bank levy), the obligation is recognised in the financial statements on that date and is not accrued over the period.

(s) Employee benefits

Retirement benefit obligations

The Group operates a number of pension and other post-retirement benefit plans around the world, including defined contribution plans and defined benefit plans.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The Group determines the net interest expense on the net defined liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payment. Net interest expense and other expense related to defined benefit plans are recognised in the income statement.

Details of the Group's retirement benefit obligations are provided in note 33.

Share-based compensation

The Group operates equity-settled and cash-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For deferred share awards granted as part of an annual performance award, the expense is recognised over the period from the start of the performance period to the vesting date. For example, the expense for awards granted in 2015 in respect of 2014 performance, which vest in 2015-2017, is recognised as an expense over the period from 1 January 2013 to the vesting dates in 2015-2017. For all other awards, the expense is recognised over period from the date of grant to the vesting date.

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options at the date of grant, which excludes the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the income statement at the time of cancellation.

1. Accounting policies continued

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards are revalued at each balance sheet date and a liability recognised on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in the income statement until the awards are exercised. Where forfeitures occur prior to vesting that are attributable to factors other than a failure to satisfy market-based performance conditions, the cumulative charge incurred up to the date of forfeiture is credited to the income statement.

The Company records the value of the equity-settled awards as a deemed investment in subsidiaries. Any revaluation related to cash-settled awards is recorded as an amount due from subsidiary undertakings.

Details of the Group's share-based compensation schemes are set out in note 36.

(t) Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares and preference shares classified as equity are recognised in equity in the period in which they are declared.

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity of the Group and/or of the Company as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity of the Group and/or the Company.

Details of the Group's share capital is set out in note 34.

(u) Assets held for sale

Non-current assets (such as property) and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when: (i) their carrying amounts will be recovered principally through sale; (ii) they are available-for-sale in their present condition; and (iii) their sale is highly probable.

Immediately before the initial classification as held for sale, the carrying amounts of the assets (or assets and liabilities in the disposal group) are measured in accordance with the applicable accounting policies described above.

2. Segmental information

The Group is organised on a worldwide basis for management and reporting purposes into four client segments: Corporate & Institutional Clients, Commercial Clients, Private Banking Clients and Retail Clients. The products offered to these client segments are summarised under 'Income by product' below. The focus is on broadening and deepening the relationship with clients, rather than maximising a particular product line. Hence the Group evaluates segmental performance based on overall profit or loss before taxation (excluding corporate items not allocated) and not individual product profitability. Product revenue information is used as a way of assessing client needs and trends in the market place. The strategies adopted by the client segments need to be adapted to local market and regulatory requirements, which is the responsibility of country management teams. While not the primary driver of the business, country performance is an important part of the Group's structure and is also used to evaluate performance and reward staff. Corporate items not allocated are not aggregated into the client segments because of the one-off nature of these items.

The Group's entity-wide disclosure, which includes profit before tax, net interest margin and structure of the Group's deposits, comprises geographic areas, classified by the location of the customer, except for Financial Market products, which are classified by the location of the dealer.

Transactions between the client segments and geographic areas are carried out on an arm's-length basis. Apart from the entities that have been acquired in the past two years, Group central expenses have been distributed between the client segments and geographic areas in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their average credit risk-weighted assets. In the year in which an acquisition is made, the Group does not charge or allocate the benefit of the Group's capital. The distribution of central expenses is phased in over two years, based on the estimate of central management costs associated with the acquisition.

Performance by client segment

	2014						
	Corporate & Institutional \$million	Commercial \$million	Private Banking \$million	Retail \$million	Total reportable segments \$million	Corporate items not allocated \$million	Total \$million
Internal income	6	2	(6)	(2)	—	—	—
Net interest income	5,821	722	346	4,114	11,003	—	11,003
Non-interest income ¹	4,704	458	272	1,897	7,331	—	7,331
Operating income¹	10,531	1,182	612	6,009	18,334	—	18,334
Operating expenses	(5,191)	(739)	(447)	(4,002)	(10,379)	(666)²	(11,045)
Operating profit before impairment losses and taxation	5,340	443	165	2,007	7,955	(666)	7,289
Impairment losses on loans and advances and other credit risk provisions	(991)	(212)	—	(938)	(2,141)	—	(2,141)
Other impairment	—	—	—	—	—	(758)	(758)
Goodwill ³	—	—	—	—	—	—	—
Other	(307)	(35)	(16)	(45)	(403)	—	(403)
Profit from associates and joint ventures	198	22	—	28	248	—	248
Profit before taxation	4,240	218	149	1,052	5,659	(1,424)	4,235
Total assets employed	513,767	29,444	26,181	151,418	720,810	5,104	725,914
Loans to customers	157,970	14,651	18,056	97,922	288,599	—	288,599
Total liabilities employed	466,680	32,087	36,370	142,902	678,039	1,137	679,176
Customer accounts	244,731	22,787	29,621	117,050	414,189	—	414,189
Other segment items:							
Capital expenditure ⁴	2,264	120	44	98	2,526	—	2,526
Depreciation	305	13	4	112	434	—	434
Interests in associates and joint ventures	1,217	406	19	320	1,962	—	1,962
Amortisation of intangible assets	107	13	6	79	205	—	205

1. Includes an own credit adjustment of \$100 million

2. Relates to \$366 million for UK bank levy and \$300 million for US civil monetary penalty

3. Relates to \$726 million and \$32 million goodwill impairment charge in North East Asia and Greater China respectively

4. Includes capital expenditure \$1,966 million in respect of operating lease asset

Notes to the financial statements

2. Segmental information continued

	2013						
	Corporate & Institutional \$million	Commercial \$million	Private Banking \$million	Retail \$million	Total reportable segments \$million	Corporate items not allocated \$million	Total \$million
Internal income	(53)	35	(44)	62	—	—	—
Net interest income	5,869	765	349	4,173	11,156	—	11,156
Non-interest income ¹	4,946	711	281	1,683	7,621	—	7,621
Operating income	10,762	1,511	586	5,918	18,777	—	18,777
Operating expenses	(4,954)	(731)	(407)	(3,866)	(9,958)	(235)²	(10,193)
Operating profit before impairment losses and taxation	5,808	780	179	2,052	8,819	(235)	8,584
Impairment losses on loans and advances and other credit risk provisions	(488)	(157)	(8)	(964)	(1,617)	—	(1,617)
Other impairment							
Goodwill ³	—	—	—	—	—	(1,000)	(1,000)
Other	(113)	(13)	—	(3)	(129)	—	(129)
Profit from associates and joint ventures	156	37	2	31	226	—	226
Profit before taxation	5,363	647	173	1,116	7,299	(1,235)	6,064
Total assets employed	456,661	35,767	23,669	152,313	668,410	5,970	674,380
Loans to customers	160,906	17,802	17,159	100,148	296,015	—	296,015
Total liabilities employed	404,097	45,845	38,191	138,180	626,313	1,226	627,539
Customer accounts	211,051	33,705	32,212	114,003	390,971	—	390,971
Other segment items:							
Capital expenditure ⁴	1,153	77	11	210	1,451	—	1,451
Depreciation	295	11	—	127	433	—	433
Interests in associates and joint ventures	982	417	36	332	1,767	—	1,767
Amortisation of intangible assets	174	14	8	85	281	—	281

1. Includes an own credit adjustment of \$106 million

2. Relates to UK bank levy

3. Relates to goodwill impairment charge on the Korea business in North East Asia

4. Includes capital expenditure of \$874 million in respect of operating lease assets

The following table details operating income by product:

	2014 \$million	2013 \$million
Transaction Banking	3,802	3,911
Trade	1,956	2,069
Cash Management and Custody	1,846	1,842
Financial Markets ¹	3,500	3,962
Corporate Finance	2,487	2,519
Lending and Portfolio Management	1,026	1,065
Wealth Management	1,701	1,449
Retail Products	4,840	5,046
Cards, Personal Loans and Unsecured Lending	2,576	2,788
Deposits	1,222	1,193
Mortgage and Auto	938	997
Other Retail Products	104	68
Asset and Liability Management	653	548
Principal Finance	325	277
Total operating income¹	18,334	18,777

1. Includes \$100 million (2013: \$106 million) benefit relating to an own credit adjustment (OCA)

2. Segmental information continued

Performance by geographic regions and key countries

Entity-wide information

The Group manages its reportable client segments on a global basis. The Group's operations are based in the eight main geographic regions presented below. Information is also provided for key countries in which the Group operates. The UK is the home country of the Company.

	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Internal income	(28)	(80)	(51)	54	82	93	(6)	(64)	–
Net interest income	3,006	1,238	1,267	2,251	951	988	396	906	11,003
Fees and commissions income, net	1,342	236	298	958	418	413	359	155	4,179
Net trading income	798	12	231	231	244	199	84	97	1,896
Underlying	704	12	231	234	244	199	84	88	1,796
Own credit adjustment	94	–	–	(3)	–	–	–	9	100
Other operating income	422	53	110	219	148	136	28	140	1,256
Operating income	5,540	1,459	1,855	3,713	1,843	1,829	861	1,234	18,334
Operating expenses¹	(2,911)	(1,179)	(793)	(2,078)	(984)	(990)	(968)	(1,142)	(11,045)
Operating profit before impairment losses and taxation	2,629	280	1,062	1,635	859	839	(107)	92	7,289
Impairment losses on loans and advances and other credit risk provisions	(469)	(394)	(183)	(698)	(89)	(175)	(21)	(112)	(2,141)
Other impairment ²	(174)	(737)	(73)	(86)	(1)	(1)	(1)	(88)	(1,161)
Profit from associates and joint ventures	177	–	–	62	–	10	–	(1)	248
Profit/(loss) before taxation	2,163	(851)	806	913	769	673	(129)	(109)	4,235
Total assets employed ^{3,4}	213,196	64,896	35,941	160,286	44,225	26,456	91,999	172,274	–
Loans to customers ⁴	89,646	29,582	22,859	78,541	22,775	13,103	10,952	21,141	–
Average interest-earning assets ⁴	175,790	58,491	31,733	127,746	36,590	22,837	66,415	110,940	–
Net interest margin (%)	1.7	2.0	3.8	1.8	2.8	4.7	0.6	0.8	1.9
Capital expenditure ⁵	2,008	40	28	377	12	38	2	21	2,526

1. Includes \$366 million UK bank levy in Europe and \$300 million civil monetary penalty in Americas

2. Includes \$32 million and \$726 million related to goodwill impairment charge in Greater China and North East Asia respectively

3. Includes intra-group assets

4. Based on the location of the customers rather than booking location

5. Includes capital expenditure in Greater China of \$1,966 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment and software related intangibles including any post-acquisition additions made by the acquired entities

2. Segmental information continued

Performance by geographic regions and key countries continued

Entity-wide information

	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Internal income	85	(73)	57	83	96	129	4	(381)	—
Net interest income	2,862	1,312	1,267	2,175	948	992	393	1,207	11,156
Fees and commissions income, net	1,129	255	326	976	419	417	356	223	4,101
Net trading income	794	88	224	597	338	184	96	193	2,514
Underlying	795	86	224	552	338	184	96	133	2,408
Own credit adjustment	(1)	2	—	45	—	—	—	60	106
Other operating income	327	59	166	225	64	29	9	127	1,006
Operating income	5,197	1,641	2,040	4,056	1,865	1,751	858	1,369	18,777
Operating expenses¹	(2,772)	(1,186)	(823)	(2,075)	(960)	(862)	(536)	(979)	(10,193)
Operating profit before impairment losses and taxation	2,425	455	1,217	1,981	905	889	322	390	8,584
Impairment losses on loans and advances and other credit risk provisions	(242)	(427)	(215)	(396)	(47)	(270)	(11)	(9)	(1,617)
Other impairment ²	1	(1,029)	(105)	2	—	—	—	2	(1,129)
Profit from associates and joint ventures	146	—	—	78	—	—	—	2	226
Profit/(loss) before taxation	2,330	(1,001)	897	1,665	858	619	311	385	6,064
Total assets employed ^{3,4}	206,332	67,159	39,700	159,346	42,430	24,892	71,380	134,249	—
Loans to customers ⁴	89,846	30,618	25,608	82,852	23,535	13,122	10,429	20,005	—
Average interest-earning assets ⁴	163,023	57,885	33,576	123,715	35,725	20,066	60,087	83,323	—
Net interest margin (%)	1.8	2.1	3.9	1.8	2.9	5.6	0.7	1.0	2.1
Capital expenditure ⁵	944	28	31	344	11	45	5	43	1,451

1. Includes \$235 million UK bank levy charge in Europe

2. Includes \$1 billion goodwill impairment charge on Korea business in North East Asia

3. Includes intra-group assets

4. The analysis is based on the location of the customers rather than booking location of the loan

5. Includes capital expenditure in Greater China of \$874 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment, and software-related intangibles, including any post-acquisition additions made by the acquired entities

2. Segmental information continued

Performance by geographic regions and key countries continued

Entity-wide information

	2014						
	Hong Kong \$million	Singapore \$million	Korea \$million	India \$million	UAE \$million	China \$million	UK \$million
Net interest income	1,906	1,164	1,109	966	605	779	731
Fees and commissions income, net	1,040	582	219	225	263	133	83
Net trading income	702	165	–	173	136	(6)	81
Underlying	609	171	(1)	173	136	(7)	72
Own credit adjustment	93	(6)	1	–	–	1	9
Other operating income	397	116	52	88	66	13	89
Operating income	4,045	2,027	1,380	1,452	1,070	919	984
Operating expenses	(1,792)	(1,093)	(1,121)	(647)	(569)	(758)	(942)
Operating profit before impairment losses and taxation	2,253	934	259	805	501	161	42
Impairment losses on loans and advances and other credit risk provisions	(272)	(80)	(392)	(171)	(63)	(177)	(108)
Other impairment	(169)	(2)	(737)	(73)	–	–	(88)
Profit from associates and joint ventures	–	(1)	–	–	–	177	–
Profit/(loss) before taxation	1,812	851	(870)	561	438	161	(154)
Total assets employed ^{1,2}	156,528	120,845	54,437	30,083	28,322	36,250	172,259
Loans to customers ²	61,643	55,830	28,600	19,718	14,358	15,939	18,344
Capital expenditure ³	1,996	355	39	20	2	7	19

1. Includes intra-group assets

2. The analysis is based on the location of the customers rather than booking location of the loan

3. Includes capital expenditure in Hong Kong of \$1,966 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment and software related intangibles including any post-acquisition additions made by the acquired entities

	2013						
	Hong Kong \$million	Singapore \$million	Korea \$million	India \$million	UAE \$million	China \$million	UK \$million
Net interest income	1,835	1,072	1,199	1,092	652	788	707
Fees and commissions income, net	875	579	236	264	291	129	161
Net trading income	722	311	73	159	233	(13)	161
Underlying income	722	282	72	159	233	(12)	101
Own credit adjustment	–	29	1	–	–	(1)	60
Other operating income	293	170	56	148	46	29	81
Operating income	3,725	2,132	1,564	1,663	1,222	933	1,110
Operating expenses	(1,666)	(1,129)	(1,120)	(684)	(573)	(753)	(812)
Operating profit before impairment losses and taxation	2,059	1,003	444	979	649	180	298
Impairment losses on loans and advances and other credit risk provisions	(135)	(88)	(427)	(195)	(52)	(58)	(6)
Other impairment	(4)	10	(1,029)	(105)	–	4	2
Profit from associates and joint ventures	–	–	–	–	–	146	2
Profit/(loss) before taxation	1,920	925	(1,012)	679	597	272	296
Total assets employed ^{1,2}	149,318	115,561	55,921	34,470	28,813	35,128	132,162
Loans to customers ²	61,173	57,540	29,760	22,767	15,734	15,489	16,543
Capital expenditure ³	905	320	27	26	3	26	41

1. Includes intra-group assets

2. The analysis is based on the location of the customers rather than booking location of the loan

3. Includes capital expenditure in Hong Kong of \$874 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment, and software-related intangibles, including any post-acquisition additions made by the acquired entities

2. Segmental information continued

Deposits structure by geographic regions and key countries

The following tables set out the structure of the Group's deposits by principal geographic regions and key countries:

	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Non-interest bearing current and demand accounts	12,670	514	3,201	10,579	7,969	5,826	2,610	2,582	45,951
Interest bearing current accounts and savings deposits	86,110	21,369	2,771	39,067	5,051	2,590	17,345	17,885	192,188
Time Deposits	57,735	14,476	8,575	47,583	11,422	3,142	28,231	42,214	213,378
Other deposits	220	462	1,001	3,841	412	146	1,689	10,224	17,995
Total	156,735	36,821	15,548	101,070	24,854	11,704	49,875	72,905	469,512
Deposits by banks	5,200	4,202	338	7,283	2,374	687	16,496	18,743	55,323
Customer accounts	151,535	32,619	15,210	93,787	22,480	11,017	33,379	54,162	414,189
Protected under government insurance schemes	26,700	9,309	1,253	12,825	326	2,927	—	69	53,409
Other accounts	124,835	23,310	13,957	80,962	22,154	8,090	33,379	54,093	360,780
	156,735	36,821	15,548	101,070	24,854	11,704	49,875	72,905	469,512
Debt securities in issue:									
Senior debt	1,416	3,919	—	—	—	5	—	18,804	24,144
Other debt securities	3,569	6,234	388	5,004	—	137	17,325	23,987	56,644
Subordinated liabilities and other borrowed funds	1,342	337	—	—	25	46	—	21,197	22,947
Total	163,062	47,311	15,936	106,074	24,879	11,892	67,200	136,893	573,247
	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Non-interest bearing current and demand accounts	10,022	409	3,093	10,815	9,696	5,465	3,513	2,469	45,482
Interest bearing current accounts and savings deposits	77,075	20,258	2,484	40,253	3,915	2,429	18,173	16,572	181,159
Time Deposits	62,479	16,090	9,119	49,198	11,197	3,985	10,825	37,249	200,142
Other deposits	351	1,023	1,364	2,426	181	207	—	3,162	8,714
Total	149,927	37,780	16,060	102,692	24,989	12,086	32,511	59,452	435,497
Deposits by banks	4,652	3,719	542	6,917	1,491	566	17,739	8,900	44,526
Customer accounts	145,275	34,061	15,518	95,775	23,498	11,520	14,772	50,552	390,971
Protected under government insurance schemes	25,965	9,834	1,222	13,957	302	1,247	—	59	52,586
Other accounts	119,310	24,227	14,296	81,818	23,196	10,273	14,772	50,493	338,385
	149,927	37,780	16,060	102,692	24,989	12,086	32,511	59,452	435,497
Debt securities in issue:									
Senior debt	2,187	4,094	—	—	53	6	—	18,839	25,179
Other debt securities	2,848	6,069	46	2,961	—	214	14,450	19,645	46,233
Subordinated liabilities and other borrowed funds	1,696	635	—	—	24	51	—	17,991	20,397
Total	156,658	48,578	16,106	105,653	25,066	12,357	46,961	115,927	527,306

The above tables include financial instruments held at fair value (see note 15).

2. Segmental Information continued

Deposits structure by geographic regions and key countries continued

The following tables set out the structure of the Group's deposits by principal geographic regions and key countries:

	2014						
	Hong Kong \$million	Singapore \$million	Korea \$million	India \$million	UAE \$million	China \$million	UK \$million
Non-interest bearing current and demand accounts	11,874	7,985	80	2,404	5,150	663	931
Interest bearing current accounts and savings deposits	64,562	30,997	19,889	1,600	2,858	10,861	15,820
Time Deposits	38,609	36,934	11,106	7,395	9,763	11,697	39,585
Other deposits	39	3,042	411	765	369	176	10,226
Total	115,084	78,958	31,486	12,164	18,140	23,397	66,562
Deposits by banks	4,304	5,231	1,786	325	2,175	793	17,573
Customer accounts	110,780	73,727	29,700	11,839	15,965	22,604	48,989
Protected under government insurance schemes	19,215	6,017	9,309	493	—	57	57
Other accounts	91,565	67,710	20,391	11,346	15,965	22,547	48,932
	115,084	78,958	31,486	12,164	18,140	23,397	66,562
Debt securities in issue:							
Senior debt	—	—	3,919	—	—	817	18,804
Other debt securities	2,737	4,695	3,459	388	—	—	23,987
Subordinated liabilities and other borrowed funds	1,342	—	337	—	—	—	21,197
Total	119,163	83,653	39,201	12,552	18,140	24,214	130,550
	2013						
	Hong Kong \$million	Singapore \$million	Korea \$million	India \$million	UAE \$million	China \$million	UK \$million
Non-interest bearing current and demand accounts	9,166	8,654	50	2,314	6,835	696	988
Interest bearing current accounts and savings deposits	59,348	30,851	19,157	1,604	1,709	7,813	14,484
Time Deposits	39,476	38,020	12,096	7,606	9,255	13,321	34,004
Other deposits	214	1,482	541	1,241	145	129	3,153
Total	108,204	79,007	31,844	12,765	17,944	21,959	52,629
Deposits by banks	2,091	4,792	1,479	457	1,180	1,888	8,309
Customer accounts	106,113	74,215	30,365	12,308	16,764	20,071	44,320
Protected under government insurance schemes	17,982	6,319	9,834	526	—	65	59
Other accounts	88,131	67,896	20,531	11,782	16,764	20,006	44,261
	108,204	79,007	31,844	12,765	17,944	21,959	52,629
Debt securities in issue:							
Senior debt	144	—	4,094	—	—	818	18,839
Other debt securities	2,167	2,621	3,215	46	—	—	19,645
Subordinated liabilities and other borrowed funds	1,359	—	635	—	—	—	17,991
Total	111,874	81,628	39,788	12,811	17,944	22,777	109,104

The above tables include financial instruments held at fair value (see note 15).

Notes to the financial statements

3. Interest income

	2014 \$million	2013 \$million
Balances at central banks	246	153
Treasury bills	780	881
Loans and advances to banks	1,206	1,082
Loans and advances to customers	12,167	13,109
Listed debt securities	823	709
Unlisted debt securities	1,662	1,566
Accrued on impaired assets (discount unwind)	100	93
	16,984	17,593
Of which from financial instruments held at:		
Amortised cost	14,281	14,910
Available-for-sale	2,373	2,132
Held at fair value through profit or loss	330	551

4. Interest expense

	2014 \$million	2013 \$million
Deposits by banks	408	388
Customer accounts:		
Interest bearing current accounts and savings deposits	1,009	1,014
Time Deposits	2,960	3,370
Debt securities in issue	866	1,010
Subordinated liabilities and other borrowed funds:		
Wholly repayable within five years	74	160
Other	664	495
	5,981	6,437
Of which from financial instruments held at:		
Amortised cost	5,541	5,843
Held at fair value through profit or loss	440	594

5. Fees and commission

	2014 \$million	2013 \$million
Transaction Banking	1,484	1,465
Financial Markets	353	375
Corporate Finance	462	502
Wealth Management	1,151	951
Retail Products	668	695
Others	61	113
	4,179	4,101

Total fee income arising from financial instruments that are not fair valued through profit or loss is \$1,596 million (2013: \$1,584 million) and arising from trust and other fiduciary activities of \$156 million (2013: \$162 million).

Total fee expense arising from financial instruments that are not fair valued through profit or loss is \$79 million (2013: \$98 million) and arising from trust and other fiduciary activities of \$21 million (2013: \$21 million).

6. Net trading income

	2014 \$million	2013 \$million
Gains less losses on instruments held for trading	1,980	2,437
Foreign currency ¹	298	1,118
Trading securities	337	(203)
Interest rate derivatives	1,306	889
Credit and other derivatives	39	633
Gains less losses from fair value hedging	(29)	(15)
Gains less losses from fair value hedged items	(1,301)	1,307
Gains less losses from fair value hedging instruments	1,272	(1,322)
Gains less losses on instruments designated at fair value	(55)	92
Financial assets designated at fair value through profit or loss	(65)	97
Financial liabilities designated at fair value through profit or loss	(834)	172
Own credit adjustment (OCA)	100	106
Derivatives managed with financial instruments designated at fair value through profit or loss	744	(283)
	1,896	2,514

1. Includes foreign currency gains and losses arising on the translation of foreign currency monetary assets and liabilities

Gains less losses on instruments held for trading is presented by product type. Gains or losses on certain trading securities are offset by gains or losses within interest rate derivatives and credit and other derivatives.

7. Other operating income

	2014 \$million	2013 \$million
Other operating income includes:		
Gains less losses on disposal of financial instruments:		
Available-for-sale	426	248
Loans and receivables	8	17
Dividend income	97	104
Rental income from operating lease assets	562	485
Gain on disposal of property, plant and equipment	49	102
Receipt of tax refund related income	26	5
Profit on sale of businesses	13	–
Fair value loss on business classified as held for sale	(15)	(49)

Notes to the financial statements

8. Operating expenses

	2014 \$million	2013 \$million
Staff costs:		
Wages and salaries	5,035	4,982
Social security costs	168	160
Other pension costs (note 33)	333	336
Share-based payment costs (note 36)	234	264
Other staff costs	1,018	828
	6,788	6,570

Variable compensation is included within share-based payments costs and wages and salaries. Further details are disclosed in the Directors' remuneration report on page 172. Other staff costs primarily include redundancy, training and travel costs.

The following tables summarise the number of employees within the Group:

	2014		
	Business	Support services	Total
At 31 December	49,638	41,302	90,940
Average for the year	48,642	40,293	88,935
2013			
	Business	Support services	Total
At 31 December	46,892	39,748	86,640
Average for the year	48,625	39,632	88,257

The Company employed nil staff at 31 December 2014 (2013: nil) and it incurred costs of \$4 million (2013: \$4 million).

Details of directors' pay and benefits and interests in shares are disclosed in the Directors' remuneration report on pages 170 to 209.

Transactions with directors, officers and other related parties are disclosed in note 45.

Premises and equipment expenses

	2014 \$million	2013 \$million
Rental of premises	454	440
Other premises and equipment costs	432	415
Rental of computers and equipment	24	22
	910	877

General administrative expenses

	2014 \$million	2013 \$million
UK bank levy ¹	366	235
Civil monetary penalty ²	300	–
Other general administrative expenses	2,042	1,797
	2,708	2,032

1. The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting. The charge for 2013 was reduced by a refund of \$31 million relating to prior years.

The rate of the levy for 2014 is 0.156 per cent for chargeable short-term liabilities, with a lower rate of 0.078 per cent generally applied to chargeable equity and long-term liabilities (i.e. liabilities with a remaining maturity greater than one year).

2. In August 2014, Standard Chartered reached a settlement with the New York Department of Financial Services (NYDFS) regarding deficiencies in its anti-money laundering transaction surveillance system at the New York branch.

8. Operating expenses continued

Auditor's remuneration

Auditor's remuneration in relation to the Group statutory audit amounts to \$3.9 million (2013: \$3.7 million) and is included within other general administration expenses. The following fees were payable by the Group to its principal auditor, KPMG Audit Plc and its associates (together KPMG):

	2014 \$million	2013 \$million
Audit fees for the Group statutory audit:		
Fees relating to the current year	3.9	3.7
Fees payable to KPMG for other services provided to the Group:		
Audit of Standard Chartered PLC subsidiaries, pursuant to legislation		
Fees relating to the current year	10.8	10.5
Total audit and audit related fees	14.7	14.2
Other services pursuant to legislation	3.1	2.6
Tax services	0.5	1.1
Services relating to corporate finance transactions	–	–
All other services	0.5	0.7
Total fees payable	18.8	18.6

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG Audit Plc for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered PLC. They exclude amounts payable for the audit of Standard Chartered PLC's subsidiaries and amounts payable to KPMG Audit Plc's associates. These amounts have been included in Fees payable to KPMG for other services provided to the Group
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings, including comfort letters and interim reviews
- Tax services include tax compliance services and tax advisory services
- Services related to corporate finance transactions include fees payable to KPMG for transaction related work irrespective of whether the Group is vendor or purchaser, such as acquisition due diligence and long-form reports
- All other services include other assurance and advisory services such as transaction services, ad hoc accounting advice, reporting accountants work on capital raising and review of financial models

Expenses incurred during the provision of services and which have been reimbursed by the Group are included within auditor's remuneration.

In addition to the above, KPMG estimates it has been paid fees less than \$0.2 million (2013: less than \$0.1 million) by parties other than the Group but where the Group is connected with the contracting party and therefore may be involved in appointing KPMG. These fees arise from services such as the audit of the Group's pension schemes.

Fees payable to KPMG for non-audit services for Standard Chartered PLC are not separately disclosed because such fees are disclosed on a consolidated basis for the Group.

Notes to the financial statements

9. Depreciation and amortisation

	2014 \$million	2013 \$million
Premises	105	108
Equipment:		
Operating lease assets	234	206
Others	95	119
Intangibles:		
Software	165	226
Acquired on business combinations	40	55
	639	714

During the year, the Group revised the useful life of certain technology assets from three years to five years. The revisions were accounted for prospectively as a change in accounting estimate and as a result, the current financial year depreciation charges of the Group for these assets decreased by \$121 million.

10. Impairment losses on loans and advances and other credit risk provisions

The following table reconciles the charge for impairment provisions on loans and advances to the total impairment charge and other credit risk provision:

	2014 \$million	2013 \$million
Net charge against profit on loans and advances:		
Individual impairment charge	2,096	1,597
Portfolio impairment charge	38	15
	2,134	1,612
Provisions related to credit commitments	6	–
Impairment charges relating to debt securities classified as loans and receivables	1	5
Total impairment losses and other credit risk provisions on loans and advances	2,141	1,617

An analysis of impairment provisions on loans and advances by geography and client segment is set out within the Risk and Capital review on pages 82 and 83.

11. Other impairment

	2014 \$million	2013 \$million
Impairment losses on available-for-sale financial assets:		
Debt securities	109	54
Equity shares	47	90
	156	144
Impairment of investment in associates	97	–
Impairment of goodwill (see note 26)	758	1,000
Impairment of acquired intangible assets (see note 26)	8	–
Impairment of commodity assets	139	–
Other	9	14
	1,167	1,158
Recovery of impairment on disposal of instruments ¹	(6)	(29)
	1,161	1,129

1. Relates to private equity instruments sold during the year that had impairment provisions raised against them in prior years

12. Taxation

Determining the Group's taxation charge for the year involves a degree of estimation and judgement.

Analysis of taxation charge in the year:

	2014 \$million	2013 \$million
The charge for taxation based upon the profits for the year comprises:		
Current tax:		
United Kingdom corporation tax at 21.5% (2013: 23.25%):		
Current tax on income for the year	169	139
Adjustments in respect of prior years (including double taxation relief)	(130)	(3)
Double taxation relief	(8)	(9)
Foreign tax:		
Current tax on income for the year	1,460	1,594
Adjustments in respect of prior years	(29)	(37)
	1,462	1,684
Deferred tax:		
Origination/reversal of temporary differences	(15)	165
Adjustments in respect of prior years	83	15
	68	180
Tax on profits on ordinary activities	1,530	1,864
Effective tax rate	36.1%	30.7%

The UK corporation tax rate was reduced from 23 per cent to 21 per cent with an effective date of 1 April 2014, giving a blended 21.5 per cent for the year.

Foreign taxation includes current taxation on Hong Kong profits of \$207 million (2013: \$242 million) provided at a rate of 16.5 per cent (2013: 16.5 per cent) on the profits assessable in Hong Kong. Deferred taxation includes origination/reversal of temporary differences in Hong Kong profits of \$4 million (2013: \$1 million) provided at a rate of 16.5 per cent (2013: 16.5 per cent) on the profits assessable in Hong Kong.

The taxation charge for the year is higher than the blended rate of corporation tax in the United Kingdom, 21.5 per cent. The differences are explained below:

	2014 \$million	2013 \$million
Profit on ordinary activities before taxation	4,235	6,064
Tax at 21.5% (2013: 23.25%)	911	1,410
Effects of:		
Tax free income	(254)	(244)
Lower tax rates on overseas earnings	(146)	(329)
Higher tax rates on overseas earnings	492	480
Adjustments to tax charge in respect of prior years	(76)	(25)
Goodwill impairment	163	232
Non-deductible expenses	525	431
Other items	(85)	(91)
Tax on profits on ordinary activities	1,530	1,864

	2014			2013		
	Current tax \$million	Deferred tax \$million	Total \$million	Current tax \$million	Deferred tax \$million	Total \$million
Tax recognised in other comprehensive income						
Available-for-sale assets	(16)	(50)	(66)	6	38	44
Cash flow hedges	–	31	31	–	11	11
Retirement benefit obligations	–	13	13	–	(21)	(21)
	(16)	(6)	(22)	6	28	34
Other tax recognised in equity						
Share-based payments	1	(2)	(1)	3	(1)	2
Total tax (charge)/credit recognised in equity	(15)	(8)	(23)	9	27	36

13. Dividends

	2014		2013	
	Cents per share	\$million	Cents per share	\$million
Ordinary equity shares				
2013/2012 Final dividend declared and paid during the year ¹	57.20	1,385	56.77	1,366
2014/2013 Interim dividend declared and paid during the year ¹	28.80	710	28.80	696
		2,095		2,062

1. The amounts are gross of scrip adjustments

The amounts in the table above reflect the actual dividends per share declared and paid to shareholders in 2014 and 2013. 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 2013 final dividend of 57.20 cents per ordinary share (\$1,385 million) was paid to eligible shareholders on 14 May 2014 and the interim dividend of 28.80 cents per ordinary share (\$710 million) was paid to eligible shareholders on 20 October 2014.

2014 recommended final ordinary equity share dividend

The 2014 final ordinary equity share dividend recommended by the board is 57.20 cents per share (\$1,414 million), which makes the total dividend for 2014 of 86.00 cents per share (2013: 86.00 cents per share). The final dividend will be paid in either pounds sterling, Hong Kong dollars or US dollars on 14 May 2015 to shareholders on the UK register of members at the close of business in the UK (10:00 pm London time) on 13 March 2015 and to shareholders on the Hong Kong branch register of members at the opening of business in Hong Kong (9:00 am Hong Kong time) on 13 March 2015. The 2014 final ordinary equity share dividend will be paid in Indian rupees on 14 May 2015 to Indian Depository Receipt holders on the Indian register at the close of business in India on 13 March 2015.

It is intended that shareholders on the UK register and Hong Kong branch register will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend arrangements will be sent to shareholders on or around 27 March 2015. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

		2014 \$million	2013 \$million
Preference shares			
Non-cumulative irredeemable preference shares:	7½% preference shares of £1 each ¹	13	11
	8¼% preference shares of £1 each ¹	12	13
Non-cumulative redeemable preference shares:	8.125% preference shares of \$5 each ^{1,2}	—	75
	7.014% preference shares of \$5 each ³	53	53
	6.409% preference shares of \$5 each ³	48	48

1. Dividends on these preference shares are treated as interest expense and accrued accordingly

2. These preference shares were redeemed on 27 November 2013

3. Dividends on these preference shares classified as equity are recorded in the period in which they are declared

14. Earnings per ordinary share

	2014			2013		
	Profit ¹ \$million	Weighted average number of shares (000)	Per share amount cents	Profit ¹ \$million	Weighted average number of shares (000)	Per share amount cents
Basic earnings per ordinary share	2,512	2,458,662	102.2	3,989	2,426,238	164.4
Effect of dilutive potential ordinary shares: Options ²		14,551			20,671	
Diluted earnings per ordinary share	2,512	2,473,213	101.6	3,989	2,446,909	163.0

There were no ordinary shares issued after the balance sheet date that would have significantly affected the number of ordinary shares used in the above calculation had they been issued prior to the end of the balance sheet date.

The Group measures earnings per share on a normalised basis. This differs from earnings defined in IAS 33 *Earnings per share*. The table below provides a reconciliation:

	2014 \$million	2013 \$million
Operating income as reported	18,334	18,777
Items normalised:		
Fair value gains on own credit adjustment	(100)	(106)
Gain on disposal of property	(49)	(77)
Gain arising on sale of business	(13)	–
Fair value loss on businesses classified as held for sale	15	49
	(147)	(134)
Normalised operating income	18,187	18,643
Operating expenses as reported	(11,045)	(10,193)
Items normalised:		
Amortisation of intangible assets arising on business combinations	40	55
Civil monetary penalty ³	300	–
	340	55
Normalised operating expenses	(10,705)	(10,138)
Other impairment as reported	(1,161)	(1,129)
Items normalised:		
Impairment of associates	97	–
Impairment of property	–	9
Impairment of acquired intangibles	8	–
Impairment of goodwill	758	1,000
	863	1,009
Normalised other impairment	(298)	(120)
Taxation as reported	(1,530)	(1,864)
Tax on normalised items ⁴	20	31
Normalised taxation	(1,510)	(1,833)
Profit as reported¹	2,512	3,989
Items normalised as above:		
Operating income	(147)	(134)
Operating expenses	340	55
Other impairment	863	1,009
Taxation	20	31
	1,076	961
Normalised profit	3,588	4,950
Normalised basic earnings per ordinary share (cents)	145.9	204.0
Normalised diluted earnings per ordinary share (cents)	145.1	202.3

1. The profit amounts represent the profit attributable to ordinary shareholders, which is profit for the year after non-controlling interest and the declaration of dividends payable to the holders of the non-cumulative redeemable preference shares classified as equity (see note 13)
2. The impact of anti-dilutive options has been excluded from this amount as required by IAS 33
3. In August 2014, Standard Chartered reached a settlement with the New York Department of Financial Services (NYDFS) regarding deficiencies in its anti-money laundering transaction surveillance system at the New York branch. There is no tax relief for this settlement
4. No tax is included in respect of the impairment of goodwill as no tax relief is available

15. Financial instruments

Classification

The accounting policies in note 1 describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The Group's classification of its financial assets and liabilities is summarised in the following tables.

Assets	Notes	Assets at fair value				Assets at amortised cost			Total \$million	
		Trading \$million	Derivatives held for hedging \$million	Designated at fair value through profit or loss \$million		Available-for-sale \$million	Loans and receivables \$million	Held-to-maturity \$million		
Cash and balances at central banks		—	—	—	—	97,282	—	—	97,282	
Financial assets held at fair value through profit or loss										
Loans and advances to banks ¹		3,368	—	242	—	—	—	—	3,610	
Loans and advances to customers ¹		2,833	—	1,071	—	—	—	—	3,904	
Treasury bills and other eligible bills	16	1,720	—	92	—	—	—	—	1,812	
Debt securities	16	17,735	—	—	—	—	—	—	17,735	
Equity shares	16	4,556	—	1,006	—	—	—	—	5,562	
		30,212	—	2,411	—	—	—	—	32,623	
Derivative financial instruments	17	64,111	1,723	—	—	—	—	—	65,834	
Loans and advances to banks ¹	18	—	—	—	—	83,890	—	—	83,890	
Loans and advances to customers ¹	19	—	—	—	—	284,695	—	—	284,695	
Investment securities										
Treasury bills and other eligible bills	21	—	—	—	24,073	—	16	—	24,089	
Debt securities	21	—	—	—	74,937	2,883	122	—	77,942	
Equity shares	21	—	—	—	2,207	—	—	—	2,207	
		—	—	—	101,217	2,883	138	—	104,238	
Other assets	22	—	—	—	—	30,754	—	7,935	38,689	
Total at 31 December 2014		94,323	1,723	2,411	101,217	499,504	138	7,935	707,251	
Cash and balances at central banks		—	—	—	—	54,534	—	—	54,534	
Financial assets held at fair value through profit or loss										
Loans and advances to banks ¹		2,221	—	246	—	—	—	—	2,467	
Loans and advances to customers ¹		4,411	—	896	—	—	—	—	5,307	
Treasury bills and other eligible bills	16	5,161	—	—	—	—	—	—	5,161	
Debt securities	16	12,407	—	292	—	—	—	—	12,699	
Equity shares	16	2,932	—	769	—	—	—	—	3,701	
		27,132	—	2,203	—	—	—	—	29,335	
Derivative financial instruments	17	59,765	2,037	—	—	—	—	—	61,802	
Loans and advances to banks ¹	18	—	—	—	—	83,702	—	—	83,702	
Loans and advances to customers ¹	19	—	—	—	—	290,708	—	—	290,708	
Investment securities										
Treasury bills and other eligible bills	21	—	—	—	26,243	—	—	—	26,243	
Debt securities	21	—	—	—	70,546	2,828	—	—	73,374	
Equity shares	21	—	—	—	3,099	—	—	—	3,099	
		—	—	—	99,888	2,828	—	—	102,716	
Other assets	22	—	—	—	—	27,435	—	6,135	33,570	
Total at 31 December 2013		86,897	2,037	2,203	99,888	459,207	—	6,135	656,367	

1. Further analysed in Risk and Capital review on pages 58 to 125

15. Financial instruments continued

Liabilities	Notes	Liabilities at fair value					Total \$million	
		Trading \$million	Derivatives held for hedging \$million	Designated at fair value through profit or loss \$million		Amortised cost \$million		
				Non- financial liabilities \$million				
Financial liabilities held at fair value through profit or loss								
Deposits by banks		—	—	932	—	—	932	
Customer accounts		—	—	8,836	—	—	8,836	
Debt securities in issue		—	—	8,837	—	—	8,837	
Short positions		3,785	—	—	—	—	3,785	
Derivative financial instruments	17	3,785	1,417	18,605	—	—	22,390	
Deposits by banks		61,896	—	—	—	—	63,313	
Customer accounts		—	—	—	54,391	—	54,391	
Debt securities in issue	29	—	—	—	405,353	—	405,353	
Other liabilities	30	—	—	—	71,951	—	71,951	
Subordinated liabilities and other borrowed funds	31	—	—	—	30,086	1,188	31,274	
Total at 31 December 2014		65,681	1,417	18,605	584,728	1,188	671,619	
Financial liabilities held at fair value through profit or loss								
Deposits by banks		—	—	1,009	—	—	1,009	
Customer accounts		—	—	9,905	—	—	9,905	
Debt securities in issue		—	—	6,823	—	—	6,823	
Short positions		5,293	—	—	—	—	5,293	
Derivative financial instruments	17	5,293	—	17,737	—	—	23,030	
Deposits by banks		60,322	914	—	—	—	61,236	
Customer accounts		—	—	—	43,517	—	43,517	
Debt securities in issue	29	—	—	—	381,066	—	381,066	
Other liabilities	30	—	—	—	64,589	—	64,589	
Subordinated liabilities and other borrowed funds	31	—	—	—	26,008	1,330	27,338	
Total at 31 December 2013		65,615	914	17,737	535,577	1,330	621,173	

Valuation of financial instruments

All financial instruments are initially recognised at fair value on the date of recognition as described within the accounting policies in note 1. 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 to instruments with characteristics similar to those of the instruments held by the Group.

Valuation control framework

The Valuation Control function is responsible for independent price verification, oversight of fair value adjustments and escalation of valuation issues. Independent price verification is the process of ensuring that the valuations incorporated into the financial statements are validated independent of the business area responsible for the product. The Valuation Control function has oversight of the fair value adjustments to ensure the financial instruments are priced to exit. These are key controls in ensuring the material accuracy of the valuations incorporated in the financial statements. In inactive markets, direct observation of a traded price may not be possible. The market data used for price verification may include those 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 in which the instrument is traded. To determine the quality of the market data inputs, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are taken into consideration.

Formal committees for the business clusters, consisting of representatives from Group Market Risk, Product Control, Valuation Control and the Business meet monthly to discuss and approve the valuations of the inventory. The Principal Finance Valuation Committee meetings are held on a quarterly basis. The business cluster valuation committees fall under the Valuation Benchmarks Committee as part of the valuation governance structure.

Valuation hierarchy

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.

Notes to the financial statements

15. Financial instruments continued

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

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 valuations 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

Level 3 portfolios are those where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data.

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)
Types of financial assets:	Actively traded government and other securities Listed equities Listed derivative instruments Investments in publicly traded mutual funds with listed market prices	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives Asset backed securities	Asset backed securities Private equity investments Highly structured OTC derivatives with unobservable inputs Illiquid or highly structured corporate bonds with unobservable inputs Illiquid loans and advances
Types of financial liabilities:	Listed derivative instruments	OTC derivatives Structured deposits Credit structured debt securities in issue	Highly structured OTC derivatives with unobservable inputs. Illiquid or highly structured debt securities in issue with unobservable inputs

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2014 and 31 December 2013.

	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
Assets				
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	–	3,610	–	3,610
Loans and advances to customers	–	3,264	640	3,904
Treasury bills and other eligible bills	1,578	234	–	1,812
Debt securities	8,466	8,874	395	17,735
Of which:				
Government bonds	8,158	1,519	–	9,677
Issued by corporates other than financial institutions	84	2,861	187	3,132
Issued by financial institutions	224	4,494	208	4,926
Equity shares	4,754	–	808	5,562
Derivative financial instruments	759	64,500	575	65,834
Of which:				
Foreign exchange	40	43,665	379	44,084
Interest rate	–	15,157	47	15,204
Commodity	719	4,983	–	5,702
Credit	–	420	20	440
Equity and stock index	–	275	129	404
Investment securities				
Treasury bills and other eligible bills	20,895	3,178	–	24,073
Debt securities	30,696	43,881	360	74,937
Of which:				
Government bonds	16,321	6,053	66	22,440
Issued by corporates other than financial institutions	9,790	9,713	289	19,792
Issued by financial institutions	4,585	28,115	5	32,705
Equity shares	1,248	6	953	2,207
Total at 31 December 2014	68,396	127,547	3,731	199,674

15. Financial instruments continued

Liabilities	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	932	–	932
Customer accounts	–	8,835	1	8,836
Debt securities in issue	–	8,629	208	8,837
Short positions	3,267	518	–	3,785
Derivative financial instruments	863	62,154	296	63,313
Of which:				
Foreign exchange	102	44,814	240	45,156
Interest rate	–	13,677	16	13,693
Commodity	761	2,161	–	2,922
Credit	–	955	10	965
Equity and stock index	–	547	30	577
Total at 31 December 2014	4,130	81,068	505	85,703

There have been no significant changes to valuation or levelling approaches in 2014.

There are no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during the year.

Assets	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	244	2,223	–	2,467
Loans and advances to customers	–	4,587	720	5,307
Treasury bills and other eligible bills	4,904	257	–	5,161
Debt securities	6,596	5,944	159	12,699
Of which:				
Government bonds	6,396	1,220	–	7,616
Issued by corporates other than financial institutions	79	3,211	159	3,449
Issued by financial institutions	121	1,513	–	1,634
Equity shares	2,797	–	904	3,701
Derivative financial instruments	323	60,881	598	61,802
Of which:				
Foreign exchange	56	41,942	366	42,364
Interest rate	–	16,013	53	16,066
Commodity	267	2,104	–	2,371
Credit	–	573	13	586
Equity and stock index	–	249	166	415
Investment securities				
Treasury bills and other eligible bills	22,701	3,523	19	26,243
Debt securities	24,445	45,493	608	70,546
Of which:				
Government bonds	14,513	5,451	64	20,028
Issued by corporates other than financial institutions	6,480	7,314	493	14,287
Issued by financial institutions	3,452	32,728	51	36,231
Equity shares	1,635	8	1,456	3,099
Total at 31 December 2013	63,645	122,916	4,464	191,025

15. Financial instruments continued

Liabilities	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	1,009	–	1,009
Customer accounts	–	9,897	8	9,905
Debt securities in issue	7	6,777	39	6,823
Short positions	4,917	376	–	5,293
Derivative financial instruments	420	60,375	441	61,236
Of which:				
Foreign exchange	84	41,738	315	42,137
Interest rate	–	15,863	24	15,887
Commodity	336	1,500	–	1,836
Credit	–	874	–	874
Equity and stock index	–	400	102	502
Total at 31 December 2013	5,344	78,434	488	84,266

There are no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during the year. There have been no significant changes to valuation or levelling approaches in 2013.

Valuation techniques

Loans and advances

These include loans in the global syndications underwriting book which are not syndicated yet. These loans are generally bilateral in nature and their valuation is primarily based on recent trades or proxies, such as comparable loans with similar credit grade, sector, etc. Products are classified as Level 2 in cases where observable credit spreads applicable to those products are available. Where there are no recent transactions and reliable comparable loans to proxy from, the valuation of these loans is based on unobservable inputs resulting in them being classified as Level 3.

Debt securities – asset backed securities

Due to the lack of liquidity in the market and the prolonged period of time under which many securities have not traded, obtaining external prices is not a strong enough measure to determine whether an asset has an observable price or not. Therefore, once external pricing has been verified, an assessment is made whether each security is traded with significant liquidity based on its credit rating and sector. If a security is of high credit rating and is traded in a liquid sector, it will be classified as Level 2, otherwise it will be classified as Level 3. Where third-party pricing is not available, the valuation of the security will be estimated from market standard cash flow models with input parameter assumptions which include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type, and credit ratings. These securities are also classified as Level 3.

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. 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 valuation of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

Equity shares – Private Equity

The majority of private equity investments are valued based on earning multiples – price-to-earnings (P/E) or enterprise value to earning before income tax, depreciation and amortisation (EV/EBITDA) ratios – of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. In circumstances where an investment does not have direct comparables or where the multiples for the comparable companies cannot be sourced from reliable external sources, alternate valuation techniques (for example, discounted cash flow models), which use predominantly unobservable inputs or Level 3 inputs, may be applied. Even though earning multiples for the comparable listed companies can be sourced from third-party sources (for example, Bloomberg), and those inputs can be deemed Level 2 inputs, all unlisted investments (excluding those where observable inputs are available, for example, over-the-counter prices) are classified as Level 3 on the grounds that the valuation methods involve judgements ranging from determining comparable companies to discount rates where the discounted cash flow method is applied.

Derivatives

Derivative products are classified as Level 2 if the valuation of the product is based upon input parameters which are observable from independent and reliable market data sources. Derivative products are classified as Level 3 if there are significant valuation input parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. These unobservable correlation parameters could only be implied from the market, through methods such as historical analysis and comparison to historical levels or benchmark data.

Debt securities in issue

These debt securities relate to structured notes issued by the Group. These positions are classified as Level 2 where independent market data is available through pricing vendors and brokers. Where such liquid external prices are not available, valuation of these debt securities are implied using input parameters such as bond spreads and credit spreads and classified as Level 3. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

15. Financial instruments continued

Fair value adjustments

When establishing the exit price of a financial instrument using a valuation technique, the Group considers adjustments to the modelled price, which market participants would make when pricing that instrument. In total, the Group has made \$432 million (2013: \$421 million) of valuation adjustments in determining fair value for financial assets and financial liabilities classified as Level 2 or Level 3 financial instruments. The main adjustments are described below:

Valuation adjustments	2014 \$million	2013 \$million
Bid-offer	66	69
Credit ¹	160	187
Model	14	15
Funding valuation adjustment	111	84
Others (including day one)	81	66
Total	432	421

1. Includes own debit valuation adjustments on derivatives

Bid-offer valuation adjustments

Where market parameters are marked on a mid-market basis in the revaluation systems, a bid-offer valuation adjustment is required to quantify the expected cost of neutralising the Business' 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, for example for cash securities, no bid offer valuation adjustments are required.

Credit adjustments

The Group makes a credit adjustment (CA) against derivative products. CA is an estimate of the adjustment to fair value to account for the possibility that the counterparty may default and the Group would not receive the full market value of the transactions. Advanced internal ratings-based approach (AIRB) models are used to calculate the probability of default (PD) and the loss given default (LGD) which, together with the results of the exposure simulation engine, generates a view of expected losses. Collateral positions are taken into account for the calculation of CA.

Own credit adjustments

With the adoption of International Financial Reporting Standards (IFRS) 13, the Group calculates own credit adjustments to reflect changes in its own credit standing. The Group's own credit adjustments are calculated on its derivative liabilities and issued debt designated at fair value, including structured notes. The Group's own credit adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. The Group's own credit adjustments will reverse over time as its liabilities mature.

For derivative liabilities, an own credit adjustment is determined by applying the Group's PD to the Group's negative expected exposure against the counterparty. The Group's PD and loss expected in the event of default is derived based on internally assessed credit ratings and market standard recovery levels. The expected exposure is modelled based on simulation methodology and is generated through simulation of underlying risk factors over the life of the deal booked against the particular counterparty. This simulation methodology incorporates the collateral posted by the Group and the effects of master netting agreements. The methodology used to determine an own credit adjustment on derivative liabilities is consistent with the methodology used to determine counterparty CA on derivative assets.

For issued debt and structured notes designated at fair value, an own credit adjustment is determined by discounting the contractual cash flows using a yield curve adjusted for market observed secondary senior debt issuance spreads above average interbank rates.

Model valuation adjustments

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 adjustments

In general, uncollateralised derivatives are discounted on the assumption that the Group is able to fund at Libor. However, the Group's funding costs will differ with reference to Libor by a funding spread. Funding valuation adjustment accounts for the impact of this funding spread in the valuation of derivatives. Funding valuation adjustment is reserved as part of day one profit and loss review process and released over the life of the deal.

Day one profit and loss

A financial instrument is initially recognised at fair value, which is generally its transaction price. In cases where the value obtained from the relevant valuation model differs from the transaction price, we record the asset or liability based on our valuation model, but do not recognise that initial difference in profit and loss, unless the inputs to the valuation model are observable.

15. 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				Total \$million
	Loans and advances to customers \$million	Debt securities \$million	Equity shares \$million	Derivative financial instruments \$million	Treasury bills \$million	Debt securities \$million	Equity shares \$million	Total \$million	
At 1 January 2014	720	159	904	598	19	608	1,456	4,464	
Total (losses)/gains recognised in income statement	(181)	7	(107)	(12)	–	(10)	191	(112)	
Total losses recognised in other comprehensive income	–	–	–	–	–	(66)	(144)	(210)	
Purchases	192	273	444	92	–	17	314	1,332	
Sales	(231)	(38)	(241)	(6)	–	(83)	(880)	(1,479)	
Settlements	(61)	(19)	–	(107)	–	(34)	–	(221)	
Transfers out	(6)	(3)	(192)	(3)	(19)	(127)	–	(350)	
Transfers in	207	16	–	13	–	55	16	307	
At 31 December 2014	640	395	808	575	–	360	953	3,731	
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2014	(154)	5	54	29	–	(37)	(16)	(119)	

Transfers in during the year primarily relate to investment in structured notes, corporate debt securities and loans and advances where the valuation parameters become unobservable during the year.

Transfers out during the year primarily relate to certain equity loans and advances and corporate debt securities, where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2 financial assets.

Assets	Held at fair value through profit or loss				Investment securities				Total \$million
	Loans and advances to customers \$million	Debt securities \$million	Equity shares \$million	Derivative financial instruments \$million	Treasury bills \$million	Debt securities \$million	Equity shares \$million	Total \$million	
At 1 January 2013	910	176	1,125	486	58	396	1,958	5,109	
Total (losses)/gains recognised in income statement	(89)	63	17	37	–	(18)	51	61	
Total losses recognised in other comprehensive income	–	–	–	–	–	(23)	(46)	(69)	
Purchases	–	18	264	86	–	6	119	493	
Sales	–	(30)	(502)	(11)	(36)	(59)	(446)	(1,084)	
Settlements	(103)	(38)	–	(50)	(3)	(100)	–	(294)	
Transfers out	–	(44)	–	(1)	–	(56)	(180)	(281)	
Transfers in	2	14	–	51	–	462	–	529	
At 31 December 2013	720	159	904	598	19	608	1,456	4,464	
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2013	(86)	3	16	24	–	–	3	(40)	

Transfers in during the year primarily relate to investment in structured notes, corporate debt securities and loans and advances, where the valuation parameters become unobservable during the year.

Transfers out during the year primarily relate to certain equity loans and advances and corporate debt securities, where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2 financial assets.

15. Financial instruments continued

Level 3 movement tables – financial liabilities

Liabilities	Customer accounts \$million	Debt securities in issue \$million	Derivative financial instruments \$million	Total \$million
At 1 January 2014	8	39	441	488
Total losses/(gains) recognised in income statement	–	3	(18)	(15)
Issues	–	159	27	186
Settlements	(7)	(24)	(152)	(183)
Transfers out	–	–	–	–
Transfers in	–	31	(2)	29
At 31 December 2014	1	208	296	505
Total losses recognised in the income statement relating to liabilities held at 31 December 2014	–	–	29	29
At 1 January 2013	–	114	563	677
Total losses recognised in income statement	–	3	54	57
Issues	9	506	1	516
Settlements	(3)	(490)	(144)	(637)
Transfers out	–	(99)	(33)	(132)
Transfers in	2	5	–	7
At 31 December 2013	8	39	441	488
Total losses recognised in the income statement relating to liabilities held at 31 December 2013	–	4	37	41

Transfers in during the year primarily relate to certain financial instruments for which parameters became unobservable during the year.

Transfers out during the year primarily relate to certain financial instruments, where the valuation parameters became observable during the year and were transferred to Level 2 financial liabilities.

15. Financial instruments continued

The following table presents the Group's primary Level 3 financial instruments, which are held at the fair value. The table also presents the valuation techniques used to measure the fair value of those financial instruments, the significant unobservable inputs, the range of values for those inputs and the weighted average of those inputs:

Instrument	Value at 31 December 2014			Significant unobservable inputs	Range ¹	Weighted average ²
	Assets \$million	Liabilities \$million	Principal valuation technique			
Loans and advances to customers	640	–	Comparable pricing	Credit spreads	4.1% to 25.2%	13.4%
			Comparable pricing	Recovery rates	54.0% to 66.0%	60.0%
Debt securities	373	–	Comparable pricing	Yield	2.9% to 76.8%	8.7%
Asset backed securities	316	–	Discounted cash flows	Yield	3.1% to 3.7%	3.4%
			Discounted cash flows	Discount margin	14.0% to 17.1%	15.5%
Government bonds	66	–	Discounted cash flows	Yield	2.4% to 13.3%	4.7%
Customer accounts	–	1				
Debt securities in issue	–	208	Internal pricing model	Equity correlation	35.0% to 97.0%	N/A
			Discounted cash flows	Credit spreads	1.0% to 4.0%	3.5%
Derivative financial instruments:						
Foreign exchange	379	240	Option pricing model	Foreign exchange option implied volatility	1.0% to 14.6%	6.2%
Interest rate	47	16	Discounted cash flows	Interest rate curves	0.1% to 11.4%	4.7%
			Spread option model	Interest rate correlation	97.9% to 98.3%	98.1%
Credit	20	10	Discounted cash flows	Credit spreads	0.1% to 4.0%	2.2%
			Option pricing model	Bond price volatility	24.0%	24.0%
Equity	129	30	Internal pricing model	Equity correlation	35.0% to 98.0%	N/A
Equity shares (includes private equity investments)	1,761	–	Comparable pricing	EV/EBITDA multiples	12.2x to 27.0x	17.3x
				P/E multiples	13.0x to 25.8x	24.2x
				Liquidity discount	10.0% to 30.0%	17.2%
Total	3,731	505				

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 2014. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments.

2. Weighted average for non-derivative financial instruments have been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator

The following section describes the significant unobservable inputs identified in the valuation technique table.

Proxy pricing

Proxy pricing refers to the method where valuation is done by calculating an implied yield from the price of a similar comparable observable instrument. The comparable instrument for a private equity investment is a comparable listed company. The comparable instrument in case of bonds is a similar comparable but observable bond.

This may involve adjusting the yield to derive a value for the unobservable instrument.

EV/EBITDA ratio multiples

This is the ratio of EV to EBITDA, EV is the aggregate market capitalisation and debt minus the cash and cash equivalents. An increase in EV/EBITDA multiple in isolation will result in a favourable movement in the fair value of the unlisted firm.

P/E and price to book (P/B) multiples

P/E multiple is the ratio of the market capitalisation to the net income after tax. P/B multiple is the ratio of the market capitalisation to the book value. The multiples are determined from multiples of listed comparables, which are observable. An increase in P/E multiple or P/B multiple will result in a favourable movement in the fair value of the unlisted firm.

Yield

Yield is the interest rate that is used to discount the future cash flows in a discounted cash flow model.

Correlation

Correlation is the measure of how movement in one variable influences the movement in another variable. Credit correlation generally refers to the factor that describes the relationship between the probability of individual entities to default on obligations and the joint probability of multiple entities to default on obligations. Similarly, equity correlation is the correlation between two equity instruments. An interest rate correlation refers to the correlation between two swap rates. Foreign exchange correlation represents the correlation between two different exchange rates.

Liquidity discounts in the valuation of unlisted investments

A liquidity discount is primarily applied to the valuation of unlisted investments to reflect the fact that these stocks are not actively traded. An increase in liquidity discount in isolation will result in unfavourable movement in the fair value of the unlisted firm.

15. Financial instruments continued

Volatility

Volatility represents an estimate of how much a particular instrument, parameter or index will change in value over time. Volatilities are generally implied from the observed option prices. For certain instruments, volatility may change with strike and maturity profile of the option.

Credit spreads

Credit spreads represent the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument.

Sensitivities in respect of the fair value of Level 3 assets and liabilities

	Held at fair value through profit or loss			Available-for-sale		
	Net exposure \$million	Favourable changes \$million	Unfavourable changes \$million	Net exposure \$million	Favourable changes \$million	Unfavourable changes \$million
Financial instruments held at fair value						
Debt securities	395	404	385	360	386	337
Equity shares	808	889	727	953	1,048	858
Loan and advances	639	661	620	—	—	—
Treasury bills	—	—	—	—	—	—
Derivative financial instruments	279	334	222	—	—	—
Debt securities in issue	(208)	(202)	(214)	—	—	—
At 31 December 2014	1,913	2,086	1,740	1,313	1,434	1,195
Financial instruments held at fair value						
Debt securities	159	162	156	608	628	587
Equity shares	904	996	815	1,456	1,602	1,310
Loan and advances	712	734	683	—	—	—
Treasury bills	—	—	—	19	19	19
Derivative financial instruments	157	269	111	—	—	—
Debt securities in issue	(39)	(39)	(39)	—	—	—
At 31 December 2013	1,893	2,122	1,726	2,083	2,249	1,916

Where the fair value of financial instruments are measured using valuation techniques that incorporate one or more significant inputs which are based on unobservable market data, a 10 per cent increase or decrease on the values of these unobservable parameter inputs is applied, to generate a range of reasonably possible alternative valuations in accordance with the requirements of IFRS 7. The percentage shift is determined by statistical analysis performed on a set of reference prices, which included certain equity indices, credit indices and volatility indices, based on the composition of our Level 3 assets. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This Level 3 sensitivity analysis assumes a one way market move and does not consider offsets for hedges.

The reasonably possible alternatives could have increased or decreased the fair values of financial instruments held at fair value through profit or loss and those classified as available-for-sale by the amounts disclosed below.

Financial instruments	Fair value changes	2014 \$million	2013 \$million
Designated at fair value through profit or loss	Possible increase	173	229
	Possible decrease	(173)	(167)
Available-for-sale	Possible increase	121	166
	Possible decrease	(118)	(167)

15. Financial instruments continued

Valuation of financial instruments measured at amortised cost on a recurring basis

The following table summarises the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. The fair values in the table below may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

		Fair value			
	Carrying value \$million	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
Assets					
Cash and balances at central banks ¹	97,282	—	97,282	—	97,282
Loans and advances to banks	83,890	—	83,843	180	84,023
Loans and advances to customers	284,695	—	5,450	278,398	283,848
Investment securities	3,021	—	3,031	28	3,059
Other assets ¹	30,754	—	30,753	—	30,753
At 31 December 2014	499,642	—	220,359	278,606	498,965
Liabilities					
Deposits by banks	54,391	—	54,427	—	54,427
Customer accounts	405,353	—	405,879	—	405,879
Debt securities in issue	71,951	19,119	52,682	—	71,801
Subordinated liabilities and other borrowed funds	22,947	20,549	1,880	—	22,429
Other liabilities ¹	30,086	—	30,086	—	30,086
At 31 December 2014	584,728	39,668	544,954	—	584,622

		Fair value			
	Carrying value \$million	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
Assets					
Cash and balances at central banks ¹	54,534	—	54,534	—	54,534
Loans and advances to banks	83,702	—	83,408	177	83,585
Loans and advances to customers	290,708	—	3,518	286,958	290,476
Investment securities	2,828	—	2,812	73	2,885
Other assets ¹	27,435	—	27,267	168	27,435
At 31 December 2013	459,207	—	171,539	287,376	458,915
Liabilities					
Deposits by banks	43,517	12	43,506	—	43,518
Customer accounts	381,066	682	380,610	—	381,292
Debt securities in issue	64,589	19,015	45,673	—	64,688
Subordinated liabilities and other borrowed funds	20,397	17,987	2,512	—	20,499
Other liabilities ¹	26,008	201	25,805	9	26,015
At 31 December 2013	535,577	37,897	498,106	9	536,012

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

15. Financial instruments continued

Analysis of loans and advances to customers by geographic region

	2014	2013		
	Carrying value \$million	Fair value \$million	Carrying value \$million	Fair value \$million
Greater China	87,171	86,653	87,062	86,680
North East Asia	29,556	29,575	30,554	30,580
South Asia	14,074	14,052	13,738	13,895
ASEAN	74,766	74,555	80,271	80,303
MENAP	18,508	18,517	18,537	18,544
Africa	8,360	8,392	7,965	7,982
Americas	10,848	10,692	10,557	10,560
Europe	41,412	41,412	42,024	41,932
At 31 December	284,695	283,848	290,708	290,476

The following sets out the Group's basis of establishing fair values of amortised cost financial instruments and their classification between Levels 1, 2 and 3. As certain categories of financial instruments are not traded, there is a significant level of management judgement involved in calculating the fair values.

Cash and balances at central banks

The fair value of cash and balances at central banks is their carrying amounts.

Loans and advances to customers and banks

For loans and advances to banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity.

The Group's loans and advances to customers portfolio is well diversified by geography and industry. Approximately a quarter of the portfolio reprices within one month, and approximately half reprices within 12 months. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and, where appropriate, credit spreads. Expected cash flows are discounted at current market rates to determine fair value. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical.

Investment securities

For investment securities that do not have directly observable market values, the Group utilises a number of valuation techniques to determine fair value. Where available, securities are valued using inputs proxied from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or inputs proxied from a different underlying (for example, a similar bond but using spreads for a particular sector and rating). Certain instruments cannot be proxied as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relate to asset backed securities. The fair value for such instruments is usually proxied from internal assessments of the underlying cash flows. The Group has a wide range of individual investments within the unlisted debt securities portfolio. Given the number of instruments involved, providing quantification of the key assumptions used to value such instruments is impractical, with no one assumption being material.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity. Following the adoption of IFRS 13, the Group also adjusts the fair value of deposits and borrowings for own credit adjustment using the principles described above.

Debt securities in issue, subordinated liabilities and other borrowed funds

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity.

15. Financial instruments continued

Reclassification of financial assets

In 2008, the Group reclassified certain non-derivative financial assets classified as held for trading into the available-for-sale (AFS) category as these were no longer considered to be held for the purpose of selling or repurchasing in the near term. At the time of transfer, the Group identified the rare circumstances permitting such a transfer as the impact of the credit crisis in financial markets, particularly from the beginning of 2008, which significantly impacted the liquidity in certain markets. The Group also reclassified certain eligible financial assets from trading and AFS categories to loans and receivables where the Group had the intent and ability to hold the reclassified assets for the foreseeable future or until maturity. There have been no reclassifications since 2008.

The following tables provide details of the remaining balances of assets reclassified during 2008:

	Carrying amount at 31 December 2014 \$million	Fair value at 31 December 2014 \$million	If assets had not been reclassified, fair value gains from 1 January 2014 to 31 December 2014 that would have been recognised within		Income recognised in income statement \$million	Effective interest rate at date of reclassification %	Estimated amounts of expected cash flows \$million
			Income \$million	AFS reserve \$million			
For assets reclassified:							
From trading to AFS	38	38	2 ¹	–	1	8.7	54
From trading to loans and receivables	99	95	2	–	7	6.0	108
From AFS to loans and receivables	243	260	–	6	25	5.5	162
	380	393	4	6	33		
Of which asset backed securities:							
reclassified to AFS	38	38	2 ¹	–	1		
reclassified to loans and receivables	316	334	2	6	29		

	Carrying amount at 31 December 2013 \$million	Fair value at 31 December 2013 \$million	If assets had not been reclassified, fair value gains from 1 January 2013 to 31 December 2013 that would have been recognised within		Income recognised in income statement \$million	Effective interest rate at date of reclassification %	Estimated amounts of expected cash flows \$million
			Income \$million	AFS reserve \$million			
For assets reclassified:							
From trading to AFS	46	46	5 ¹	–	6	8.8	123
From trading to loans and receivables	183	179	20	–	12	6.2	214
From AFS to loans and receivables	486	520	–	12	21	5.5	626
	715	745	25	12	39		
Of which asset backed securities:							
reclassified to AFS	46	46	7 ¹	–	6		
reclassified to loans and receivables	614	647	–	33	33		

1. Post reclassification, the gain is recognised within the available-for-sale reserve

15. Financial instruments continued

Repurchase transactions

The Group enters into collateralised repurchase agreements (repos) and securities borrowing and lending transactions. These transactions typically entitle the Group and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos continue to be recognised on the balance sheet as the Group retains, substantially, the associated risk and rewards of the securities. The counterparty liability is included in deposits by banks or customer accounts, as appropriate. Assets sold under repurchase agreements are considered encumbered as the Group cannot pledge these to obtain funding.

The table below sets out the financial assets provided by the Group as collateral for repurchase transactions:

Collateral pledged against repurchase agreements	Fair value through profit and loss \$million	Available-for-sale \$million	Loans and receivables \$million	Total \$million
On-balance sheet				
Treasury bills and other eligible bills	342	90	–	432
Debt securities	1,375	1,787	–	3,162
Off-balance sheet				
Repledged collateral received	376	–	14,465	14,841
At 31 December 2014	2,093	1,877	14,465	18,435

Balance sheet liabilities – repurchase agreements

Deposits by banks				9,984
Customer accounts				6,324
At 31 December 2014				16,308

Collateral pledged against repurchase agreements	Fair value through profit and loss \$million	Available-for-sale \$million	Loans and receivables \$million	Total \$million
On-balance sheet				
Treasury bills and other eligible bills	391	256	–	647
Debt securities	1,706	1,163	–	2,869
Off-balance sheet				
Repledged collateral received	257	–	1,547	1,804
At 31 December 2013	2,354	1,419	1,547	5,320

Balance sheet liabilities – repurchase agreements

Deposits by banks			4,330
Customer accounts			1,732
At 31 December 2013			6,062

15. Financial instruments continued

Reverse repurchase agreements

The Group also undertakes reverse repurchase lending agreements (reverse repos) with counterparties typically financial institutions in exchange for collateral. Reverse repos entitle the Group to have recourse to assets similar to those received as collateral in the event of a default. In addition, the Group also obtains collateral on terms that permit the Group to repledge or resell the collateral to others. The Group does not recognise the securities bought under reverse repos as collateral on its balance sheet as the Group is not substantially entitled to the risks and rewards associated with those assets, and instead recognises the lending as loans and advances to banks or customers, as appropriate. The Group's reverse repos at 31 December 2014 and 31 December 2013 are set out in the table below:

Balance sheet assets – reverse repurchase agreements

	2014 \$million	2013 \$million
Loans and advances to banks	18,435	12,887
Loans and advances to customers	11,421	4,538
	29,856	17,425

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:

	2014 \$million	2013 \$million
Securities and collateral received (at fair value)	33,742	17,835
Securities and collateral which can be repledged or sold (at fair value)	27,910	15,906
Thereof repledged/transferred to others for financing activities, to satisfy commitments under short sale transactions or liabilities under sale and repurchase agreements (at fair value)	14,841	1,804

Securitisation transactions

The Group has also entered into a number of securitisation transactions where the underlying loans and advances have been transferred to structured entities (SEs) that are fully consolidated by the Group. As a result, the Group continues to recognise the assets on its balance sheet, together with the associated liability instruments issued by the SEs. The holders of the liability instruments have recourse only to the assets transferred to the SEs.

The following table sets out the carrying value and fair value of the assets transferred and the carrying value and fair value of the associated liabilities at 31 December 2014 and 31 December 2013 respectively.

	2014		2013	
	Carrying value \$million	Fair value \$million	Carrying value \$million	Fair value \$million
Loans and advances to customers ¹	31	31	779	778
Securitisation liability ¹	29	29	502	502
Net	2	2	277	276

1. In 2014, the Group liquidated its structured entities in Korea and as a result significantly reduced its securitisation position

The Group did not undertake any transactions that required the recognition of an asset representing continuing involvement in financial assets.

15. Financial instruments continued

Financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements

Impact of offset in the balance sheet

In accordance with IAS 32 *Financial Instruments: Presentation*, the Group is permitted to offset assets and liabilities and present these net on the Group's balance sheet, only if there is a legally enforceable right to set off and the Group intends to settle on a net basis or realise the asset and liability simultaneously.

Amounts not offset in the balance sheet

In practice the Group is able to offset assets and liabilities which do not meet the IAS 32 netting criteria set out above. Such arrangements include master netting arrangements for derivatives and global master repurchase agreements for repurchase and reverse repurchase transactions. These agreements generally allow that all outstanding transactions with a particular counterparty can be offset but only in the event of default or other predetermined events.

In addition, the Group also receives and pledges readily realisable collateral for derivative transactions to cover net exposure in the event of a default. Under repurchase and reverse repurchase agreements, the Group pledges (legally sell) and obtain (legally purchase) respectively, highly liquid assets which can be sold in the event of a default.

The following tables set out the following:

Impact of netting on the balance sheet – this comprises derivative transactions settled through an enforceable netting agreement where we have the intent and ability to settle net and which are offset on the balance sheet.

Related amounts not offset in the balance sheet. This comprises:

- Financial instruments not offset in the balance sheet, but covered by an enforceable netting arrangement. This comprises master netting arrangements held against derivative financial instruments and excludes the effect of over-collateralisation
- Financial collateral – this comprises cash collateral pledged and received for derivative financial instruments and collateral bought and sold for reverse repurchase and repurchase agreements respectively and excludes the effect of over-collateralisation

	2014				
	Gross amounts of recognised financial instruments \$million	Impact of offset in the balance sheet \$million	Net amounts of financial instruments presented in the balance sheet \$million	Related amount not offset in the balance sheet	Net amount \$million
				Financial instruments \$million	Financial collateral \$million
Assets					
Derivative financial instruments	74,272	(8,438)	65,834	(43,735)	(7,005)
Reverse repurchase agreements	29,856	–	29,856	–	(29,856)
At 31 December 2014	104,128	(8,438)	95,690	(43,735)	(36,861)
Liabilities					
Derivative financial instruments	71,751	(8,438)	63,313	(43,735)	(10,311)
Sale and repurchase liabilities	16,308	–	16,308	–	(16,308)
At 31 December 2014	88,059	(8,438)	79,621	(43,735)	(26,619)

	2013				
	Gross amounts of recognised financial instruments \$million	Impact of offset in the balance sheet \$million	Net amounts of financial instruments presented in the balance sheet \$million	Related amount not offset in the balance sheet	Net amount \$million
				Financial instruments \$million	Financial collateral \$million
Assets					
Derivative financial instruments	67,369	(5,567)	61,802	(46,242)	(5,147)
Reverse repurchase agreements	17,425	–	17,425	–	(17,425)
At 31 December 2013	84,794	(5,567)	79,227	(46,242)	(22,572)
Liabilities					
Derivative financial instruments	66,803	(5,567)	61,236	(46,242)	(9,240)
Sale and repurchase liabilities	6,062	–	6,062	–	(6,062)
At December 2013	72,865	(5,567)	67,298	(46,242)	(15,302)

16. Financial instruments held at fair value through profit or loss

Loans and advances held at fair value through profit or loss

The maximum exposure to credit risk for loans designated at fair value through profit or loss was \$1,313 million (2013: \$1,142 million).

The net fair value gain on loans and advances to customers designated at fair value through profit or loss was \$78 million (2013: \$3 million). Of this, \$nil million (2013: \$nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was \$3 million (2013: \$3 million).

The changes in fair value attributable to credit risk has been determined by comparing fair value movements in risk-free bonds with similar maturities to the changes in fair value of loans designated at fair value through profit or loss.

Debt securities, equity shares and treasury bills held at fair value through profit or loss

	2014			
	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million
Issued by public bodies:				
Government securities	9,677			
Other public sector securities	141			
	9,818			
Issued by banks:				
Certificates of deposit	2,975			
Other debt securities	1,222			
	4,197			
Issued by corporate entities and other issuers:				
Other debt securities	3,720			
Total debt securities	17,735			
Of which:				
Listed on a recognised UK exchange	126	71	–	197
Listed elsewhere	7,419	3,876	572	11,867
Unlisted	10,190	1,615	1,240	13,045
	17,735	5,562	1,812	25,109
Market value of listed securities	7,545	3,948	572	12,065
	2013			
	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million
Issued by public bodies:				
Government securities	7,763			
Other public sector securities	76			
	7,839			
Issued by banks:				
Certificates of deposit	292			
Other debt securities	457			
	749			
Issued by corporate entities and other issuers:				
Other debt securities	4,111			
Total debt securities	12,699			
Of which:				
Listed on a recognised UK exchange	144	21	–	165
Listed elsewhere	8,017	2,741	1,646	12,404
Unlisted	4,538	939	3,515	8,992
	12,699	3,701	5,161	21,561
Market value of listed securities	8,161	2,762	1,646	12,569

16. Financial instruments held at fair value through profit or loss continued

Financial liabilities held at fair value through profit or loss

The net fair value loss on liabilities designated at fair value through profit or loss was \$734 million for the year (2013: net gain of \$278 million). This amount includes \$100 million gain (2013: \$106 million gain) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was a gain of \$196 million (2013: \$96 million). The change in fair value attributable to credit risk was determined by comparing fair value movements in risk-free debt instruments with similar maturities, to the changes in fair value of liabilities designated at fair value through profit or loss.

17. Derivative financial instruments

The tables below analyse the notional principal amounts and the positive and negative fair values of the Group's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

Derivatives	2014			2013		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	1,611,476	19,265	20,649	1,303,103	17,213	17,490
Currency swaps and options	1,589,989	24,819	24,507	1,086,784	25,151	24,647
Exchange traded futures and options	300	—	—	340	—	—
	3,201,765	44,084	45,156	2,390,227	42,364	42,137
Interest rate derivative contracts:						
Swaps	2,264,473	14,325	12,874	1,974,451	15,295	15,241
Forward rate agreements and options	186,796	879	819	236,646	771	646
Exchange traded futures and options	1,313,920	—	—	694,212	—	—
	3,765,189	15,204	13,693	2,905,309	16,066	15,887
Credit derivative contracts	32,055	440	965	40,981	586	874
Equity and stock index options	16,585	404	577	15,684	415	502
Commodity derivative contracts	130,058	5,702	2,922	162,858	2,371	1,836
Total derivatives	7,145,652	65,834	63,313	5,515,059	61,802	61,236

The Group limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business. Details of the amounts available for offset as set out in note 15 on page 271.

The Derivatives and Hedging sections of the Risk and Capital review on page 93 explain the Group's risk management of derivative contracts and application of hedging.

17. Derivative financial instruments continued

Derivatives held for hedging

Hedge accounting is applied to derivatives and hedged items when the criteria under IAS 39 have been met. The tables below list the types of derivatives that the Group holds for hedge accounting.

	2014			2013		
	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	48,427	671	335	41,598	756	589
Forward foreign exchange contracts	12	1	–	199	7	–
Currency swaps	30,953	905	892	22,026	1,190	169
	79,392	1,577	1,227	63,823	1,953	758
Derivatives designated as cash flow hedges:						
Interest rate swaps	9,465	5	17	20,564	22	19
Forward foreign exchange contracts	2,375	4	75	2,150	42	38
Currency swaps	6,524	62	98	7,169	20	15
	18,364	71	190	29,883	84	72
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	1,098	75	–	981	–	84
Total derivatives held for hedging	98,854	1,723	1,417	94,687	2,037	914

Fair value hedges

The swaps exchange fixed rates for floating rates on funding to match floating rates received on assets, or exchange fixed rates on assets to match the floating rates paid on funding.

For qualifying hedges, the fair value changes of the derivatives are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss. In respect of fair value hedges, net gains arising on the hedging instruments during the year were \$1,272 million (2013: loss of \$1,322 million) compared to net losses arising on the hedged items of \$1,301 million (2013: gain of \$1,307 million).

Cash flow hedges

The Group uses interest rate swaps to manage the variability in future cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts, currency swaps and options to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies.

Gains and losses arising on the effective portion of the hedges are deferred in equity until the variability on the cash flow affects profit and loss, at which time the gains or losses are transferred to profit and loss.

	2014 \$million	2013 \$million
Losses reclassified from reserves to income statement	(13)	(6)
Losses recognised in operating costs	(13)	(5)
Losses recognised in net income	–	(1)

17. Derivative financial instruments continued

The Group has hedged the following cash flows, which are expected to impact the income statement in the following years:

	2014						
	Less than one year \$million	One to two years \$million	Two to three years \$million	Three to four years \$million	Four to five years \$million	Over five years \$million	Total \$million
Forecast receivable cash flows	99	54	34	10	2	-	199
Forecast payable cash flows	(1,654)	(22)	(11)	(4)	(1)	-	(1,692)
	(1,555)	32	23	6	1	-	(1,493)

	2013						
	Less than one year \$million	One to two years \$million	Two to three years \$million	Three to four years \$million	Four to five years \$million	Over five years \$million	Total \$million
Forecast receivable cash flows	160	74	25	10	2	-	271
Forecast payable cash flows	(314)	(1,453)	(11)	(8)	(3)	-	(1,789)
	(154)	(1,379)	14	2	(1)	-	(1,518)

Net investment hedges

The Group uses a combination of foreign exchange contracts and non-derivative financial assets to manage the variability in future exchange rates on its net investments in foreign currencies. Gains and losses arising on the effective portion of the hedges are deferred in equity until the net investment is disposed off. During the year, \$nil million (2013: \$nil million) was recognised in the income statement in respect of ineffectiveness arising on net investment hedges.

18. Loans and advances to banks

	2014 \$million	2013 \$million
Loans and advances to banks	87,601	86,271
Individual impairment provision	(99)	(100)
Portfolio impairment provision	(2)	(2)
Of which: loans and advances held at fair value through profit or loss (note 15)	87,500	86,169
	(3,610)	(2,467)
	83,890 ¹	83,702 ¹

1. Loans and advances to banks (net of provision) totalling \$260 million (2013: \$102 million) have been reclassified and disclosed as held for sale in note 22

Analysis of loans and advances to banks by geography as set out in the Risk and Capital review on page 66.

19. Loans and advances to customers

	2014 \$million	2013 \$million
Loans and advances to customers	292,571	299,460
Individual impairment provision	(3,276)	(2,749)
Portfolio impairment provision	(696)	(696)
Of which: loans and advances held at fair value through profit or loss (note 15)	288,599	296,015
	(3,904)	(5,307)
	284,695 ¹	290,708 ¹

1. Loans and advances to customers (net of provision) totalling \$2.7 billion (2013: \$1.4 billion) have been reclassified and disclosed as held for sale in note 22

The Group has outstanding residential mortgage loans to Korea residents of \$12.9 billion (2013: \$12.8 billion) and Hong Kong residents of \$25.5 billion (2013: \$23.4 billion).

Analysis of loans and advances to customers by geography and client segments and related impairment provisions as set out within the Risk and Capital review on pages 58 to 125.

20. Assets leased to customers

Finance leases and instalment credit	2014 \$million	2013 \$million
Finance leases	423	519
Instalment credit agreements	907	1,945
	1,330	2,464

The above assets are included within loans and advances to customers. The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to \$444 million (2013: \$667 million).

	2014 \$million	2013 \$million
Minimum lease receivables under finance leases falling due:		
Within one year	167	194
Later than one year and less than five years	204	199
After five years	137	214
	508	607
Interest income relating to future periods	(85)	(88)
Present value of finance lease receivables	423	519
Of which:		
Falls due within one year	156	183
Falls due later than one year and less than five years	167	166
Falls due after five years	100	170

Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft and ships which are included within property, plant and equipment in note 27. At 31 December 2014, these assets had a net book value of \$6,085 million (2013: \$4,897 million).

	2014 \$million	2013 \$million
Minimum lease receivables under operating leases falling due:		
Within one year	619	528
Later than one year and less than five years	1,874	1,459
After five years	2,111	1,667
	4,604	3,654

21. Investment securities

	2014				
	Debt securities				
	Held-to-maturity \$million	Available-for-sale \$million	Loans and receivables \$million	Equity shares \$million	Treasury bills \$million
Issued by public bodies:					
Government securities	62	28,296	–		
Other public sector securities	–	926	10		
	62	29,222	10		
Issued by banks:					
Certificates of deposit	–	6,236	–		
Other debt securities	–	23,155	17		
	–	29,391	17		
Issued by corporate entities and other issuers:					
Other debt securities	60	16,324	2,856		
Total debt securities	122	74,937	2,883		
Of which:					
Listed on a recognised UK exchange	–	8,971	96 ¹	256	–
Listed elsewhere	–	27,580	505 ¹	974	10,898
Unlisted	122	38,386	2,282	977	13,191
	122	74,937	2,883	2,207	24,089
Market value of listed securities	–	36,551	601	1,230	10,898
					49,280
	2013				
	Debt securities				
	Held-to-maturity \$million	Available-for-sale \$million	Loans and receivables \$million	Equity shares \$million	Treasury bills \$million
Issued by public bodies:					
Government securities	–	26,111	–		
Other public sector securities	–	928	–		
	–	27,039	–		
Issued by banks:					
Certificates of deposit	–	6,476	–		
Other debt securities	–	24,897	49		
	–	31,373	49		
Issued by corporate entities and other issuers:					
Other debt securities	–	12,134	2,779		
Total debt securities	–	70,546	2,828		
Of which:					
Listed on a recognised UK exchange	–	5,563	113 ¹	65	–
Listed elsewhere	–	26,091	619 ¹	1,545	10,480
Unlisted	–	38,892	2,096	1,489	15,763
	–	70,546	2,828	3,099	26,243
Market value of listed securities	–	31,654	732	1,610	10,480
					44,476

1. These debt securities listed or registered on a recognised UK exchange or elsewhere are thinly traded or the market for these securities is illiquid

Equity shares largely comprise investments in corporates.

Notes to the financial statements

21. Investment securities continued

The change in the carrying amount of investment securities comprised:

	2014				2013			
	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million
At 1 January	73,374	3,099	26,243	102,716	69,207	3,278	26,740	99,225
Exchange translation differences	(2,411)	(5)	(693)	(3,109)	(1,834)	(9)	(566)	(2,409)
Additions	135,920	224	59,910	196,054	93,140	215	49,537	142,892
Maturities and disposals	(129,202)	(1,173)	(61,680)	(192,055)	(86,954)	(533)	(49,674)	(137,161)
Transfers to assets held for sale	(18)	(1)	(1)	(20)	(4)	–	(2)	(6)
Impairment, net of recoveries on disposal	(119)	(41)	–	(160)	(59)	(61)	–	(120)
Changes in fair value (including the effect of fair value hedging)	478	104	23	605	(91)	209	(29)	89
Amortisation of discounts and premiums	(80)	–	287	207	(31)	–	237	206
At 31 December	77,942	2,207	24,089	104,238	73,374	3,099	26,243	102,716

The analysis of unamortised premiums and unamortised discounts on debt securities and income on equity shares held for investment purposes is provided below:

	2014 \$million	2013 \$million
Debt securities:		
Unamortised premiums	381	605
Unamortised discounts	229	425
Income from listed equity shares	77	67
Income from unlisted equity shares	20	37

The following table sets out the movement in the allowance of impairment provisions for investment securities classified as loans and receivables.

	2014 \$million	2013 \$million
At 1 January	26	27
Exchange translation differences	–	(1)
Amounts written off	(1)	(5)
Impairment charge	1	5
At 31 December	26	26

22. Other assets

	2014 \$million	2013 \$million
Financial assets held at amortised cost (note 15)		
Hong Kong SAR Government certificates of indebtedness (note 30) ¹	4,738	4,460
Cash collateral	10,311	9,240
Acceptances and endorsements (note 30)	5,212	5,501
Unsettled trades and other financial assets	10,493	8,234
	30,754	27,435
Non-financial assets and assets held for sale		
Commodities	4,432	3,965
Assets held for sale ²	3,237	1,623
Other assets	266	547
	38,689	33,570

1. The Hong Kong Special Administrative Region (SAR) Government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued

2. Includes the disposal groups held for sale disclosed in the following table

22. Other assets continued

The disposal groups below have been presented as held for sale following the approval of the Group management and the transactions are expected to complete in 2015. These consist of Standard Chartered Capital (Korea) Company Limited, Standard Chartered Savings Bank Korea Company Limited, Shenzhen Prime Credit Limited (SZPC), Prime Credit Limited (PCL), Standard Chartered Bank SAL, Standard Chartered Leasing Company Limited, Standard Chartered Modarba and Standard Chartered Services (Pvt) Limited.

The assets and liabilities of the disposal groups were remeasured to the lower of carrying amount and fair value less costs to sell, this resulted in a total fair value loss of \$64 million (\$49 million reported in 2013 and \$15 million in 2014). See note 7 for the fair value loss disclosure.

	SZPC and PCL \$million	Businesses held for sale in Korea ¹ \$million	Others \$million	Total \$million
Assets				
Cash and balances at central banks	2	8	16	26
Financial assets held at fair value through profit and loss	–	73	–	73
Loans and advances to banks	38	218	4	260
Loans and advances to customers (net of \$78 million impairment provision)	1,615	971	146	2,732
Investment securities	–	2	19	21
Deferred tax assets	6	–	1	7
Other assets	13	–	1	14
Prepayments and accrued income	3	14	3	20
Goodwill and Intangible assets	68	–	–	68
Property, plant and equipment	7	3	1	11
Total assets	1,752	1,289	191	3,232
Liabilities				
Deposits by banks	132	–	7	139
Customer accounts	104	248	76	428
Current tax liabilities	2	–	–	2
Other liabilities	24	16	31	71
Subordinated liabilities and other borrowed funds	–	–	58	58
Deferred tax liabilities	–	11	1	12
Total liabilities	262	275	173	710
Due (to)/from Group undertakings	(1,127)	(879)	8	(1,998)

1. Includes Standard Chartered Savings Company Limited and Standard Chartered Capital (Korea) Company Limited. The businesses were presented as held for sale in 2014 but due to developments beyond management's control the disposal of these businesses was not completed. On 19 January 2015, the sale of Standard Chartered Savings Company Limited was completed (see note 44) and the other transaction is expected to complete in 2015.

The assets reported here are Level 3 except for cash and balances at central banks (Level 2) and financial assets held at fair value through profit and loss (Level 2). The net liabilities due to Group undertakings will be transferred to the acquirers on completion of the sale.

23. Investments in subsidiary undertakings, joint ventures and associates

Investment in subsidiary undertakings	2014 \$million	2013 \$million
At 1 January	20,122	14,369
Additions	4,759	5,753
At 31 December	24,881	20,122

At 31 December 2014, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital %
Standard Chartered Bank, England and Wales	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100
Standard Chartered Bank Korea Limited, Korea	Korea	100
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	98.99
Standard Chartered Bank (Taiwan) Limited, Taiwan	Taiwan	100
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	100
Standard Chartered Bank (Singapore) Limited, Singapore	Singapore	100
Standard Chartered Bank (China) Limited, China	China	100
Standard Chartered Bank (Thai) Public Company Limited, Thailand	Thailand	99.99
Standard Chartered Bank Nigeria Limited, Nigeria	Nigeria	100
Standard Chartered Bank Kenya Limited, Kenya	Kenya	74.3
Standard Chartered Private Equity Limited, Hong Kong	Hong Kong	100

A complete list of subsidiary undertakings will be attached to the next Standard Chartered Bank annual return to the Registrar of Companies.

The Group does not have any material non-controlling interests in any of its subsidiaries except the 25.7 per cent non-controlling interests amounting to \$106 million (2013: \$98 million) in Standard Chartered Bank Kenya Limited. This contributes 2.4 per cent of the Group's operating profit and 0.3 per cent of the Group's assets.

While the Group's subsidiaries are subject to local statutory capital and liquidity requirements in relation to foreign exchange remittance, these restrictions arise in the normal course of business and do not significantly restrict the Group's ability to access or use assets and settle liabilities of the Group.

Significant restrictions

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 and liquid assets, limit their exposure 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 ratio, liquidity and exposure ratio thereby restricting 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 they operate. As at December 2014, the total cash and balances with central bank was \$97 billion (2013: \$55 billion) of which \$10 billion (2013: \$10 billion) is restricted. See liquid asset disclosure on page 94.

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. See encumbered assets disclosure on page 95. In addition, the securitised assets disclosed in note 15 on page 270 have legal restrictions.

Joint ventures

The Group's principal joint venture is PT Bank Permata Tbk (Permata), the Group has a 44.56 per cent (2013: 44.56 per cent) interest through a joint venture company which holds a majority investment in Permata, in Indonesia. Permata provides financial services to the consumer and commercial segment.

23. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in joint ventures

	2014 \$million	2013 \$million
At 1 January	656	731
Exchange translation difference	(14)	(152)
Additions	55	9
Share of profits	58	73
Dividends received	(6)	–
Share of AFS and Other reserves	2	(5)
At 31 December	751	656

The following table sets out the summarised financial statements of the Group's joint ventures prior to the Group's share of joint ventures being applied:

	2014 \$million	2013 \$million
Current assets	9,685	7,875
Long-term assets	5,350	5,808
Total assets	15,035	13,683
Current liabilities	(9,701)	(7,257)
Long-term liabilities	(3,929)	(5,242)
Total liabilities	(13,630)	(12,499)
Net assets	1,405	1,184
Operating income	640	650
Of which:		
Interest income	1,313	1,147
Interest expense	(855)	(655)
Expenses	(466)	(434)
Impairment	(2)	–
Operating profit	172	216
Tax	(38)	(53)
Profit after tax	134	163
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	1,561	1,833
Current financial liabilities (excluding trade and other payables and provisions)	(9,702)	(7,257)
Non-current financial liabilities (excluding trade and other payables and provisions)	(2,630)	(4,050)
Other comprehensive income for the year	7	(33)
Total comprehensive income for the year	141	130
Dividends received from the joint venture during the year	(6)	–

Long-term assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

Reconciliation of the net assets above to the carrying amount of the investments in joint ventures recognised in the consolidated financial statements:

	2014 \$million	2013 \$million
Net assets of joint ventures	1,405	1,184
Proportion of the Group's ownership interest in joint ventures	625	529
Notional goodwill	126	127
Carrying amount of the Group's interest in joint ventures	751	656

Interests in associates

	2014 \$million	2013 \$million
At 1 January	1,111	953
Exchange translation difference	(10)	10
Additions	9	10
Share of profits	190	153
Dividends received	(7)	(5)
Share of AFS and other reserves	15	(10)
Impairment	(97)	–
At 31 December	1,211	1,111

23. Investments in subsidiary undertakings, joint ventures and associates continued

The Group's principal associates are:

Associate	Nature of activities	Main areas of operation	Group interest in ordinary share capital %
China Bohai Bank	Banking Operations	China	19.99
Asia Commercial Bank (ACB)	Banking Operations	Vietnam	15.00

The Group's investments in ACB and China Bohai Bank are less than 20 per cent, but both ACB and China Bohai Bank are considered to be associates because of the significant influence the Group is able to exercise over the management of these companies and their financial and operating policies. Significant influence is evidenced largely through the interchange of management personnel and the provision of expertise. The Group applied the equity method of accounting for investments in associates. The reporting dates of these associates are within three months of the Group's reporting date, (the reporting dates of China Bohai Bank and ACB are 30 November 2014 and 30 September 2014, respectively). The fair value of ACB was \$101 million at 31 December 2014 (2013: \$104 million).

The following table sets out the summarised financial statements of Asia Commercial Bank and China Bohai Bank prior to the Group's share of the associates being applied:

	Asia Commercial Bank		China Bohai Bank	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million
Current assets	3,369	3,395	45,992	49,184
Long-term assets	5,011	4,213	60,618	39,295
Total assets	8,380	7,608	106,610	88,479
Current liabilities	(7,640)	(6,829)	(81,593)	(67,740)
Long-term liabilities	(156)	(172)	(20,078)	(16,739)
Total liabilities	(7,796)	(7,001)	(101,671)	(84,479)
Net assets	584	607	4,939	4,000
Operating income	258	262	2,503	1,993
Of which:				
Interest income	652	778	5,875	4,306
Interest expense	(449)	(538)	(3,712)	(2,694)
Expenses	(173)	(196)	(1,051)	(810)
Impairment	(56)	(14)	(326)	(212)
Operating profit	29	52	1,126	971
Tax	(4)	(14)	(241)	(238)
Profit after tax	25	38	885	733
The above amounts of assets and liabilities include the following:				
Current financial liabilities (excluding trade and other payables and provisions)	(7,485)	(6,829)	(80,703)	(67,740)
Non-current financial liabilities (excluding trade and other payables and provisions)	(156)	(172)	(20,078)	(16,739)
Other comprehensive income for the year	–	–	(35)	–
Total comprehensive income for the year	25	38	850	733
Dividends received from the associate during the year	(5)	(4)	–	–

Long-term assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

Reconciliation of the above summarised financial information to the carrying amount of the investments in associates recognised in the consolidated financial statements:

	Asia Commercial Bank		China Bohai Bank	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million
Net assets of the associate	584	607	4,939	4,000
Proportion of the Group's ownership interest in the associate	88	91	987	800
Notional goodwill (net of impairment)	81	161	–	–
Other adjustments	5	5	–	–
Carrying amount of the Group's interest in the associate	174	257	987	800

24. Structured entities

The Group uses structured entities (SE) in the normal course of business across a variety of activities. A SE typically has restricted activities, together with a narrow and well-defined objective and are predominantly thinly capitalised, with a reliance on debt financing for support. This note provides further details on those SEs that are consolidated into the Group as well as details on unconsolidated SEs in which the Group has a variable interest. A variable interest is categorised as a return that is subject to change based on performance and could result in either income or losses to the Group and includes debt and equity interests, commitments, guarantees, derivative financial instruments and certain fees.

Interests in consolidated structured entities

In accordance with the Group's accounting policies discussed in note 1, a SE is consolidated into the Group's financial statements where the Group controls the SE.

Most of the Group's consolidated SEs are in respect of the Group's aircraft and ship leasing business. Typically the Group will create a SE to manage a particular asset or portfolio of assets that are operating leases in nature. The Group also consolidates structured entities utilised in its securitisation transactions. In addition to securitisation and aircraft leasing, the Group will create structured entities to manage returns and capital.

In determining whether to consolidate a SE to which assets have been transferred, the Group takes into account its ability to direct the relevant activities of the SE which is evidenced through a unilateral right to liquidate the SE, investment in a substantial proportion of the securities issued by the SE or where the Group holds specific subordinate securities that embody certain controlling rights.

The following table presents the Group's interests in consolidated structured entities.

	2014 Total assets \$million	2013 Total assets \$million
Securitisation	31	779
Aircraft and ship leasing	6,085	4,897
Structured finance	1,963	1,326
Total	8,079	7,002

Interests in unconsolidated structured entities

The main types of activities for which the Group utilises unconsolidated SEs cover synthetic credit default swaps for portfolio management purposes, managed investment funds (including specialised principal finance funds) and structured finance.

For the purposes of portfolio management, the Group purchased credit protection via synthetic credit default swaps from note-issuing SEs. The referenced assets remain on the Group's balance sheet as they are not assigned to these SEs. The Group continues to own or hold all of the risks and returns relating to these assets. The credit protection obtained from the regulatory-compliant securitisation only serves to protect the Group against losses upon the occurrence of eligible credit events and the underlying assets are not de-recognised from the Group balance sheet. The Group's exposure arises from a) the capitalised start-up costs in respect of the swap vehicles and b) interest in the first loss notes and investment in a minimal portion of the mezzanine notes issued by the note-issuing SEs. The proceeds of the notes' issuance are typically held as cash collateral in Issuer's account operated by a Trustee or invested in AAA-rated Government-backed securities to collateralise the SE's swap obligations to the Group, and to repay the principal to investors at maturity. The SEs reimburse the Group on actual losses incurred, through the use of the cash collateral or realisation of the collateral security. Correspondingly, the SEs write down the notes issued by an equal amount of the losses incurred, in reverse order of seniority. All 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's exposure to Principal Finance Funds represents committed or invested capital in unleveraged investment funds, primarily investing in pan-Asian infrastructure and real estate.

Structured finance comprises interests in transactions that the Group or, more usually, a customer has structured, using one or more SEs, which provide beneficial arrangements for customers. The Group's exposure primarily represents the provision of funding to these structures as a financial intermediary, for which it receives a lender's return. The transactions largely relate to the provision of aircraft leasing and ship finance.

The Group also has holdings of asset backed securities which are generally held in a structured entity.

The Group has reputational risk in respect of certain portfolio management vehicles and investment funds either because the Group is the arranger and lead manager or because the SEs have Standard Chartered branding.

The following table presents the carrying amount of the assets and liabilities recognised in the financial statements relating to variable interests held in unconsolidated SEs, the maximum exposure to loss relating to those interests and the total assets of the SEs. Maximum exposure to loss is primarily limited to the carrying amount of the Group's on-balance sheet exposure to the SE. For derivatives, the maximum exposure to loss represents the on-balance sheet valuation and not the notional amount. For commitments and guarantees, the maximum exposure to loss is the notional amount of potential future losses.

24. Structured entities continued

The following table presents the Group's interests in unconsolidated structured entities by balance sheet caption, together with the total assets of the related entities.

	2014					2013				
	Principal finance funds \$million	Portfolio manage- ment vehicles \$million	Structured finance \$million	Asset backed securities \$million	Total \$million	Principal finance funds \$million	Portfolio manage- ment vehicles \$million	Structured finance \$million	Asset backed securities \$million	Total \$million
Balance sheet – assets										
Financial assets held at fair value through profit or loss	142	–	–	282	424	213	–	–	158	371
Loans and advances to customers	38	–	–	–	38	31	–	–	–	31
Investment securities – debt securities (AFS)	25	–	–	8,548	8,573	26	–	–	5,202	5,228
Investment securities – debt securities (loans and receivables)	–	–	–	1,350	1,350	–	–	–	1,196	1,196
Other assets	192	–	282	–	474	204	–	–	–	204
Total assets	397	–	282	10,180	10,859	474	–	–	6,556	7,030
Balance sheet – liabilities										
Other liabilities	–	–	256	–	256	–	–	4	–	4
Total liabilities	–	–	256	–	256	–	–	4	–	4
Off-balance sheet										
Capital commitment ¹	225	–	–	–	225	225	–	–	–	225
Financial guarantees	–	1,262	–	–	1,262	–	1,280	–	–	1,280
Total assets of SE	1,885	1,262	283	365,076	368,506	1,653	1,280	–	457,447	460,380

1. \$148 million (2013: \$143 million) of the committed capital has been drawn down

Interest in structured entities arising in the normal course of business

The Group also transacts with structured entities in the normal course of business. Where the Group transacts with an SE having regard to the design and risks to which that SE is exposed and that transaction results in the Group holding a variable interest in that SE, for the purpose of this disclosure the Group is deemed to have an exposure to an SE that does not arise as part of a normal customer-supplier relationship.

Included within this category are:

- Commercial and corporate finance lending to SEs. These loans were disbursed in the normal course of business and for the vast majority the Group has a guarantee from the operating parent company. As a result, the Group's exposure is to the parent company and not the unconsolidated structured entity. These loans are managed in the same way as all other loans and advances, except that the credit grading applied to these entities is typically CG11
- Trading exposure to SEs, where the Group undertakes derivative transactions with unconsolidated structured entities in the normal course of business. These exposures are managed in the same way as all other derivative exposures and the amounts in the table below reflect the on-balance sheet valuation and not the notional amounts

The table below sets out the Group's exposure to these unconsolidated structured entities as at 31 December 2014

	Lending \$million	Derivatives \$million	Total \$million
Loans and advances	251	–	251
Derivatives	–	55	55
Total	251	55	306

25. Business Combinations

2014 acquisitions

There have been no acquisitions during the year.

2013 acquisitions

On 2 December 2013, the Group completed the acquisition of the South African custody and trustee business of Absa Bank for a consideration of \$36 million recognising goodwill of \$16 million. The net assets acquired primarily comprised customer relationships that have been recognised as intangible assets of the Group. Goodwill arising on the acquisition is attributable to the synergies expected to arise from their integration with the Group. The primary reason for this acquisition was to enhance capability.

26. Goodwill and intangible assets

	2014				2013			
	Goodwill \$million	Acquired intangibles \$million	Software \$million	Total \$million	Goodwill \$million	Acquired intangibles \$million	Software \$million	Total \$million
Cost								
At 1 January	5,207	678	1,103	6,988	6,378	658	923	7,959
Exchange translation differences	(120)	(18)	(67)	(205)	(187)	(15)	(15)	(217)
Acquisitions	–	–	–	–	16	35	–	51
Additions	–	–	371	371	–	–	372	372
Disposals	–	–	(1)	(1)	–	–	–	–
Impairment	(758)	–	–	(758)	(1,000)	–	–	(1,000)
Amounts written off	–	(96)	(58)	(154)	–	–	(175)	(175)
Held for sale	(68)	–	–	(68)	–	–	–	–
Other movements	(37)	–	–	(37)	–	–	(2)	(2)
At 31 December	4,224	564	1,348	6,136	5,207	678	1,103	6,988
Provision for amortisation								
At 1 January	–	530	388	918	–	481	333	814
Exchange translation differences	–	(17)	(25)	(42)	–	(6)	2	(4)
Amortisation	–	40	165	205	–	55	226	281
Impairment charge	–	8	8	16	–	–	–	–
Disposals	–	–	(1)	(1)	–	–	–	–
Amounts written off	–	(94)	(56)	(150)	–	–	(173)	(173)
At 31 December	–	467	479	946	–	530	388	918
Net book value	4,224	97	869	5,190	5,207	148	715	6,070

As at 1 January 2013, the net book value was: goodwill, \$6,378 million; acquired intangibles, \$177 million; and software, \$590 million.

As at 31 December 2014, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to \$1,827 million (2013: \$1,069 million), of which \$758 million was recognised in 2014 relating to goodwill held against Korea (2013: \$1 billion relating to goodwill held against Korea) and the Corporate Advisory cash generating units.

	2014 \$million	2013 \$million
Acquired intangibles comprise:		
Core deposits	8	12
Customer relationships	75	104
Brand names	3	19
Licences	11	13
Net book value	97	148

Acquired intangibles primarily comprise those 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, Harrison Lovegrove, American Express Bank and the custody business in Africa. The acquired intangibles are amortised over periods from four years to a maximum of 16 years.

26. Goodwill and intangible assets continued

Testing of goodwill for impairment

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a cash-generating unit (CGU), and the table below sets out the goodwill allocated to each CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amounts for all the CGUs were measured based on value-in-use. The key assumptions used in determining the recoverable amounts are set out below and are solely estimates for the purposes of assessing impairment of acquired goodwill.

Cash Generating Unit	2014			2013		
	Goodwill \$million	Pre-tax discount rate per cent	Long-term forecast GDP growth rates per cent	Goodwill \$million	Pre-tax discount rate per cent	Long-term forecast GDP growth rates per cent
Korean business	–	–	–	794	16.5	3.9
Pakistan business	261	21.6	4.6	249	25.9	4.4
Taiwan business	1,238	14.0	4.3	1,313	18.6	4.4
Credit card and personal loan – Asia, India and MENAP	896	12.0	4.0	896	15.8	1.4
India business	318	16.9	6.5	324	17.7	6.5
MENAP business	368	21.0	4.2	368	19.1	4.1
Thailand business	313	13.5	4.5	315	16.4	4.7
Financial Institutions and Private Banking business	396	11.6	4.0	396	14.5	1.4
Corporate advisory business	43	12.0	4.0	75	15.8	1.4
Consumer banking business in Singapore	211	11.7	3.7	221	11.2	3.8
Other	180	12.0–14.6	4.0–5.2	256	12.4–15.8	1.4–7.4
	4,224			5,207		

Methodology for determining value-in-use

The calculation of value-in-use for each CGU is based on cash flow projections over a 20-year period, including a terminal value which is determined based on long-term earnings multiple consistent with available market data. These cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the CGU as set out in the table above.

The cash flow projections are based on budgets and forecasts approved by management covering one year, except for Taiwan, Thailand and Pakistan CGUs, where management forecasts cover a total of four years to 2018 and five years to 2019 for the Korea CGU. Management forecasts project growth rates which are greater than long-term GDP rates, but in line with past performance as adjusted to reflect the current economic climate. For the period after management-approved forecasts, the cash flows are extrapolated forward using steady long-term forecast GDP growth rates appropriate to the CGU.

Outcome of impairment assessment

The Group performed its annual impairment assessment on the level of goodwill assigned to the Group's CGU. Based on this analysis, the carrying amount was assessed as exceeding the recoverable value by \$726 million for the Korea CGU and \$32 million for the Corporate Advisory business CGU which was recognised as an impairment charge. The pre-tax discount rate applied to the Korea CGU was 16.3 per cent and 12.0 per cent in respect of the Corporate Advisory business CGU.

At 31 December 2014, there is no other goodwill impairment to be recognised. The Group believes that a reasonable possible change in any of the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

It continues to be possible that certain scenarios could be constructed where a combination of a material change in the discount rate coupled with a reduction in current business plan forecasts or the GDP growth rate, would potentially result in the carrying amount of the goodwill exceeding the recoverable amount in the future.

27. Property, plant and equipment

	2014				2013			
	Premises \$million	Equipment \$million	Operating lease assets \$million	Total \$million	Premises \$million	Equipment \$million	Operating lease assets \$million	Total \$million
Cost or valuation								
At 1 January	2,391	797	5,465	8,653	2,544	818	4,809	8,171
Exchange translation differences	(68)	(29)	–	(97)	(44)	(29)	–	(73)
Additions	72	117	1,966	2,155	77	128	874	1,079
Disposals and fully depreciated assets written off	(48)	(80)	(672)	(800)	(124)	(117)	(218)	(459)
Transfers to assets held for sale	(17)	–	–	(17)	(62)	(3)	–	(65)
At 31 December	2,330	805	6,759	9,894	2,391	797	5,465	8,653
Depreciation								
Accumulated at 1 January	600	582	568	1,750	565	599	387	1,551
Exchange translation differences	(16)	(20)	–	(36)	(6)	(21)	–	(27)
Charge for the year	105	95	234	434	108	119	206	433
Attributable to assets sold, transferred or written off	(34)	(76)	(128)	(238)	(67)	(115)	(25)	(207)
Accumulated at 31 December	655	581	674	1,910	600	582	568	1,750
Net book amount at 31 December	1,675	224	6,085	7,984	1,791	215	4,897	6,903

At 1 January 2013, the net book value was: premises, \$1,979 million; equipment, \$219 million; and operating lease assets, \$4,422 million.

Assets held under finance leases have a net book value of \$142 million (2013: \$151 million) with minimum lease payments of \$7 million (2013: \$9 million) after future finance charges.

28. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year:

	At 1 January 2014 \$million	Exchange and other adjustments \$million	Acquisitions/ disposals \$million	Charge/(credit) to profit \$million	Charge/(credit) to equity \$million	At 31 December 2014 \$million
Deferred taxation comprises:						
Accelerated tax depreciation	214	(5)	–	80	–	289
Impairment provisions on loans and advances	(230)	5	–	(89)	–	(314)
Tax losses carried forward	(422)	8	–	89	–	(325)
Available-for-sale assets	42	–	–	–	50	92
Cash flow hedges	2	–	–	–	(31)	(29)
Retirement benefit obligations	(72)	–	–	6	(13)	(79)
Share-based payments	(71)	–	–	27	2	(42)
Other temporary differences	184	(3)	–	(45)	–	136
Net deferred tax assets	(353)	5	–	68	8	(272)

	At 1 January 2013 \$million	Exchange and other adjustments \$million	Acquisitions/ disposals \$million	Charge/(credit) to profit \$million	Charge/(credit) to equity \$million	At 31 December 2013 \$million
Deferred taxation comprises:						
Accelerated tax depreciation	128	(5)	–	91	–	214
Impairment provisions on loans and advances	(154)	11	–	(87)	–	(230)
Tax losses carried forward	(476)	11	–	43	–	(422)
Available-for-sale assets	86	(1)	–	(5)	(38)	42
Cash flow hedges	17	(1)	–	(3)	(11)	2
Retirement benefit obligations	(105)	2	–	10	21	(72)
Share-based payments	(80)	–	–	8	1	(71)
Other temporary differences	69	(15)	7	123	–	184
Net deferred tax assets	(515)	2	7	180	(27)	(353)

28. Deferred tax continued

Deferred taxation comprises assets and liabilities as follows:

	2014			2013		
	Total \$million	Asset \$million	Liability \$million	Total \$million	Asset \$million	Liability \$million
Deferred taxation comprises:						
Accelerated tax depreciation	289	22	267	214	(7)	221
Impairment provisions on loans and advances	(314)	(365)	51	(230)	(219)	(11)
Tax losses carried forward	(325)	(203)	(122)	(422)	(311)	(111)
Available-for-sale assets	92	55	37	42	27	15
Cash flow hedges	(29)	(28)	(1)	2	2	–
Retirement benefit obligations	(79)	(74)	(5)	(72)	(70)	(2)
Share-based payments	(42)	(38)	(4)	(71)	(63)	(8)
Other temporary differences	136	113	23	184	112	72
	(272)	(518)	246	(353)	(529)	176

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

At 31 December 2014, the Group has net deferred tax assets of \$272 million (2013: \$353 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 asset, \$325 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.

\$72 million of the deferred tax asset relating to losses has arisen in the UK, where there is no expiry date for unused tax losses. There is a defined profit stream against which the losses are forecast to be fully utilised, over a period of 10 years.

\$122 million of the deferred tax asset relating to losses has arisen in Ireland, where there is no expiry date for unused tax losses. These losses relate to aircraft leasing and are expected to be fully utilised over the useful economical life of the assets being up to 25 years.

\$46 million of the deferred tax asset relating to losses has arisen in Taiwan. Management forecasts show that the losses are expected to be fully utilised over a period of four years. The tax losses expire after 10 years.

\$32 million of the deferred tax asset relating to losses has arisen in Australia, where these is no expiry date for unused tax losses. Management forecasts show that the losses are expected to be fully utilised over a period of 14 years.

The remaining deferred tax asset relating to losses has arisen in other jurisdictions and is expected to be recovered in less than 10 years.

	2014 \$million	2013 \$million
No account has been taken of the following potential deferred taxation assets/(liabilities):		
Withholding tax on unremitted earnings from overseas subsidiaries	(344)	(328)
Foreign exchange movements on investments in branches	(140)	(85)
Tax losses	96	106
Held over gains on incorporation of overseas branches	(478)	(506)

29. Debt securities in issue

	2014			2013		
	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	28,585	43,366	71,951	21,082	43,507	64,589
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	125	8,712	8,837	141	6,682	6,823
Total debt securities in issue	28,710	52,078	80,788	21,223	50,189	71,412

30. Other liabilities

	2014 \$million	2013 \$million
Financial liabilities held at amortised cost (note 15)		
Notes in circulation ¹ (note 22)	4,738	4,460
Acceptances and endorsements (note 22)	5,212	5,501
Cash collateral	7,005	5,147
Unsettled trades and other financial liabilities	13,131	10,900
	30,086	26,008
Non-financial liabilities		
Cash-settled share-based payments	37	73
Liabilities held for sale ²	710	344
Other liabilities	441	913
	31,274	27,338

1. Hong Kong currency notes in circulation of \$4,738 million (2013: \$4,460 million) that are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 22)

2. Relate to liabilities in disposal groups held for sale. The businesses held for sale also have total net liabilities due to Group undertakings of \$2 billion which will be transferred to the acquirers on completion of the sale. See note 22 for the balance sheet of the disposal groups held for sale

31. Subordinated liabilities and other borrowed funds

	2014 \$million	2013 \$million
Subordinated loan capital – issued by subsidiary undertakings		
£700 million 7.75 per cent subordinated notes 2018	1,208	1,291
£675 million 5.375 per cent undated step up subordinated notes (callable 2020)	706	727
£600 million 8.103 per cent step up callable perpetual preferred securities (callable 2016)	1,013	1,128
£200 million 7.75 per cent undated step up subordinated notes (callable 2022)	400	410
€1.1 billion 5.875 per cent subordinated notes 2017	1,474	1,704
\$1.5 billion 9.5 per cent step up perpetual preferred securities (callable 2014)	–	1,542
\$1 billion 6.4 per cent subordinated notes 2017	1,099	1,134
\$750 million 5.875 per cent subordinated notes 2020	802	789
\$700 million 8.0 per cent subordinated notes 2031	641	592
BWP 127.26 million 8.2 per cent subordinated notes 2022 (callable 2017)	13	15
BWP 70 million floating rate subordinated notes 2021 (callable 2016)	7	8
BWP 50 million floating rate notes 2022 (callable 2017)	5	6
JPY 10 billion 3.35 per cent subordinated notes 2023 (callable 2018)	87	101
KRW 300 billion 7.05 per cent subordinated debt 2019 (callable 2014)	–	284
KRW 270 billion 4.67 per cent subordinated debt 2021 (callable 2016)	247	256
KRW 90 billion 6.05 per cent subordinated debt 2018	92	95
PKR 2.5 billion floating rate notes 2022 (callable 2017)	25	24
SGD 750 million 4.15 per cent subordinated notes 2021 (callable 2016)	541	570
SGD 450 million 5.25 per cent subordinated notes 2023 (callable 2018)	355	380
TWD 10 billion 2.9 per cent subordinated debt 2019 (callable 2014)	–	337
TZS 10 billion 11 per cent subordinated notes 2020 (callable 2015)	6	6
UGX 40 billion 13 per cent subordinated notes 2020 (callable 2015)	14	16
	8,735	11,415
Issued by Company:		
Primary capital floating rate notes		
\$400 million	44	44
\$300 million (Series 2)	80	80
\$400 million (Series 3)	64	64
\$200 million (Series 4)	50	50
£150 million	47	50
£900 million 5.125 per cent subordinated debt 2034	1,588	–
\$2 billion 5.7 per cent subordinated debt 2044	2,341	–
\$2 billion 3.95 per cent subordinated debt 2023	1,952	1,823
\$1.25 billion 4 per cent subordinated notes 2022 (callable 2017)	1,242	1,238
\$1 billion 5.7 per cent subordinated notes 2022	989	939
\$1 billion 5.2 per cent subordinated debt 2024	996	995
\$750 million 5.3 per cent subordinated debt 2043	774	611
€1.25 billion 4 per cent subordinated debt 2025 (callable 2020)	1,599	1,722
€750 million 3.625 per cent subordinated notes 2022	968	1,000
€500 million 3.125 per cent subordinated debt 2024	604	–
SGD700 million 4.4 per cent subordinated notes 2026 (callable 2021)	515	–
Other borrowings – issued by company ^{1,2}	359	366
	14,212	8,982
Total for Group	22,947	20,397

1. In the balance sheet of the Company, the amount recognised is \$324 million (2013: \$339 million) with the difference being the effect of hedge accounting achieved on a Group basis

2. Other borrowings comprise irredeemable sterling preference shares (note 34)

31. Subordinated liabilities and other borrowed funds continued

	2014				
	USD \$million	GBP \$million	Euro \$million	Others \$million	Total \$million
Fixed rate subordinated debt	10,836	5,274	4,645	1,870	22,625
Floating rate subordinated debt	238	47	–	37	322
Total	11,074	5,321	4,645	1,907	22,947

	2013				
	USD \$million	GBP \$million	Euro \$million	Others \$million	Total \$million
Fixed rate subordinated debt	9,663	3,922	4,426	2,060	20,071
Floating rate subordinated debt	238	50	–	38	326
Total	9,901	3,972	4,426	2,098	20,397

All subordinated liabilities are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements.

Issuances

On 23 January 2014, Standard Chartered PLC (the Company) issued SGD700 million 4.4 per cent fixed interest rate notes due January 2026.

On 26 March 2014, the Company issued \$2 billion 5.7 per cent fixed interest rate notes due March 2044.

On 6 June 2014, the Company issued £900 million 5.125 per cent fixed interest rate notes due June 2034.

On 19 November 2014, the Company issued EUR500 million 3.125 per cent fixed interest rate notes due November 2024.

Redemptions

On 13 March 2014, Standard Chartered Bank Korea Limited exercised its right to redeem its KRW300 billion 7.05 per cent subordinated debt in full on the first optional call date.

On 28 October 2014, Standard Chartered Bank (Taiwan) Limited exercised its right to redeem its TWD 10 billion 2.9 per cent subordinated debt due 2019 in full on the first optional call date.

On 24 December 2014, Standard Chartered Bank exercised its right to redeems its \$1.5 billion 9.5 per cent step up perpetual preferred securities in full on the first optional call date.

32. Provisions for liabilities and charges

	2014		
	Provision for credit commitments \$million	Other provisions \$million	Total \$million
At 1 January	24	83	107
Exchange translation differences	(1)	(1)	(2)
Charge against profit	6	22	28
Provisions utilised	(9)	(32)	(41)
At 31 December	20	72	92

Provision for credit commitment comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations. Other provisions include provisions for regulatory settlements, legal claims and restructuring.

Notes to the financial statements

33. Retirement benefit obligations

Retirement benefit obligations comprise:

	2014 \$million	2013 \$million
Defined benefit schemes obligation	391	341
Defined contribution schemes obligation	22	24
Net obligation	413	365

Retirement benefit charge comprises:

	2014 \$million	2013 \$million
Defined benefit schemes	105	119
Defined contribution schemes	228	217
Charge against profit (note 8)	333	336

The Group operates 60 defined benefit plans across its geographies, many of which are closed to new entrants who now join defined contribution arrangements. The aim of all these plans is to give employees the opportunity to save appropriately for retirement in a way that is consistent with local regulations, taxation requirements and market conditions. The defined benefit plans expose the Group to currency risk, interest rate risk, investment risk and actuarial risks such as longevity risk. The UK Fund is the Group's largest arrangement, representing 60 per cent of total pension liabilities.

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 2014.

UK Fund

The Standard Chartered Pension Fund (the 'Fund') is the Group's principal pension scheme and provides pensions based on 1/60th of final salary per year of service, normally payable from age 60. The Fund is set up under a Trust that is legally separate from the 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 Fund members and are responsible for governing the Fund in accordance with its Trust Deed and Rules.

The financial position of the Fund is assessed by an independent qualified actuary. The most recent funding valuation was performed as at 31 December 2011 by A Zegleman, Fellow of the Faculty of Actuaries, of Towers Watson, using the projected unit method and assumptions different from those below. To repair the past service deficit identified as at 31 December 2011, a cash payment of £35 million was made into the Fund on 27 March 2013. In addition, an escrow account of £110 million exists to provide security for future contributions. Following the 31 December 2011 valuation, regular contributions to the Fund were set at 36 per cent of pensionable salary for all members. The next valuation will have an effective date of 31 December 2014.

With effect from 1 July 1998, the Fund was closed to new entrants and new employees are offered membership of a defined contribution scheme. Over 80 per cent of the Fund's liabilities now relate to pensioners or ex-employees who have left the Group but have not yet retired. As at 31 December 2014, the weighted-average duration of the Fund was 15 years (2013: 15 years).

Overseas schemes

The principal overseas defined benefit arrangements operated by the Group are in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the US.

The Group's expected contribution to its defined benefit pension schemes in 2015 is \$80 million.

The principal financial assumptions used at 31 December 2014 were:

	Funded schemes			
	UK Fund ¹		Overseas schemes ²	
	2014 %	2013 %	2014 %	2013 %
Price inflation	1.90	2.40	1.30 – 5.00	1.50 – 5.00
Salary increases	1.90	2.40	1.90 – 6.50	2.40 – 6.50
Pension increases	1.90	2.40	1.10 – 3.00	1.75 – 3.40
Discount rate	3.60	4.50	1.60 – 8.20	1.70 – 9.40

1. The assumptions for life expectancy for the UK Fund are that a male member currently aged 60 will live for 28 years (2013: 28 years) and a female member 29 years (2013: 29 years) and a male member currently aged 40 will live for 30 years (2013: 30 years) and a female member 31 years (2013: 31 years) after their 60th birthdays

2. The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the US. These comprise over 85 per cent of the total liabilities of funded overseas schemes

33. Retirement benefit obligations continued

These assumptions are likely to change in the future and this will affect the value placed on the liabilities. For example, changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

- If the discount rate for the UK Fund increased by 25 basis points (bps), the liability would reduce by approximately \$65 million
- If the rate of inflation and pension increases for the UK Fund increased by 25 bps, the liability would increase by approximately \$65 million
- If the rate salaries increase compared to inflation for the UK Fund increased by 25 bps, the liability would increase by approximately \$7 million
- If longevity expectations increased by one year for the UK Fund, the liability would increase by approximately \$50 million

Although this analysis does not take account of the full distribution of cash flows expected under the Fund, it does provide an approximation of the sensitivity to the main assumptions. While changes in other assumptions would also have an impact, the effect would not be as significant.

	Unfunded schemes			
	Post-retirement medical ¹		Other ²	
	2014 %	2013 %	2014 %	2013 %
Price inflation	2.50	2.50	2.50–5.00	2.50–5.00
Salary increases	4.00	4.00	1.90–6.50	2.40–6.50
Pension increases	N/A	N/A	0.00–1.90	0.00–2.40
Discount rate	4.20	5.10	2.80–8.20	4.50–9.40
Post-retirement medical rate	7% in 2014 reducing by 1% per annum to 5% in 2016	8% in 2013 reducing by 1% per annum to 5% in 2016	N/A	N/A

1. The post-retirement medical plan is in the US

2. The range of assumptions shown is for the main unfunded schemes in India, Indonesia, Korea, Thailand, the UAE and the UK. They comprise over 85 per cent of the total liabilities of unfunded schemes.

The fair value of assets and present value of liabilities of the schemes attributable to defined benefit members were:

	2014				2013			
	Funded schemes		Unfunded schemes		Funded schemes		Unfunded schemes	
	UK Fund \$million	Overseas schemes \$million	Post-retirement medical \$million	Other \$million	UK Fund \$million	Overseas schemes \$million	Post-retirement medical \$million	Other \$million
At 31 December								
Equities	367	287	N/A	N/A	423	304	N/A	N/A
Government bonds	852	169	N/A	N/A	696	155	N/A	N/A
Corporate bonds	199	73	N/A	N/A	208	68	N/A	N/A
Hedge funds ¹	191	—	N/A	N/A	183	—	N/A	N/A
Insurance linked funds ¹	53	—	N/A	N/A	49	—	N/A	N/A
Opportunistic credit ¹	79	—	N/A	N/A	77	—	N/A	N/A
Property	78	5	N/A	N/A	78	11	N/A	N/A
Derivatives	(5)	2	N/A	N/A	15	2	N/A	N/A
Cash and cash equivalents	23	218	N/A	N/A	85	160	N/A	N/A
Others ¹	12	31	N/A	N/A	18	53	N/A	N/A
Total fair value of assets ²	1,849	785	N/A	N/A	1,832	753	N/A	N/A
Present value of liabilities ³	(1,839)	(963)	(27)	(196)	(1,855)	(875)	(26)	(170)
Net pension asset/(liability)	10	(178)	(27)	(196)	(23)	(122)	(26)	(170)

1. Unquoted assets

2. Self investment is monitored closely and is less than \$1 million of Standard Chartered equities and bonds for 2014 and 2013. 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

3. Includes \$1 million (2013: \$1 million) impact as a result of unrecognised surplus in Kenya

33. Retirement benefit obligations continued

The pension cost for defined benefit schemes was:

2014	Funded schemes		Unfunded schemes		Total \$million
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
Current service cost	8	65	1	20	94
Past service cost and curtailments	–	(1)	–	–	(1)
Gain on settlements	–	(1)	–	–	(1)
Interest income on pension scheme assets	(80)	(28)	–	–	(108)
Interest on pension scheme liabilities	81	31	1	8	121
Total charge to profit before deduction of tax	9	66	2	28	105
Return on plan assets excluding interest income ¹	(138)	(15)	–	–	(153)
Losses/(gains) on liabilities	105	89	(1)	21	214
Total (gains)/losses recognised directly in statement of comprehensive income before tax	(33)	74	(1)	21	61
Deferred taxation	5	(18)	–	–	(13)
Total (gains)/losses after tax	(28)	56	(1)	21	48

1. The actual return on the UK fund assets was \$218 million and on overseas scheme assets was \$43 million

2013	Funded schemes		Unfunded schemes		Total \$million
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
Current service cost	7	71	1	21	100
Past service cost and curtailments	–	1	–	3	4
Interest income on pension scheme assets	(74)	(19)	–	–	(93)
Interest on pension scheme liabilities	76	23	1	8	108
Total charge to profit before deduction of tax	9	76	2	32	119
Return on plan assets excluding interest income ¹	(38)	(31)	–	–	(69)
Losses/(gains) on liabilities	24	(19)	(3)	(12)	(10)
Total gain recognised directly in statement of comprehensive income before tax	(14)	(50)	(3)	(12)	(79)
Deferred taxation	3	18	–	–	21
Total gain after tax	(11)	(32)	(3)	(12)	(58)

1. The actual return on the UK fund assets was \$112 million and on overseas scheme assets was \$50 million

33. Retirement benefit obligations continued

Movement in the defined benefit pension schemes and post-retirement medical deficit during the year comprise:

	Funded schemes		Unfunded schemes		
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	Total \$million
2014					
Deficit at 1 January 2014	(23)	(122)	(26)	(170)	(341)
Contributions	9	75	—	14	98
Current service cost	(8)	(65)	(1)	(20)	(94)
Past service cost and curtailments	—	1	—	—	1
Settlement costs	—	1	—	—	1
Net interest on the net defined benefit asset/liability	(1)	(3)	(1)	(8)	(13)
Actuarial gains/(losses)	33	(74)	1	(21)	(61)
Exchange rate adjustment	—	9	—	9	18
Deficit at 31 December 2014	10	(178)	(27)	(196)	(391)

	Funded schemes		Unfunded schemes		
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	Total \$million
2013					
Deficit at 1 January 2013	(93)	(190)	(28)	(159)	(470)
Contributions	63	94	1	10	168
Current service cost	(7)	(71)	(1)	(21)	(100)
Past service cost and curtailments	—	(1)	—	(3)	(4)
Net interest on the net defined benefit asset/liability	(2)	(4)	(1)	(8)	(15)
Actuarial gains	14	50	3	12	79
Exchange rate adjustment	2	—	—	(1)	1
Deficit at 31 December 2013	(23)	(122)	(26)	(170)	(341)

	2014			2013		
	Assets \$million	Obligations \$million	Total \$million	Assets \$million	Obligations \$million	Total \$million
Deficit at 1 January	2,585	(2,926)	(341)	2,366	(2,836)	(470)
Contributions ¹	100	(2)	98	170	(2)	168
Current service cost ²	—	(94)	(94)	—	(100)	(100)
Past service cost and curtailments	—	1	1	—	(4)	(4)
Settlement costs	(11)	12	1	(5)	5	—
Interest cost on pension scheme liabilities	—	(121)	(121)	—	(108)	(108)
Interest income on pension scheme assets	108	—	108	93	—	93
Benefits paid out ²	(167)	167	—	(146)	146	—
Actuarial gains/(losses) ³	153	(214)	(61)	69	10	79
Exchange rate adjustment	(134)	152	18	38	(37)	1
Deficit at 31 December	2,634	(3,025)	(391)	2,585	(2,926)	(341)

1. Includes employee contributions of \$2 million (2013: \$2 million)

2. Includes administrative expenses paid out of scheme assets of \$1 million (2013: \$1 million)

3. Actuarial loss on obligation comprises \$205 million loss (2013: \$25 million gain) from financial assumption changes, \$12 million loss (2013: \$1 million loss) from demographic assumption changes and \$3 million gain (2013: \$14 million loss) from experience

34. Share capital, reserves and own shares

Share capital

In 2010, the Company amended its Articles of Association to remove the provision for authorised share capital following an amendment to corporate law in the UK through the Companies Act 2006.

The available profits of the Company are distributed to the holders of the issued preference shares in priority to payments made to holders of the ordinary shares and in priority to, or pari passu with, any payments to the holders of any other class of shares in issue. On a winding up, the assets of the Company are applied to the holders of the preference shares in priority to any payment to the ordinary shareholders and in priority to, or pari passu with, the holders of any other shares in issue, for an amount equal to any dividends accrued and/or payable and the nominal value of the shares together with any premium as determined by the Board. The redeemable preference shares are redeemable at the paid up amount (which includes premium) at the option of the Company in accordance with the terms of the shares. The holders of the preference shares are not entitled to attend or vote at any general meeting except where any relevant dividend due is not paid in full or where a resolution is proposed varying the rights of the preference shares. The nominal value of each ordinary share is 50 cents.

At 31 December 2014 and 2013, 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.

On 27 November 2013, in accordance with its Articles of Association, the Company redeemed at the issued value the 462,500 \$5 non-cumulative redeemable preference shares in issue that were classified within subordinated liabilities and other borrowed funds which included a premium of \$923 million.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Group and Company

	Number of ordinary shares millions	Ordinary share capital \$million	Preference share capital \$million	Total \$million
At 1 January 2013	2,413	1,207	–	1,207
Capitalised on scrip dividend	4	2	–	2
Shares issued	10	5	–	5
At 31 December 2013	2,427	1,214	–	1,214
Capitalised on scrip dividend	38	19	–	19
Shares issued	8	3	–	3
At 31 December 2014	2,473	1,236	–	1,236

2014

On 14 May 2014, the Company issued 36,260,040 new ordinary shares instead of the 2013 final dividend and on 17 October 2014 the Company issued 1,315,836 new ordinary shares instead of the 2014 interim dividend.

During the year 7,736,568 shares were issued under employee share plans at prices between nil and 1,463 pence.

2013

On 13 May 2013, the Company issued 1,727,682 new ordinary shares instead of the 2012 final dividend and on 17 October 2013 the Company issued 2,081,685 new ordinary shares instead of the 2013 interim dividend.

During the year 10,542,375 new ordinary shares were issued under employee share plans at prices between nil and 1,463 pence.

Reserves

The cumulative amount of goodwill on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is \$27 million (2013: \$27 million).

The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001. The capital redemption reserve represents the nominal value of preference shares redeemed.

The merger reserve represents the premium arising on shares issued using a cash box financing structure, which required the Company to create a merger reserve under section 612 of the Companies Act 2006. Shares were issued using this structure in 2005 and 2006 to assist in the funding of certain acquisitions, in 2008 and 2010 for the shares issued by way of a rights issue, and for the shares issued in 2009 in the placing. The funding raised by the 2008 and 2010 rights issues and 2009 share issue was retained within the Company.

The available-for-sale reserve represents the unrealised fair value gains and losses in respect of financial assets classified as available-for-sale, net of taxation. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying asset is sold, matures or becomes impaired.

The cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria for these types of hedges. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur.

The translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve and are reclassified to the income statement when the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations.

34. Share capital, reserves and own shares continued

Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions and own shares held (treasury shares).

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

Own shares

Bedell Cristin Trustees Limited is trustee of both the 1995 Employees' Share Ownership Plan Trust (the 1995 Trust), which is an employee benefit trust used in conjunction with some of the Group's employee share schemes, and of the Standard Chartered 2004 Employee Benefit Trust (the 2004 Trust), which is an employee benefit trust used in conjunction with the Group's deferred bonus plan. The trustee has agreed to satisfy a number of awards made under the employee share schemes, the deferred bonus arrangements and fixed pay allowances delivered in shares through the relevant employee benefit trust. As part of these arrangements, Group companies fund the trusts, from time to time, to enable the trustee to acquire shares to satisfy these awards. All shares have been acquired through the London Stock Exchange.

Except as disclosed, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the Company listed on The Stock Exchange of Hong Kong Limited during the year. Details of the shares purchased and held by the trusts are set out below.

Number of shares	1995 Trust		2004 Trust		Total	
	2014	2013	2014	2013	2014	2013
Shares purchased	4,090,094	4,855,145	1,306,188	790,829	5,396,282	5,645,974
Market price of shares purchased (\$million)	84	133	26	21	110	154
Shares held at the end of the year	5,291,941	5,575,821	—	141,160	5,291,941	5,716,981
Maximum number of shares held during year					7,808,099	7,278,439

35. Non-controlling interests

	\$300m 7.267% Hybrid Tier 1 securities \$million	Other non-controlling interests \$million	Total \$million
At 1 January 2013	320	373	693
Expenses in equity attributable to non-controlling interests	—	(31)	(31)
Other profits attributable to non-controlling interests	22	88	110
Comprehensive income for the year	22	57	79
Distributions	(22)	(55)	(77)
Other decreases	—	(100)	(100)
At 31 December 2013	320	275	595
Expense in equity attributable to non-controlling interests	—	(29)	(29)
Other profits attributable to non-controlling interests	4	88	92
Comprehensive income for the year	4	59	63
Distributions	(11)	(49)	(60)
Other decreases	(313)	21	(292)
At 31 December 2014	—	306	306

The \$300 million 7.267% Hybrid Tier 1 securities issued by Standard Chartered Bank Korea Limited, a wholly owned subsidiary of the Group were redeemed during the year. The Group had no interest in the securities.

36. Share-based payments

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:

	2014 ¹			2013 ¹		
	Cash ² \$million	Equity \$million	Total \$million	Cash \$million	Equity \$million	Total \$million
Deferred share awards	(5)	191	186	12	219	231
Other share awards	(14)	62	48	9	24	33
Total share-based payments	(19)	253	234	21	243	264

1. No forfeiture assumed

2. The credit charge for cash settled awards reflects a reduction in expected liability in line with the movement in share price

36. Share-based payments continued

2011 Standard Chartered Share Plan (the 2011 Plan)

Approved by shareholders in May 2011, this is the Group's main share plan, applicable to all employees with the flexibility to provide a variety of award types. The 2011 Plan is designed to deliver performance shares, deferred awards and restricted shares, giving us sufficient flexibility to meet the challenges of the changing regulatory and competitive environment. Share awards are a key part of both executive directors' and senior management's variable compensation and their significance as a proportion of total remuneration is one of the strongest indicators of the Group's commitment to pay for sustainable performance ensuring there is an appropriate return for the risk taken and that the measure is aligned with the Group's risk appetite.

Further details regarding the 2011 Plan are included in the Directors' report on remuneration. The remaining life of the plan is six years.

Performance shares

Performance shares are subject to a combination of three performance measures: relative total shareholder return (TSR), earnings per share (EPS) growth and return on risk-weighted assets (RoRWA). The weighting between the three elements is split equally, one-third of the award depending on each measure, assessed independently. Performance share awards form part of the variable compensation awarded to executive directors. In line with regulatory requirements, discretionary variable compensation for executive directors will not exceed 200 per cent of fixed pay as valued in line with the European Banking Authority rules.

Valuation

The fair value of the TSR component is derived by discounting one-third of the award by the loss of expected dividends over the vesting period together with the probability of meeting the relative TSR condition, which is calculated by the area under the TSR vesting schedule curve. The EPS growth fair value is derived by discounting one-third of the award respectively by the loss of expected dividends over the vesting period. The same approach is applied to calculate the RoRWA fair value for one-third of the award. In respect of the EPS growth and RoRWA components, the number of shares expected to vest is adjusted for actual performance when calculating the share-based payment charge for the year. The same fair value applies to all employees including executive directors.

Grant date	2014				2013		
	10 December	17 September	18 June	13 March	18 September	19 June	11 March
Share price at grant date (£)	9.34	12.28	12.83	11.92	15.14	14.62	18.22
Vesting period (years)	3	3	3	3	3	3	3
Expected dividend yield (%)	5.7	5.8	5.6	5.3	4.6	4.1	4.1
Fair value (EPS) (£)	2.64	3.45	3.63	3.40	4.43	4.32	5.38
Fair value (RoRWA) (£)	2.64	3.45	3.63	3.40	4.43	4.32	5.38
Fair value (TSR) (£)	1.07	1.41	1.48	1.38	1.80	1.76	2.19

The expected dividend yield assumption is based on a historical average over a period commensurate with this period until vesting, or over one year if the period until vesting is less than one year.

Deferred share awards/restricted shares

Deferred awards are used to deliver the deferred portion of total variable compensation, in line with both market practice and regulatory requirements. These awards are subject to a three-year deferral period, vesting equally one-third on each of the first, second and third anniversaries. Deferred awards are not subject to any plan limit to ensure that regulatory requirements relating to deferral levels can be met and in line with market practice of our competitors. Deferred awards will not be subject to any further performance criteria, although the Group's claw-back policy will apply.

Details of deferred awards for executive directors can be found in the Directors' report on remuneration and these apply equally for Court directors. Restricted share awards which are made outside of the annual performance process, as additional incentive or retention mechanisms, are provided as restricted shares under the 2011 Plan. These awards typically vest in equal instalments on the second and the third anniversaries of the award date. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance conditions.

Valuation

The fair value, for all employees including executive directors, is based 100 per cent of the face value of the share at date of grant as the share price will reflect expectations of all future dividends.

Deferred share awards

Grant date	2014		2013	
	18 June	13 March	19 June	11 March
Share price at grant date (£)	12.83	11.92	14.62	18.22
Vesting period (years)	1/2/3	1/2/3	1/2/3	1/2/3
Expected dividend yield (%)	n/a	n/a	n/a	n/a
Fair value (£)	12.83	11.92	14.62	18.22

Deferred awards accrue dividend equivalent payments during the vesting period.

36. Share-based payments continued

Other restricted share awards

Grant date	2014				2013			
	10 December	17 September	18 June	13 March	17 December	18 September	19 June	11 March
Share price at grant date (£)	9.34	12.28	12.83	11.92	13.04	15.14	14.62	18.22
Vesting period (years)	2/3, 1/2/3/4	2/3, 1/2/3/4	2/3, 1/2/3/4	2/3	2/3	2/3	2/3 1/2/3/4	2/3 1/2/3/4
Expected dividend yield (%)	5.5	5.7	6.1	5.8	4.9	4.6	4.6	4.6
Fair value (£)	8.17	10.69	11.08	10.37	11.59	13.54	13.05	16.27

The expected dividend yield assumption is based on a historical average over a period commensurate with this ‘average’ period until vesting, or over one year if the average period until vesting is less than one year.

2000 Executive Share Option Scheme (2000 ESOS) – closed to new grants

The Group previously operated the 2000 ESOS for executive directors and selected senior managers. Executive share options to purchase ordinary shares in Standard Chartered PLC were exercisable after the third, but before the 10th, anniversary of the date of grant subject to EPS performance criteria being satisfied. The exercise price per share is the share price at the date of grant. There are no outstanding awards under this plan.

2001 Performance Share Plan (2001 PSP) – closed to new grants

The Group’s previous plan for delivering performance shares was the 2001 PSP and there remain outstanding vested awards. Under the 2001 PSP, half the award is dependent upon TSR performance and the balance is subject to a target of defined EPS growth. Both measures use the same three-year period and are assessed independently.

2006 Restricted Share Scheme (2006 RSS)/2007 Supplementary Restricted Share Scheme (2007 SRSS)

The Group’s previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There are vested awards outstanding under these plans. Awards were generally in the form of nil cost options and do not have any performance conditions. Generally, deferred restricted share awards vest equally over three years and for non-deferred awards, half vests two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

All Employee Sharesave Plan (2004 International Sharesave, 2004 UK Sharesave and 2013 Sharesave)

Under the Sharesave plans, employees have the choice of opening a savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the Sharesave plans. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries, the Group offers an equivalent cash-based plan to its employees. The 2004 Sharesave plans are now closed and no further awards will be granted under these plans.

The Standard Chartered 2013 Sharesave Plan was approved by Shareholders in May 2013 and since then all Sharesave invitations have been made under this plan. The remaining life of the 2013 Sharesave Plan is eight years.

Valuation

Options under the Sharesave plans are valued using a binomial option-pricing model. The same fair value is applied to all employees including executive directors. The fair value per option granted and the assumptions used in the calculation are as follows:

All Employee Sharesave Plan (Sharesave)

Grant date	2014		2013	
	8 October	9 October	8 October	9 October
Share price at grant date (£)			11.12	14.36
Exercise price (£)			9.85	11.78
Vesting period (years)			3	3
Expected volatility (%)			25.1	26.8
Expected option life (years)			3.33	3.33
Risk-free rate (%)			1.19	0.8
Expected dividend yield (%)			5.8	4.3
Fair value (£)			1.61	3.30

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.

Notes to the financial statements

36. Share-based payments continued

Reconciliation of option movements for the year to 31 December 2014

	2011 Plan ¹						Weighted average exercise price (£)	Sharesave	Weighted average exercise price (£)
	Performance shares	Deferred/ Restricted shares	PSP ¹	RSS ¹	SRSS ¹	ESOS ²			
Outstanding at 1 January	13,315,596	15,493,384	535,629	7,091,740	980,352	36,156	7.89	14,596,338	11.62
Granted	4,856,656 ³	8,741,868 ⁴	—	147,942 ⁵	—	—	—	4,498,832	9.85
Lapsed	(2,919,405)	(664,974)	(1,321)	(179,307)	(4,054)	—	—	(4,733,743)	12.10
Exercised	(975,710)	(5,334,978)	(284,663)	(4,815,028)	(313,150)	(36,156)	7.89	(343,884)	10.81
Outstanding at 31 December	14,277,137	18,235,300	249,645	2,245,347	663,148	—	—	14,017,543	10.91
Exercisable at 31 December	335,245	1,488,503	249,645	2,245,347	663,148	—	—	2,986,185	10.67
Range of exercise prices (£)	—	—	—	—	—	—	—	9.80 – 14.63	—
Intrinsic value of vested but not exercised options (\$million)	0.3	1.3	0.5	2.4	0.5	—	—	—	—
Weighted average contractual remaining life (years)	8.2	5.4	3.6	2.4	1.9	—	—	2.0	—
Weighted average share price for options exercised during the period (£)	12.58	12.21	12.55	12.32	12.24	12.57	—	12.74	—

1. Employees do not contribute towards the cost of these awards

2. The closing balance in the 2013 accounts was understated by 12,547 shares and the opening balance for 2014 has been restated

3. 4,687,363 granted on 13 March 2014, 128,616 granted on 18 June 2014, 33,896 granted on 17 September 2014 and 6,781 granted on 10 December 2014

4. 7,738,315 granted on 13 March 2014, 268,035 (notional dividend) granted on 11 March 2014, 231,006 (notional dividend) granted on 13 March 2014, 81,432 granted on 18 June 2014, 263 (notional dividend) granted on 19 June 2014, 3,101 (notional dividend) granted on 20 June 2014, 40 (notional dividend) granted on 22 June 2014, 223,209 granted on 17 September 2014, 368 (notional dividend) granted on 17 September 2014 and 196,099 granted on 10 December 2014

5. Granted on 10 March 2014 and relates to notional dividend applied to unvested portion of awards

Reconciliation of option movements for the year to 31 December 2013

	2011 Plan ¹						Weighted average exercise price (£)	Sharesave	Weighted average exercise price (£)	
	Performance shares	Deferred/ Restricted shares	PSP ¹	RSS ¹	SRSS ¹	DBP ^{1,2}	ESOS			
Outstanding at 1 January	9,075,667	10,598,950	2,221,257	16,685,298	2,870,847	70,255	351,044	7.46	14,076,948	11.59
Granted	4,556,119 ³	8,310,176 ⁴	—	258,870 ⁵	—	—	—	—	3,614,013	11.78
Lapsed	(316,190)	(546,529)	(179,594)	(952,300)	(280,160)	—	(36,316)	6.60	(1,824,566)	12.07
Exercised	—	(2,869,213)	(1,506,034)	(8,900,128)	(1,610,335)	(70,255)	(291,119)	7.54	(1,270,057)	11.18
Outstanding at 31 December	13,315,596	15,493,384	535,629	7,091,740	980,352	—	23,609	7.89	14,596,338	11.62
Exercisable at 31 December	—	580,225	535,629	3,056,007	895,073	—	23,609	7.89	1,688,962	13.90
Range of exercise prices (£)	—	—	—	—	—	—	7.89	—	9.80 – 14.63	—
Intrinsic value of vested but not exercised options (\$million)	—	1	1	6	2	—	—	—	1	—
Weighted average contractual remaining life (years)	8.3	5.7	5.0	3.7	3.1	—	0.2	—	2.2	—
Weighted average share price for options exercised during the period (£)	—	16.91	16.52	17.17	16.99	16.12	16.59	—	16.18	—

1. Employees do not contribute towards the cost of these awards

2. The closing balance in the 2012 accounts was understated by 14,460 shares and the opening balance for 2013 has therefore been restated

3. 4,506,380 granted on 11 March 2013, 21,698 granted on 19 June 2013, 9,636 granted on 18 September 2013 and 18,405 granted on 17 December 2013

4. 7,478,046 granted on 11 March 2013, 301,575 (notional dividend) granted on 13 March 2013, 159,388 granted on 19 June 2013, 4,310 (notional dividend) granted on 20 June 2013, 68 (notional dividend) granted on 22 June 2013, 174,823 granted on 18 September 2013, 476 (notional dividend) granted on 20 September 2013 and 191,490 granted on 17 December 2013

5. Granted on 10 March 2013 and relates to notional dividend applied to unvested portion of awards

37. Cash flow statement

Adjustment for non-cash items and other adjustments included within income statement

	Group		Company	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million
Amortisation of discounts and premiums of investment securities	(207)	(206)	—	—
Interest expense on subordinated liabilities	738	655	394	298
Interest expense on senior debt securities in issue	498	492	337	346
Other non-cash items (including own credit adjustment)	(22)	173	16	(36)
Pension costs for defined benefit schemes	105	119	—	—
Share-based payment costs	234	264	—	—
UK bank levy	55	55	—	—
Impairment losses on loans and advances and other credit risk provisions	2,141	1,617	—	—
Dividend income from subsidiaries	—	—	(1,494)	(2,096)
Other impairment	1,161	1,129	—	—
Loss on business classified as held for sale	15	49	—	—
Profit from associates and joint ventures	(248)	(226)	—	—
Total	4,470	4,121	(747)	(1,488)

Change in operating assets

	Group		Company	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million
(Increase)/decrease in derivative financial instruments	(4,631)	(13,065)	187	(50)
(Increase)/decrease in debt securities, treasury bills and equity shares held at fair value through profit or loss	(1,965)	5,220	—	—
Net increase in loans and advances to customers and banks	(271)	(29,918)	—	—
Net increase in prepayments and accrued income	(187)	(8)	—	—
Net increase in other assets	(6,603)	(6,367)	(98)	—
Total	(13,657)	(44,138)	89	(50)

Change in operating liabilities

	Group		Company	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million
Increase in derivative financial instruments	2,650	14,804	131	346
Increase/decrease in deposits from banks, customer accounts, debt securities in issue, Hong Kong notes in circulation and short positions	51,273	28,996	(392)	1,330
Increase/(decrease) in accruals and deferred income	1,417	(39)	(9)	112
Increase/decrease in other liabilities	3,981	1,491	535	(515)
Total	59,321	45,252	265	1,273

38. Cash and cash equivalents

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	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million
Cash and balances at central banks	97,282	54,534	—	—
Less restricted balances	(10,073)	(9,946)	—	—
Treasury bills and other eligible bills	7,495	6,561	—	—
Loans and advances to banks	31,204	29,509	—	—
Trading securities	3,962	3,498	—	—
Amounts owed by and due to subsidiary undertakings	—	—	17,583	18,558
Total	129,870	84,156	17,583	18,558

Restricted balances comprise minimum balances required to be held at central banks.

Notes to the financial statements

39. Capital commitments

Capital expenditure approved by the directors, but not provided for in these accounts, amounted to:

	2014 \$million	2013 \$million
Contracted	6	11

40. Operating lease commitments

	2014		2013	
	Premises \$million	Equipment \$million	Premises \$million	Equipment \$million
Commitments under non-cancellable operating leases expiring:				
Within one year	317	3	327	3
Later than one year and less than five years	735	4	769	3
After five years	578	–	731	–
	1,630	7	1,827	6

During the year, \$406 million (2013: \$377 million) was recognised as an expense in the income statement in respect of operating leases. The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2014 is \$144 million (2013: \$163 million).

41. Restatement of prior year

Segmental information

In January 2014, the Group announced a change to its organisation structure effective 1 April 2014. In accordance with International Financial Reporting Standards 8 *Segmental reporting*, the presentation of the Group accounts has been updated to reflect the Group's new client segments – Corporate & Institutional Clients, Commercial Clients, Private Banking Clients and Retail Clients.

On 29 May 2014, the Group announced the restated segmental information for Half Year and Full Year 2013 under the new client segments and global product groups and the new geographic regions. The table below shows the changes in these accounts to the Full Year 2013 restatements announced for the new client segments to enhance the comparability of information presented.

While these restatements affect the reported results of the divisions that comprise the Group's business, it has no impact on the Group's overall income statement, balance sheet or reported metrics.

	2013				
	Corporate & Institutional \$million	Commercial \$million	Private Banking \$million	Retail \$million	Total \$million
Loans to customers – as announced	159,894	19,025	17,208	99,888	296,015
Loans to customers – as restated	160,906	17,802	17,159	100,148	296,015
Restatement	1,012	(1,223)	(49)	260	–

42. Contingent liabilities and commitments

The table below shows the contract or underlying principal amounts and risk-weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

	2014 \$million	2013 \$million
Contingent liabilities		
Guarantees and irrevocable letters of credit	33,318	36,936
Other contingent liabilities	9,214	10,002
	42,532	46,938
Commitments		
Documentary credits and short-term trade-related transactions	7,911	7,409
Forward asset purchases and forward deposits placed	78	459
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	44,629	43,294
Less than one year	20,451	22,019
Unconditionally cancellable	105,325	119,445
	178,394	192,626

The Group's share of contingent liabilities and commitments relating to joint venture is \$336 million (2013: \$388 million).

Contingent liabilities

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

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.

43. Legal and regulatory matters

The Group seeks to comply with all applicable laws and regulations, but may be subject to regulatory actions and investigations across our markets, the outcome of which are generally difficult to predict and can be material to the Group.

Further details on regulatory compliance, reviews, request for information, investigation and risk of fraud and other criminal acts are set out in pages 103 and 104 of the Risk and Capital review.

In addition to these matters, the Group receives legal claims against it in a number of jurisdictions arising in the normal course of business. The Group considers none of these claims as material. 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.

44. Post balance sheet events

Tax

On 3 December 2014, the UK government announced proposed legislation for banks, effective from 1 April 2015, to restrict the proportion of profits that can be offset by carried forward tax losses. The Group has a deferred tax asset of \$72 million which could be affected by the legislation.

At 31 December 2014, this change had not been substantively enacted and accordingly has not been reflected in this Annual Report and Accounts. If the law had been enacted at the balance sheet date, management estimates that the profits available to utilise this asset would be restricted by 80 to 90 per cent.

Business closure and disposal

On 8 January 2015, the Group announced the closure of its institutional cash equities, equity research and equity capital markets, as the Group continues to exit or reconfigure non-core and underperforming businesses.

On 19 January 2015, the Group completed the disposal of Standard Chartered Savings Bank Korea Company Limited (disclosed as held for sale in note 22) to J. Trust Co. Limited after obtaining regulatory approval from the Financial Services Commission and other relevant authorities in South Korea.

45. Related party transactions

Directors and officers

Details of directors' remuneration and interests in shares are disclosed in the Directors' remuneration report.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises non-executive directors, executive directors of Standard Chartered PLC and the Court Directors of Standard Chartered Bank.

	2014 \$million	2013 \$million
Salaries, allowances and benefits in kind	28	25
Pension contributions	9	5
Bonuses paid or receivable	1	7
Share-based payments	37	28
	75	65

Transactions with directors and others

At 31 December 2014, 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:

	2014		2013	
	Number	\$million	Number	\$million
Directors	3	6	5	6

As at 31 December 2014, Standard Chartered Bank had created a charge over \$68 million (2013: \$60 million) of cash assets in favour of the independent trustee of its employer financed retirement benefit scheme.

Other than as disclosed in the Annual Report and Accounts, there were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the HK Listing Rules.

Associates

The Group has loans and advances to China Bohai Bank of \$89 million at 31 December 2014 (2013: \$20 million) and deposit takings of \$nil (2013: \$20 million) from China Bohai Bank. The Group has loans and advances to Clifford Capital Pte Limited totalling \$30 million at 31 December 2014 with loan commitments and other guarantees of \$50 million while Clifford Capital Pte Limited has deposits of \$4 million with the Group.

Except as disclosed, the Group did not have any other amounts due to or from associate investments.

Joint ventures

The Group has loans and advances to PT Bank Permata Tbk totalling \$118 million at 31 December 2014 (2013: \$31 million), and deposits of \$40 million (2013: \$31 million) while PT Bank Permata Tbk has deposits of \$18 million (2013: \$nil) with the Group.

The Group has an investment in subordinated debt issued by PT Bank Permata Tbk of \$120 million (2013: \$114 million).

Company

The Company has received \$633 million (2013: \$663 million) of interest income from Standard Chartered Bank. The Company issues debt externally and lends proceeds to Group companies. At 31 December 2014, it had loans to and debt instruments issued by Standard Chartered Bank of \$13,308 million (2013: \$14,253 million), derivative financial assets of \$865 million (2013: \$1,053 million) and \$477 million derivative financial liabilities (2013: \$ 346 million) with Standard Chartered Bank, loans of \$130 million (2013: \$1,699 million) to Standard Chartered Holdings Limited. At 31 December 2014, it had loans to Standard Chartered International Holdings of \$1,925 million (2013: \$619 million).

In 2006, the Company licensed intellectual property rights related to the Company's main brands to an indirect wholly owned subsidiary, Standard Chartered Strategic Brand Management Limited, the income from which is held on the Company's balance sheet and released over the term of licence, which expires in 2015. At 31 December 2014, \$18 million (2013: \$36 million) has been included as deferred income in the Company balance sheet in relation to this licence.

The Company has an agreement with Standard Chartered Bank that in the event of Standard Chartered Bank defaulting on its debt coupon interest payments, where the terms of such debt requires it, the Company shall issue shares as settlement for non-payment of the coupon interest.

46. Standard Chartered PLC (Company)

Classification and measurement of financial instruments

	2014			2013		
	Derivatives held for hedging \$million	Amortised cost \$million	Total \$million	Derivatives held for hedging \$million	Amortised cost \$million	Total \$million
Financial assets						
Derivatives	865	—	865	1,053	—	1,053
Debt securities	—	12,309	12,309	—	10,411	10,411
Amounts owed by subsidiary undertakings	—	17,583	17,583	—	18,558	18,558
Total	865	29,892	30,757	1,053	28,969	30,022

Derivatives held for hedging are held at fair value, are classified as Level 2 and the counterparty is Standard Chartered Bank.

Debt securities comprise corporate securities issued by Standard Chartered Bank with a fair value of \$12,309 million (2013: \$10,411 million).

In 2013 and 2014, amounts owed by subsidiary undertakings have a fair value equal to carrying value.

	2014			2013		
	Derivatives held for hedging \$million	Amortised cost \$million	Total \$million	Derivatives held for hedging \$million	Amortised cost \$million	Total \$million
Financial liabilities						
Derivatives	477	—	477	346	—	346
Debt securities in issue	—	18,638	18,638	—	18,650	18,650
Subordinated liabilities and other borrowed funds	—	14,177	14,177	—	8,955	8,955
Total	477	32,815	33,292	346	27,605	27,951

Derivatives held for hedging are held at fair value, classified as Level 2 and the counterparty is Standard Chartered Bank.

The fair value of debt securities in issue is \$18,638 million (2013: \$16,478 million).

The fair value of subordinated liabilities and other borrowed funds is \$13,774 million (2013: \$9,172 million).

Derivative financial instruments

	2014			2013		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
Total derivatives						
Foreign exchange derivative contracts:						
Currency swaps	13,084	338	464	12,590	880	46
Interest rate derivative contracts:						
Swaps	12,750	527	13	10,250	173	300
Total	25,834	865	477	22,840	1,053	346

Credit risk

Maximum exposure to credit risk

	2014 \$million	2013 \$million
Derivative financial instruments	865	1,053
Debt securities	12,309	10,411
Amounts owed by subsidiary undertakings	17,583	18,558
Total	30,757	30,022

In 2013 and 2014, amounts owed by subsidiary undertakings were neither past due nor impaired; the Company had no individually impaired loans.

In 2013 and 2014, 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+/A1/AA-.

Notes to the financial statements

46. Standard Chartered PLC (Company) continued

Liquidity risk

The following table analyses the residual contractual maturity of the assets and liabilities of the Company on a discounted basis:

	2014								
	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	–	–	24	–	5	39	65	732	865
Investment securities	–	–	–	–	–	–	1,250	11,059	12,309
Of which classified as									
Amount owed by subsidiary undertakings	78	21	1,500	–	2,692	3,783	7,306	2,203	17,583
Investments in subsidiary undertakings	–	–	–	–	–	–	–	24,881	24,881
Total assets	78	21	1,524	–	2,697	3,822	8,621	38,875	55,638
Liabilities									
Derivative financial instruments	–	–	–	–	161	83	233	–	477
Senior debt	–	–	2,015	–	2,572	3,491	8,007	2,553	18,638
Other liabilities	208	43	89	–	48	–	87	–	475
Subordinated liabilities and other borrowed funds	–	–	–	–	–	–	1,242	12,935	14,177
Total liabilities	208	43	2,104	–	2,781	3,574	9,569	15,488	33,767
Net liquidity gap	(130)	(22)	(580)	–	(84)	248	(948)	23,387	21,871
	2013								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Assets									
Derivative financial instruments	–	–	203	–	34	312	230	274	1,053
Investment securities	–	–	–	–	–	–	1,250	9,161	10,411
Amount owed by subsidiary undertakings	59	29	500	–	–	4,068	6,969	6,933	18,558
Investments in subsidiary undertakings	–	–	–	–	–	–	–	20,122	20,122
Total assets	59	29	703	–	34	4,380	7,199	37,740	50,144
Liabilities									
Derivative financial instruments	–	–	–	–	–	–	180	166	346
Senior debt	–	–	2,565	–	1,528	4,885	7,140	2,532	18,650
Other liabilities	–	–	9	–	9	18	–	483	519
Subordinated liabilities and other borrowed funds	–	–	–	–	–	–	–	8,955	8,955
Total liabilities	–	–	2,574	–	1,537	4,903	7,320	12,136	28,470
Net liquidity gap	59	28	(1,871)	–	(1,503)	(523)	(121)	25,604	21,674

46. Standard Chartered PLC (Company) continued

Financial liabilities excluding derivative financial instruments on an undiscounted basis

	2014								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Debt securities in issue	75	23	2,107	48	2,803	3,832	8,640	3,664	21,192
Subordinated liabilities and other borrowed funds	150	69	72	207	91	590	2,916	18,790	22,885
Other liabilities	208	43	80	–	39	–	89	–	459
Total liabilities	433	135	2,259	255	2,933	4,422	11,645	22,454	44,536

	2013								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Debt securities in issue	–	114	2,726	161	161	6,686	7,962	3,742	21,552
Subordinated liabilities and other borrowed funds	–	202	51	51	51	355	355	12,120	13,185
Total liabilities	–	316	2,777	212	212	7,041	8,317	15,862	34,737

Derivative financial instruments on an undiscounted basis

Derivative financial instruments include those net settled derivative contracts in a net liability position, together with the pay leg of gross settled contracts regardless of whether the overall contract is in an asset or liability position. The receiving leg is not shown in this table and as a result the derivative amounts in this table are inflated by their exclusion.

	2014								
	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	60	31	92	96	104	468	1,498	2,422	4,771

	2013								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Derivative financial instruments	73	15	119	85	88	358	1,064	2,803	4,605

Standard Chartered established its first Malaysian branch in Penang in 1875 to meet the financial needs of the merchants and traders that called the area home



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Supplementary financial information

Average balance sheets and yield

The following tables set out the average balances and yields for the Group's assets and liabilities for the years ended 31 December 2014 and 31 December 2013. For the purpose of the following tables, average balances have generally been determined on the basis of daily

balances, except for certain categories, for which balances have been determined less frequently. The Group does not believe that the information presented in these tables would be significantly different had such balances been determined on a daily basis.

	2014			
	Average non-interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield %
Assets				
Cash and balances at central banks	13,085	58,999	246	0.4
Gross loans and advances to banks	4,235	86,388	1,206	1.4
Gross loans and advances to customers	318	303,132	12,267	4.0
Impairment provisions against loans and advances to customers and banks	–	(2,899)	–	–
Investment securities	7,683	122,611	3,265	2.7
Property, plant and equipment and intangible assets	9,228	–	–	–
Prepayments, accrued income and other assets	108,520	–	–	–
Total average assets	143,069	568,231	16,984	3.0
2013				
	Average non-interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield %
Assets				
Cash and balances at central banks	23,607	35,293	153	0.4
Gross loans and advances to banks	2,353	71,884	1,082	1.5
Gross loans and advances to customers	336	303,107	13,202	4.4
Impairment provisions against loans and advances to customers and banks	–	(2,730)	–	–
Investment securities	6,799	113,733	3,156	2.8
Property, plant and equipment and intangible assets	8,635	–	–	–
Prepayments, accrued income and other assets	97,861	–	–	–
Total average assets	139,591	521,287	17,593	3.4

Average balance sheets and yield continued

	2014			
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid %
Liabilities				
Deposits by banks	8,191	51,758	408	0.8
Customer accounts:				
Current and savings deposits	34,619	170,022	1,009	0.6
Time and other deposits	2,679	201,809	2,960	1.5
Debt securities in issue	3,082	75,517	866	1.1
Accruals, deferred income and other liabilities	95,638	75	–	–
Subordinated liabilities and other borrowed funds	33	23,817	738	3.1
Non-controlling interests	111	–	–	–
Shareholders' equity	46,339	–	–	–
Total average liabilities and shareholders' equity	190,692	522,998	5,981	1.1
Net yield				1.8
Net interest margin				1.9
	2013			
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid %
Liabilities				
Deposits by banks	3,881	44,744	388	0.9
Customer accounts:				
Current accounts and savings deposits	32,323	160,160	1,014	0.6
Time and other deposits	3,484	197,864	3,370	1.7
Debt securities in issue	2,823	66,214	1,010	1.5
Accruals, deferred income and other liabilities	86,825	377	–	–
Subordinated liabilities and other borrowed funds	66	19,234	655	3.4
Non-controlling interests	432	–	–	–
Shareholders' equity	45,804	–	–	–
Total average liabilities and shareholders' equity	175,638	488,593	6,437	1.3
Net yield				2.1
Net interest margin				2.1

Volume and price variances

The following tables analyse the estimated change in the Group's net interest income attributable to change in the average volume of interest-earning assets and interest-bearing liabilities, and changes in their respective interest rates for the periods presented. Volume and rate variances have been determined based on movements in average

balances and average exchange rates over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Variances caused by changes in both volume and rate have been allocated to changes in volume.

	2014 versus 2013		
	Increase/(decrease) in interest due to:		Net increase/(decrease) in interest \$million
	Volume \$million	Rate \$million	
Interest-earning assets			
Cash and unrestricted balances at central banks	99	(6)	93
Loans and advances to banks	202	(78)	124
Loans and advances to customers	1	(936)	(935)
Investment securities	236	(127)	109
Total interest-earning assets	538	(1,147)	(609)
Interest-bearing liabilities			
Subordinated liabilities and other borrowed funds	142	(59)	83
Deposits by banks	55	(35)	20
Customer accounts:			
Current and savings deposits	57	(62)	(5)
Time and other deposits	58	(468)	(410)
Debt securities in issue	107	(251)	(144)
Total interest-bearing liabilities	419	(875)	(456)

	2013 versus 2012		
	Increase/(decrease) in interest due to:		Net increase/(decrease) in interest \$million
	Volume \$million	Rate \$million	
Interest-earning assets			
Cash and unrestricted balances at central banks	16	(22)	(6)
Loans and advances to banks	99	(219)	(120)
Loans and advances to customers	891	(948)	(57)
Investment securities	195	(246)	(51)
Total interest-earning assets	1,201	(1,435)	(234)
Interest-bearing liabilities			
Subordinated liabilities and other borrowed funds	63	23	86
Deposits by banks	(93)	(51)	(144)
Customer accounts:			
Current and savings deposits	133	(396)	(263)
Time and other deposits	300	(459)	(159)
Debt securities in issue	51	(180)	(129)
Total interest-bearing liabilities	454	(1,063)	(609)

Five-year summary

	2014 \$million	2013 \$million	2012 \$million	2011 \$million	2010 \$million
Operating profit before impairment losses and taxation	7,289	8,584	8,061	7,720	7,039
Impairment losses on loans and advances and other credit risk provisions	(2,141)	(1,617)	(1,196)	(908)	(883)
Other impairment	(1,161)	(1,129)	(196)	(111)	(76)
Profit before taxation	4,235	6,064	6,851	6,775	6,122
Profit attributable to shareholders	2,613	4,090	4,887	4,849	4,332
Loans and advances to banks ¹	83,890	83,702	67,797	65,981	52,058
Loans and advances to customers ¹	284,695	290,708	279,638	266,790	240,358
Total assets	725,914	674,380	631,208	592,686	516,560
Deposits by banks ¹	54,391	43,517	36,427	35,296	28,551
Customer accounts ¹	405,353	381,066	372,874	345,726	306,992
Shareholders' equity	46,432	46,246	45,362	40,714	38,212
Total capital resources ²	69,685	67,238	64,643	58,092	54,804
Information per ordinary share					
Basic earnings per share	102.2c	164.4c	199.7c	200.8c	196.3c
Normalised earnings per share ³	145.9c	204.0c	225.2c	198.0c	197.0c
Dividends per share	86.00c	86.00c	84.00c	76.00c	69.15c
Net asset value per share	1,833.6c	1,872.8c	1,852.3c	1,653.2c	1,573.2c
Net tangible asset value per share	1,610.9c	1,597.6c	1,526.5c	1,355.6c	1,273.4c
Return on assets ⁴ (%)	0.4%	0.6%	0.8%	0.8%	0.9%
Ratios					
Normalised return on ordinary shareholders' equity ³	7.8%	11.2%	12.8%	12.2%	14.1%
Basic cost-income ratio	60.2%	54.3%	57.1%	56.2%	56.2%
Cost-income ratio – normalised basis ³	58.9%	54.4%	53.7%	56.5%	55.9%
Capital ratios:					
CET1/Tier 1 capital ⁵	10.5%	10.9%	13.4%	13.7%	14.0%
Total capital ⁵	16.7%	17.0%	17.4%	17.6%	18.4%

1. Excludes amounts held at fair value through profit or loss

2. Shareholders' equity, non-controlling interests and subordinated loan capital

3. Results on a normalised basis reflect the Group's results, excluding amortisation and impairment of intangible assets, gains and losses of a capital nature, and gains and losses on repurchase of subordinated liabilities

4. Represents profit attributable to shareholders divided by the total assets of the Group

5. Unaudited

Supplementary financial information

A. Convenience translation of selected financial statements into Indian rupees (INR)

In compliance with clause 37(3) of the Indian Depository Receipts Listing agreement, the consolidated financial statements on pages 225 to 229 are presented in INR using a US dollar/Indian rupee

exchange rate of 63.3315 as at 31 December 2014 as published by Reserve Bank of India. Amounts have been translated using the said exchange rate, including totals and sub-totals, and any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Consolidated income statement (translated to INR)

For the year ended 31 December 2014

	2014 ₹million	2013 ₹million
Interest income	1,075,622	1,114,191
Interest expense	(378,786)	(407,665)
Net interest income	696,836	706,526
Fees and commission income	294,555	290,122
Fees and commission expense	(29,892)	(30,399)
Net trading income	120,077	159,215
Other operating income	79,544	63,711
Non-interest income	464,283	482,649
Operating income	1,161,120	1,189,176
Staff costs	(429,894)	(416,088)
Premises costs	(57,632)	(55,542)
General administrative expenses	(171,502)	(128,690)
Depreciation and amortisation	(40,469)	(45,219)
Operating expenses	(699,496)	(645,538)
Operating profit before impairment losses and taxation	461,623	543,638
Impairment losses on loans and advances and other credit risk provisions	(135,593)	(102,407)
Other impairment		
Goodwill	(48,005)	(63,332)
Other	(25,523)	(8,170)
Profit from associates and joint ventures	15,706	14,313
Profit before taxation	268,209	384,042
Taxation	(96,897)	(118,050)
Profit for the year	171,312	265,992
Profit attributable to:		
Non-controlling interests	5,826	6,966
Parent company shareholders	165,485	259,026
Profit for the year	171,312	265,992

	Rupees	Rupees
Earnings per share:		
Basic earnings per ordinary share	64.7	104.1
Diluted earnings per ordinary share	64.3	103.2
Dividends per ordinary share:		
Final dividend recommended/paid	36.23	36.23
Interim dividend	18.24	18.24
Total dividend for the year	54.47	54.47

	₹million	₹million
Total dividend:		
Final dividend recommended/paid	89,551	87,714
Interim dividend	44,965	44,079
Total dividend for the year	134,516	131,793

Consolidated statement of comprehensive income (translated to INR)

For the year ended 31 December 2014

	2014 ₹million	2013 ₹million
Profit for the year	171,312	265,992
Other comprehensive income:		
Items that will not be reclassified to income statement:		
Actuarial (losses)/gains on retirement benefit obligations	(3,863)	5,003
Items that may be reclassified subsequently to income statement:		
Exchange differences on translation of foreign operations:		
Net losses taken to equity	(69,031)	(76,378)
Net gains/(losses) on net investment hedges	1,267	(2,217)
Share of other comprehensive income from associates and joint ventures	1,077	(950)
Available-for-sale investments:		
Net valuation gains taken to equity	30,336	10,830
Reclassified to income statement	(26,789)	(15,706)
Cash flow hedges:		
Net losses taken to equity	(7,346)	(5,257)
Reclassified to income statement	823	380
Taxation relating to components of other comprehensive income	(1,393)	2,153
Other comprehensive income for the year, net of taxation	(74,921)	(82,141)
Total comprehensive income for the year	96,391	183,851
Total comprehensive income attributable to:		
Non-controlling interests	3,990	5,003
Parent company shareholders	92,401	178,848
	96,391	183,851

Supplementary financial information

Consolidated balance sheet (translated to INR)

As at 31 December 2014

	2014 ₹million	2013 ₹million
Assets		
Cash and balances at central banks	6,161,015	3,453,720
Financial assets held at fair value through profit or loss	2,066,064	1,857,830
Derivative financial instruments	4,169,366	3,914,013
Loans and advances to banks	5,312,880	5,300,973
Loans and advances to customers	18,030,161	18,410,974
Investment securities	6,601,549	6,505,158
Other assets	2,450,232	2,126,038
Current tax assets	22,926	14,820
Prepayments and accrued income	167,638	158,962
Interests in associates and joint ventures	124,256	111,907
Goodwill and intangible assets	328,690	384,422
Property, plant and equipment	505,639	437,177
Deferred tax assets	32,806	33,502
Total assets	45,973,222	42,709,497
Liabilities		
Deposits by banks	3,444,664	2,755,997
Customer accounts	25,671,614	24,133,481
Financial liabilities held at fair value through profit or loss	1,417,992	1,458,524
Derivative financial instruments	4,009,707	3,878,168
Debt securities in issue	4,556,765	4,090,518
Other liabilities	1,980,629	1,731,357
Current tax liabilities	56,428	66,498
Accruals and deferred income	374,606	295,631
Subordinated liabilities and other borrowed funds	1,453,268	1,291,773
Deferred tax liabilities	15,580	11,146
Provisions for liabilities and charges	5,826	6,776
Retirement benefit obligations	26,156	23,116
Total liabilities	43,013,235	39,742,986
Equity		
Share capital	78,278	76,884
Reserves	2,862,330	2,851,944
Total parent company shareholders' equity	2,940,608	2,928,829
Non-controlling interests	19,379	37,682
Total equity	2,959,988	2,966,511
Total equity and liabilities	45,973,222	42,709,497

Consolidated statement of changes in equity (translated to INR)

For the year ended 31 December 2014

	Share capital ₹million	Share premium account ₹million	Capital and capital redemption reserve ¹ ₹million	Merger reserve ₹million	Available-for-sale reserve ₹million	Cash flow hedge reserve ₹million	Translation reserve ₹million	Retained earnings ₹million	Parent company shareholders' equity ₹million	Non-controlling interests ₹million	Total ₹million
As at 1 January 2013	76,441	346,803	1,140	786,641	30,272	5,130	(56,048)	1,682,465	2,872,844	43,889	2,916,732
Profit for the year	–	–	–	–	–	–	–	259,026	259,026	6,966	265,992
Other comprehensive income	–	–	–	–	(2,027)	(4,180)	(77,328)	3,357 ²	(80,178)	(1,963)	(82,141)
Distributions	–	–	–	–	–	–	–	–	–	(4,877)	(4,877)
Shares issued, net of expenses	317	1,203	–	–	–	–	–	–	1,520	–	1,520
Net own shares adjustment	–	–	–	–	–	–	–	(7,853)	(7,853)	–	(7,853)
Share option expense, net of taxation	–	–	–	–	–	–	–	15,200	15,200	–	15,200
Capitalised on scrip dividend	127	(127)	–	–	–	–	–	–	–	–	–
Dividends, net of scrip	–	–	–	–	–	–	–	(130,970)	(130,970)	–	(130,970)
Other decreases ³	–	–	–	–	–	–	–	(760)	(760)	(6,333)	(7,093)
As at 31 December 2013	76,884	347,880	1,140	786,641	28,246	950	(133,376)	1,820,464	2,928,829	37,682	2,966,511
Profit for the year	–	–	–	–	–	–	–	165,485	165,485	5,826	171,312
Other comprehensive income	–	–	–	–	633	(4,560)	(65,991)	(3,167) ²	(73,085)	(1,837)	(74,921)
Distributions	–	–	–	–	–	–	–	–	–	(3,800)	(3,800)
Shares issued, net of expenses	190	507	–	–	–	–	–	–	697	–	697
Net own shares adjustment	–	–	–	–	–	–	–	(5,890)	(5,890)	–	(5,890)
Share option expense, net of taxation	–	–	–	–	–	–	–	15,643	15,643	–	15,643
Capitalised on scrip dividend	1,203	(1,203)	–	–	–	–	–	–	–	–	–
Dividends, net of scrip	–	–	–	–	–	–	–	(91,894)	(91,894)	–	(91,894)
Other decreases ⁴	–	–	–	–	–	–	–	823	823	(18,493)	(17,669)
As at 31 December 2014	78,278	347,183	1,140	786,641	28,879	(3,610)	(199,368)	1,901,465	2,940,608	19,379	2,959,988

1. Includes capital reserve of ₹317 million and capital redemption reserve of ₹823 million

2. For the year ended 31 December 2014, comprises actuarial loss, net of taxation and non-controlling interests of ₹2,977 million (31 December 2013: gain of ₹3,673 million)

3. Relate to the impact of losing control in a subsidiary after divesting from the Company

4. Relate to redemption of \$300 million 7.267 per cent Hybrid Tier 1 securities issued by Standard Chartered Bank Korea Limited

Supplementary financial information

Cash flow statement (translated to INR)

For the year ended 31 December 2014

	Group		Company	
	2014 ₹million	2013 ₹million	2014 ₹million	2013 ₹million
Cash flows from operating activities				
Profit before taxation	268,209	384,042	93,921	136,163
Adjustments for non-cash items included within income statement	283,092	260,989	(47,309)	(94,237)
Change in operating assets	(864,918)	(2,795,326)	5,637	(3,167)
Change in operating liabilities	3,756,888	2,865,877	16,783	80,621
Contributions to defined benefit schemes	(6,206)	(10,640)	—	—
UK and overseas taxes paid	(108,170)	(108,677)	—	9,500
Net cash from operating activities	3,328,894	596,266	69,031	128,880
Cash flows from investing activities				
Purchase of property, plant and equipment	(11,970)	(12,983)	—	—
Disposal of property, plant and equipment	4,243	9,880	—	—
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired	(4,053)	(2,913)	(301,395)	(364,346)
Purchase of investment securities	(12,416,394)	(9,049,565)	(234,200)	(158,392)
Disposal and maturity of investment securities	12,163,131	8,686,612	114,060	58,582
Dividends received from investment in subsidiaries, associates and joint ventures	823	317	94,617	132,743
Net cash used in investing activities	(264,219)	(368,653)	(326,917)	(331,414)
Cash flows from financing activities				
Issue of ordinary and preference share capital, net of expenses	697	1,520	697	1,520
Purchase of own shares	(6,966)	(9,753)	(6,966)	(9,753)
Exercise of share options through ESOP	1,077	1,900	1,077	1,900
Interest paid on subordinated liabilities	(69,031)	(51,489)	(27,486)	(5,890)
Gross proceeds from issue of subordinated liabilities	296,645	345,030	296,645	345,030
Repayment of subordinated liabilities	(133,883)	(165,675)	—	(58,582)
Repayment to non-controlling interests	(18,873)	(6,586)	—	—
Interest paid on senior debts	(46,865)	(35,656)	(38,316)	(27,803)
Gross proceeds from issue of senior debts	416,658	431,668	319,697	193,414
Repayment of senior debts	(405,828)	(236,226)	(257,316)	—
Dividends paid to non-controlling interests and preference shareholders, net of scrip	(10,196)	(11,273)	(6,396)	(6,396)
Dividends paid to ordinary shareholders, net of scrip	(85,498)	(124,573)	(85,498)	(124,573)
Net cash from financing activities	(62,065)	138,886	196,138	308,868
Net increase/(decrease) in cash and cash equivalents	3,002,610	366,499	(61,748)	106,334
Cash and cash equivalents at beginning of year	5,329,726	5,035,994	1,175,306	1,068,972
Effect of exchange rate movements on cash and cash equivalents	(107,474)	(72,768)	—	—
Cash and cash equivalents at end of year	8,224,862	5,329,726	1,113,558	1,175,306

Company balance sheet (translated to INR)

As at 31 December 2014

	2014 ₹million	2013 ₹million
Non-current assets		
Investments in subsidiary undertakings	1,575,751	1,274,356
Current assets		
Derivative financial instruments	54,782	66,688
Investment securities	779,547	659,344
Amounts owed by subsidiary undertakings	1,113,558	1,175,306
	1,947,887	1,901,338
Current liabilities		
Derivative financial instruments	30,209	21,913
Other creditors	25,776	27,486
Taxation	3,167	3,103
Deferred income	1,140	1,140
	60,292	53,642
Net current assets	1,887,595	1,847,697
Total assets less current liabilities	3,463,346	3,122,053
Non-current liabilities		
Debt securities in issue	1,180,372	1,181,132
Deferred income	-	1,140
Subordinated liabilities and other borrowed funds	897,851	567,134
	2,078,223	1,749,406
Total assets less liabilities	1,385,123	1,372,647
Equity		
Share capital	78,278	76,884
Reserves	1,306,846	1,295,762
Total equity	1,385,123	1,372,647

Supplementary financial information

Company statement of changes in equity (translated to INR)

For the year ended 31 December 2014

	Share capital ₹million	Share premium account ₹million	Capital and capital redemption reserve ¹ ₹million	Merger reserve ₹million	Retained earnings ₹million	Total ₹million
As at 1 January 2013	76,441	346,803	1,140	786,641	148,576	1,359,601
Profit for the year	–	–	–	–	135,276	135,276
Shares issued, net of expenses	317	1,203	–	–	–	1,520
Net own shares adjustment	–	–	–	–	(7,853)	(7,853)
Share option expense	–	–	–	–	15,073	15,073
Capitalised on scrip dividend	127	(127)	–	–	–	–
Dividends, net of scrip	–	–	–	–	(130,970)	(130,970)
As at 31 December 2013	76,884	347,880	1,140	786,641	160,102	1,372,647
Profit for the year	–	–	–	–	93,857	93,857
Shares issued, net of expenses	190	507	–	–	–	697
Net own shares adjustment	–	–	–	–	(5,890)	(5,890)
Share option expense	–	–	–	–	15,706	15,706
Capitalised on scrip dividend	1,203	(1,203)	–	–	–	–
Dividends, net of scrip	–	–	–	–	(91,894)	(91,894)
As at 31 December 2014	78,278	347,183	1,140	786,641	171,882	1,385,123

1. Includes capital reserve of ₹317 million and capital redemption reserve of ₹823 million

B. Summary of significant differences between Indian GAAP and IFRS

The consolidated financial statements of the Group for the year ended 31 December 2014 with comparatives as at 31 December 2013 are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union.

IFRS differs in certain significant respects from Indian Generally Accepted Accounting Principles (GAAP). Such differences involve methods for measuring the amounts shown in the financial statements of the Group, as well as additional disclosures required by Indian GAAP.

Set out below are descriptions of certain accounting differences between IFRS and Indian GAAP that could have a significant effect on profit attributable to parent company shareholders for the year ended 31 December 2014 and 31 December 2013 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 2014. The Group has not quantified the effect of differences between IFRS and Indian GAAP, nor prepared consolidated financial statements under Indian GAAP, nor undertaken a reconciliation of IFRS and Indian GAAP financial statements. Had the Group undertaken any such quantification or preparation or reconciliation, other potentially significant accounting and disclosure differences may have come to its attention which are not identified below. Accordingly, the Group does not provide any assurance that the differences identified below represent all the principal differences between IFRS and Indian GAAP relating to the Group. Furthermore, no attempt has been made to identify future differences between IFRS and Indian GAAP. Finally, no attempt has been made to identify all differences between IFRS and Indian GAAP that may affect the financial statements as a result of transaction or events that may occur in the future.

In making an investment decision, potential investors should consult their own professional advisors for an understanding of the differences between IFRS and Indian GAAP and how those differences may have affected the financial results of the Group. The summary does not purport to be complete and is subject and qualified in its entirety by reference to the pronouncements of the International Accounting Standards Board (IASB), together with the pronouncements of the Indian accounting profession.

Changes in accounting policy

IFRS (International Accounting Standards (IAS) 8 Accounting Policies, Changes in Accounting Estimates and Errors)

Changes in accounting policy are applied retrospectively. Comparatives are restated and the effect of period(s) not presented is adjusted against opening retained earnings of the earliest year presented. Policy changes made on the adoption of a new standard are made in accordance with that standard's transitional provisions.

Indian GAAP (AS 5 Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies)

The cumulative amount of the change is included in the income statement for the period in which the change is made except as specified in certain standards (transitional provision) where the change during the transition period resulting from adoption of the standard has to be adjusted against opening retained earnings and the impact disclosed.

Where a change in accounting policy has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such an amount is not ascertainable this fact should be indicated.

Functional and presentation currency

IFRS (IAS 21 The Effects of Changes in Foreign Exchange Rates)

An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency.

Assets and liabilities are translated at the closing rate at the date of that statement of financial position. Income statement items are translated at the exchange rate at the date of transaction or at average rates. The functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Group is US dollars.

Indian GAAP (AS 11 The Effects of Changes in Foreign Exchange Rates)

There is no concept of functional or presentation currency. Entities in India have to prepare their financial statements in Indian rupees.

A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount, the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

At each balance sheet date:

- Foreign currency monetary items should be reported using the closing rate
- Non-monetary items that 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 that are carried at fair value or other similar valuation denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined

Consolidation

IFRS (IFRS 10 Consolidated Financial Statements)

Entities are consolidated when the Group controls an entity. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. This includes entities where control is not derived through voting rights such as structured entities.

Indian GAAP (AS 21 Consolidated Financial Statements)

Guidance is based on the power through the ability to govern the financial and operating policies of an entity so as to obtain benefits while not taking into consideration potential voting rights.

Indian GAAP (Consolidation of Structured Entities)

No specific guidance.

Business combinations

IFRS (IFRS 3 Business Combinations)

All business combinations are treated as acquisitions. Assets, liabilities and contingent liabilities acquired are measured at their fair values. Pooling of interest method is prohibited.

For acquisitions occurring on or after 1 January 2004, IFRS 3, Business Combinations (IFRS 3) requires that, when assessing the value of the assets of an acquired entity, certain identifiable intangible assets must be recognised and if considered to have a finite life, amortised through the income statement over an appropriate period. As the Group has not applied IFRS 3, or its predecessor IAS 22, to transactions that occurred before 1 January 2004, no intangible assets, other than goodwill, were recognised on acquisitions prior to that date.

Adjustments to provisional fair values are permitted provided those adjustments are made within 12 months from the date of acquisition, with a corresponding adjustment to goodwill. After re-assessment of respective fair values of net assets acquired, any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised immediately in the income statement.

B. Summary of significant differences between Indian GAAP and IFRS continued

Where less than 100 per cent of an entity is acquired, non-controlling interests are stated at their proportion of the fair value of the identifiable net assets and contingent liabilities acquired.

Indian GAAP (AS 14 Accounting for Amalgamations)

Treatment of a business combination depends on whether the acquired entity is held as a subsidiary, whether it is an amalgamation or whether it is an acquisition of a business. For an entity acquired and held as a subsidiary, the business combination is accounted for as an acquisition. The assets and liabilities acquired are incorporated at their existing carrying amounts.

For an amalgamation of an entity, either pooling of interests or acquisition accounting may be used. The assets and liabilities amalgamated are incorporated at their existing carrying amounts or, alternatively, if acquisition accounting is adopted, the consideration can be allocated to individual identifiable assets (which may include intangible assets) and liabilities on the basis of their fair values.

Adjustments to the value of acquired or amalgamated balances are not permitted after initial recognition. Any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised as capital reserve, which is neither amortised nor available for distribution to shareholders. However, in case of an amalgamation accounted under the purchase method, the fair value of intangible assets with no active market is reduced to the extent of capital reserve, if any, arising on the amalgamation. Minority interests arising on the acquisition of a subsidiary are recognised at their share of the historical book value.

Goodwill**IFRS (IFRS 3 Business Combinations and IAS 38 Intangible Assets)**

IFRS 3 requires that goodwill arising on all acquisitions by the Group and associated undertakings is capitalised but not amortised and is subject to an annual review for impairment. Under the transitional provisions of IFRS 1, the Group has not applied IFRS 3, or its predecessor IAS 22, to transactions that occurred before 1 January 2004, the date of transition to IFRS. Accordingly, goodwill previously written off to reserves, as permitted under UK GAAP until the implementation of IFRS 10 'Goodwill and intangible assets' in 1998, has not been reinstated nor will it be written back on disposal. Amortisation of goodwill that has been charged up to 31 December 2003 has not been reversed and the deemed carrying value of the goodwill on transition to IFRS is equal to the net book value as at 31 December 2003. Goodwill is tested annually for impairment. Any impairment losses recognised may not be reversed in subsequent accounting periods.

Indian GAAP (AS 14 Accounting for Amalgamations and AS 26 Intangible Assets)

Goodwill arising for amalgamations is capitalised and amortised over useful life not exceeding five years, unless a longer period can be justified. For goodwill arising on acquisition of a subsidiary or a business, there is no specific guidance. In practice there is either no amortisation or amortisation not exceeding 10 years. Goodwill is reviewed for impairment whenever an indicator of impairment exists. Impairment losses recognised may be reversed under exceptional circumstances only in subsequent accounting periods through the income statement.

Acquired and internally generated intangible assets**IFRS (IAS 38 Intangible Assets)**

Intangible assets are recognised if the specific criteria are met. Assets with a finite useful life are amortised on a systematic basis over their useful life. An asset with an indefinite useful life and which is not yet available for use should be tested for impairment annually.

Indian GAAP (AS 26 Intangible Assets)

Intangible assets are capitalised if specific criteria are met and are

amortised over their useful life, generally not exceeding 10 years. The recoverable amount of an intangible asset that is not available for use or is being amortised over a period exceeding 10 years should be reviewed at least at each financial year-end even if there is no indication that the asset is impaired.

Property, plant and equipment**IFRS (IAS 16 Property, Plant and Equipment, IAS 23 Borrowing)**

Fixed assets are recorded at cost or revalued amounts. Under the transition rules of IFRS 1, the Group elected to freeze the value of all its properties held for its own use at their 1 January 2004 valuations, their deemed cost under IFRS. They will not be revalued in the future.

Foreign exchange gains or losses relating to the procurement of property, plant and equipment, under very restrictive conditions, can be capitalised as part of the asset. Depreciation is recorded over the asset's estimated useful life. The residual value and the useful life of an asset and the depreciation method shall be reviewed at least at each financial year-end. The Group has the option to capitalise borrowing costs incurred during the period that the asset is getting ready for its intended use.

Indian GAAP (AS 10 Fixed Assets, AS 16 Borrowing Cost and AS 6 Depreciation Accounting)

Fixed assets are recorded at historical costs or revalued amounts. Relevant borrowing costs are capitalised if certain criteria in AS 16 are met. Depreciation is recorded over the asset's useful life. Schedule II (Part C) of the Companies Act 2013 and Banking Regulations prescribe minimum rates of depreciation and these are typically used as the basis for determining useful life.

Recognition and measurement of financial instruments**IFRS (IAS 39 Financial Instruments: Recognition and Measurement)**

IAS 39 requires all financial instruments to be initially measured at their fair value, which is usually to be the transaction price. In those cases where the initial fair value is based on a valuation model that uses inputs that are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement but is amortised to the income statement until the inputs become observable, the transaction matures or is terminated.

At the time of initial recognition, IAS 39 requires all financial assets to be classified as either:

- Held at fair value through profit or loss (as a trading instrument or as designated by management), with realised and unrealised gains or losses reflected in profit or loss
- Available-for-sale at fair value, with unrealised gains and losses reflected in shareholders' equity, and recycled to the income statement when the asset is sold or is impaired
- Held-to-maturity at amortised cost, where there is the intent and the ability to hold them to maturity
 - As loans and receivables at amortised cost

At the time of initial recognition, IAS 39 requires all financial liabilities to be classified as either:

- Held at fair value through profit or loss (as a trading instrument or as designated by management), with realised and unrealised gains or losses reflected in profit or loss
- At amortised cost

B. Summary of significant differences between Indian GAAP and IFRS continued

A financial asset or financial liability, other than one held for trading, can be designated as being held at fair value through profit or loss if it meets the criteria set out below:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis
- A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis
- Assets or liabilities include embedded derivatives and such derivatives are not recognised separately

The designation of a financial instrument as held at fair value through profit or loss is irrevocable in respect of the financial instruments to which it relates. Subsequent to initial recognition, instruments cannot be classified into or out of this category.

Changes in the fair value of available-for-sale financial assets resulting from movements in foreign currency exchange rates are included in the income statement as exchange differences. Foreign currency exchange movements for available-for-sale equity securities are recognised in reserves.

Indian GAAP (AS 13 Investments)

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

For investments, Reserve Bank of India (RBI) outlines similar classifications to IFRS, but the classification criteria and measurement requirements differ from those set out in IFRS. Financial liabilities are usually carried at cost. There is no ability to designate instruments at fair value. AS 30 provides guidance on classification criteria and measurement requirements. However, this is not mandatory.

Derivatives

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)

IAS 39 requires that all derivatives be recognised on balance sheet at fair value. Changes in the fair value of derivatives that are not hedges are reported in the income statement. Changes in the fair value of derivatives that are designated as hedges are either offset against the change in fair value of the hedged asset or liability through earnings, or recognised directly in equity until the hedged item is recognised in earnings, depending on the nature of the hedge. The ineffective portion of the hedge's change in fair value is immediately recognised in earnings. A derivative may only be classified as a hedge if an entity meets stringent qualifying criteria in respect of documentation and hedge effectiveness.

IAS 39 requires the separation of derivatives embedded in a financial instrument if it is not deemed to be closely related to the economic characteristics of the underlying host instrument.

Indian GAAP

Foreign exchange contracts held for trading or speculative purposes are carried at fair value, with gains and losses recognised in the income statement. In the absence of specific guidance, equity options are carried at the lower of cost or market value.

There is no specific guidance on hedge accounting since Accounting Standard 30 is not mandatory. However, requirements of AS 30 with respect to hedge accounting are largely similar to that of IAS 39. For banks, there are guidelines prescribed by RBI on measurement and accounting of IRS and FRA entered onto for hedging purposes.

Impairment of financial assets

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)

At each balance sheet date, an assessment is made as to whether there is any objective evidence of impairment. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment.

Assets held at amortised cost

If objective evidence of impairment exists, an assessment is made to determine what, if any, impairment loss should be recognised. The impairment loss is the difference between the asset's carrying amount and its estimated recoverable amount.

The recoverable amount is determined based on the present value of expected future cash flows, discounted at the instrument's original effective interest rate, either individually or collectively. Individually assessed assets for which there is no objective evidence of impairment are collectively assessed for impairment.

Available-for-sale assets

If objective evidence of impairment exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any previously recognised impairment) is removed from equity and recognised in the income statement.

Market recoveries leading to a reversal of an impairment provision for available-for-sale debt securities are recognised in the income statement. Impairment losses for equity instruments classified as available-for-sale are not permitted to be reversed through profit or loss.

Indian GAAP (AS 13 Investments)

Long-term investments are written down when there is a decline in fair value that is deemed to be other than temporary. Impairments may be reversed through the income statement in subsequent periods if the investment rises in value, or the reasons for the impairment no longer exist.

In accordance with RBI regulations, in respect of available-for-sale (AFS) investments, impairments are required to be reversed through Investment Reserve Account (equity reserve) if the investment rises in value or the reasons for the impairment no longer exist.

For loans and advances, the RBI regulations additionally require banks to hold provisions in respect of standard assets and for specific country risk exposures.

Derecognition of financial assets

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)

A financial asset is de-recognised if substantially all the risks and rewards of ownership have been transferred. If substantially all the risks and rewards have not been transferred, the asset will continue to be recognised to the extent of any continuing involvement.

Indian GAAP (RBI Guidelines on Securitisation of Standard Assets)

There is limited guidance on derecognition of financial assets. Securitised financial assets can only be derecognised if the originator has surrendered control over the assets. Control is not surrendered where the securitised assets are not beyond the reach of the creditors of the originator or where the transferee does not have the right to pledge, sell, transfer or exchange the securitised asset for its own benefit, or where there is an option that entitles the originator to repurchase the financial assets transferred under a securitisation transaction from the transferee.

B. Summary of significant differences between Indian GAAP and IFRS continued

Liabilities and equity

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)

A financial instrument is classified as a liability where there is a contractual obligation to deliver either cash or another financial asset to the holder of that instrument, regardless of the manner in which the contractual obligation will be settled. Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Indian GAAP

Classification is based on the legal form rather than substance.

Provisions for liabilities and charges

IFRS (IAS 37 Provisions, Contingents Liabilities and Contingent Assets)

The amount recognised as a provision is the best estimate at the balance sheet date of the expenditure required to settle the obligation, discounted using a pre-tax market discount rate if the effect is material.

Indian GAAP (AS 29 Provisions, Contingents Liabilities and Contingent Assets)

Provisions are recognised and measured on a similar basis to IFRS, except that there is no requirement for discounting the provision or liability.

Pension obligations

IFRS (IAS 19 Employee Benefits)

The discount rate to be used for determining defined benefit obligations is established by reference to market yields at the balance sheet date on high-quality corporate bonds of a currency and term consistent with the currency and term of the post-employment benefit obligations. Actuarial gains or losses are recognised in 'Other comprehensive income' (retained earnings).

Under the transitional provisions of IFRS 1, First time adoption of International Financial Reporting Standards, (IFRS 1) and in accordance with IAS 19, the Group elected to record all actuarial gains and losses on the pension surplus or deficit in the year in which they occur within the 'Consolidated statement of comprehensive income'.

Indian GAAP (AS 15 Employee Benefits)

The discount rate to be used for determining defined benefit obligations is established by reference to market yields at the balance sheet date on government bonds. 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 'Share-based payment' requires that all share-based payments are accounted for using a fair value method. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For equity-settled awards, the total amount to be expensed over the vesting period must be determined by reference to the fair value of the options granted (determined using an option pricing model), excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions must be included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards must be revalued at each balance sheet date on an intrinsic value basis (being the difference between the market price of the share at the measurement date and the exercise price) with any changes in fair value charged or credited to staff costs in the income statement.

Deferred tax is recognised based on the intrinsic value of the award and is recorded in the income statement if the tax deduction is less than or equal to the cumulative share-based compensation expense or equity if the tax deduction exceeds the cumulative expense.

Indian GAAP

Entities may either follow the intrinsic value method or the fair value method for determining the costs of benefits arising from share-based compensation plans. Although the fair value approach is recommended, entities may use the intrinsic value method and provide fair value disclosures.

Deferred tax is not recognised as it is not considered to represent a timing difference.

Entities are also permitted the option of recognising the related compensation cost over the service period for the entire award (that is, over the service period of the last separately vesting portion of the award), provided that the amount of compensation cost recognised at any date at least equals the fair value of the vested portion of the award at that date.

Deferred Taxation

IFRS (IAS 12 Income Taxes)

Deferred tax is determined based on temporary differences, being the difference between the carrying amount and tax base of assets and liabilities, subject to certain exceptions.

Deferred tax assets are recognised if it is probable (more likely than not) that sufficient future taxable profits will be available to utilise deferred tax assets.

Indian GAAP (AS 22 Accounting for Taxes on Income)

Deferred tax is determined based on timing differences, being the difference between accounting income and taxable income for a period that is capable of reversal in one or more subsequent periods.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Interest income and expense

IFRS (IAS 18 Revenue)

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Indian GAAP (AS 9 Revenue Recognition)

In the absence of a specific effective interest rate requirement, premiums and discounts are usually amortised on a straight-line basis over the term of the instrument.

Dividends

IFRS (IAS 10 Events After Balance Sheet date)

Dividends to holders of equity instruments, when proposed or declared after the balance sheet date, should not be recognised as a liability on the balance sheet date. A company, however, is required to disclose the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue.

Indian GAAP

Dividends are reflected in the financial statements of the year to which they relate, even if proposed or approved after the year end.

Supplementary people information

Countries	2014	2013	2012
Global ¹	71	71	69
Headcount	2014	2013	2012
Global total	90,940	86,640	89,058
Growth	4,300	(2,418)	2,193
Growth percentage	5.0%	(2.7)%	2.5%
Nationalities	2014	2013	2012
Global	133	132	127
Senior management (Director, bands 1 and 2)	29	27	28
Business function	2014	2013	2012
Business	49,638	46,892	49,959
Support services	41,302	39,748	39,099
Region	2014 %	2013 %	2012 %
Greater China	21	22	22
North East Asia	6	7	7
South Asia	25	24	24
ASEAN	25	25	25
Middle East and Pakistan	9	9	10
Africa	10	9	9
Americas	1	1	1
Europe	3	3	2
Employee attrition	2014 %	2013 %	2012 %
Employee turnover rate	18.5	19.5	17.3
Employee voluntary turnover rate	15.1	15.9	13.8
High-potential voluntary turnover rate	9.7	9.2	6.5
Years of service	2014 %	2013 %	2012 %
0-5 years	61	58	62
5-10 years	22	25	22
>10 years	17	17	16
Diversity and inclusion			
Nationality ²	2014 %	2013 %	2012 %
North East Asia	26	27	28
South Asia	28	27	27
South East Asia	20	20	20
Middle East and Pakistan	7	6	7
Africa	10	9	9
Americas	2	2	2
Europe	4	4	4
Australia and New Zealand	1	1	1
Others (no information)	2	4	2

1. Countries from 2012 and 2013 have been updated from the 2013 Annual Report and Accounts to include Venezuela, a representative office with no headcount

2. The definition of nationality reflects the passport of the employee

	2014 %	2013 %	2012 %
Gender			
Female representation globally	47	47	47
Female senior management (Director, bands 1 and 2)	15	16	16
Female executive and non-executive director including Chairman	11	14	16
Learning and development			
Employees receiving training (%)	94	97	92
High-potential employees receiving training (%)	97	100	96
Average training days per employee	3.2 days	3.4 days	3.3 days
Average spend on training per employee (\$)	764	800	810
Graduate recruitment			
Graduates	375	382	465
International mobility			
International moves	204	235	258
Employees on international assignment	372	470	599
Employee engagement¹			
Gap score ²	0.36	–	–
Participation rate (%)	85.4	–	–
Performance management			
Employees appraised	98	99	99
Employees reviewed against agreed objectives and values	100	99	100
Shares			
Employees receiving discretionary share awards	3,529	3,943	3,998
Participation in Sharesave scheme (%)	26	31	30
Absenteeism			
Sick-leave absence/days lost	0.8	0.9	–
Employees that have taken sick leave	37	42	–
Community investment			
Cash contributions	25.2	15.4	21.4
Employee time (non-cash item)	23.6	24.2	25.0
Gifts in kind (non-cash item) ³	0.1	0.2	0.1
Management costs	5.8	6.0	5.8
Total (direct investment by the Group)	54.7	45.7	52.3
Leverage ⁴	9.5	8.4	10.5
Total (including leverage)⁵	64.2	54.1	62.8
Percentage of prior year operating profit (PYOP)	1.06	0.79	0.91

1. In 2014, we introduced a new employee engagement survey

2. The gap score represents the difference between the importance that our employees attribute to the employee experience across 40 different measures, and their perception of how well the Group is delivering in these areas. Maximum gap score 5, with 0 being the target

3. Gifts In Kind comprises all non-monetary donations

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

5. Total figures subject to rounding

Shareholder information

Dividend and interest payment dates

Ordinary shares	Final dividend	Interim dividend (provisional only)
Results and dividend announced	4 March 2015	5 August 2015
Ex dividend date – Hong Kong	11 March 2015	12 August 2015
Ex dividend date – United Kingdom	12 March 2015	13 August 2015
Record date for dividend	13 March 2015	14 August 2015
Last date to elect for share dividend or to change standing instructions	23 April 2015	2 October 2015
Dividend payment date	14 May 2015	16 October 2015
Preference shares	1st half yearly dividend	2nd half yearly dividend
7½ per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2015	1 October 2015
8¼ per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2015	1 October 2015
6.409 per cent Non-cumulative redeemable preference shares of \$5 each	30 January 2015	30 July 2015
7.014 per cent Non-cumulative redeemable preference shares of \$5 each	30 January 2015	30 July 2015

Annual general meeting

The annual general meeting (AGM) will be held at 11.00am London time (6.00pm Hong Kong time) on Wednesday 6 May 2015 at etc venues, 200 Aldersgate, St Paul's, London, EC1A 4HD. Details of the business to be transacted at the AGM are included in the accompanying Notice of AGM. Details of voting at the Company's AGM and of proxy votes cast can be found on the Company's website at <http://investors.sc.com> on 7 May 2015.

Interim results

The interim results will be announced to the London Stock Exchange, The Hong Kong Stock Exchange, the Bombay Stock Exchange and the National Stock Exchange of India 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 2014, on or before 31 December 2015. 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 shares in a nominee account. Your shares will be held in electronic form so you will no longer have to worry about keeping your share certificates safe. If you join ShareCare you will still be invited to attend the Company's AGM and receive your dividend at the same time as everyone else. ShareCare is free to join and there are no annual fees to pay. If you would like to receive more information, please visit our website at <http://investors.sc.com/en/resource.cfm> or contact the shareholder helpline on 0870 702 0138.

Previous dividend payments (unadjusted for the impact of the 2010/2008 rights issue)

Dividend and financial year	Payment date	Dividend per ordinary share	Cost of one new ordinary share under share dividend scheme
Interim 2004	8 October 2004	17.06c/9.4851p/HK\$1.3303	£9.546/\$17.16958
Final 2004	13 May 2005	40.44c/21.145p/HK\$3.15156	£9.384/\$17.947
Interim 2005	14 October 2005	18.94c/10.7437p/HK\$1.46911	£11.878/\$21.3578
Final 2005	12 May 2006	45.06c/24.9055p/HK\$3.49343	£14.2760/\$24.77885
Interim 2006	11 October 2006	20.83c/11.14409p/HK\$1.622699	£13.2360/\$25.03589
Final 2006	11 May 2007	50.21c/25.17397p/HK\$3.926106	£14.2140/\$27.42591
Interim 2007	10 October 2007	23.12c/11.39043p/HK\$1.794713	£15.2560/\$30.17637
Final 2007	16 May 2008	56.23c/28.33485p/HK\$4.380092	£16.2420/\$32.78447
Interim 2008	9 October 2008	25.67c/13.96133p/HK\$1.995046	£14.00/\$26.0148
Final 2008	15 May 2009	42.32c/28.4693p/HK\$3.279597	£8.342/\$11.7405
Interim 2009	8 October 2009	21.23c/13.25177p/HK\$1.645304	£13.876/\$22.799
Final 2009	13 May 2010	44.80c/29.54233p/HK\$3.478306	£17.351/\$26.252
Interim 2010	5 October 2010	23.35c/14.71618p/HK\$1.811274/INR0.984124 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

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. Further information can be obtained from the Company's Registrars or from ShareGift on 020 7930 3737 or from www.ShareGift.org. There is no implication for Capital Gains Tax (no gain or loss) when you donate shares to charity, and UK taxpayers may be able to claim income tax relief on the value of their donation.

Bankers' Automated Clearing System (BACS)

Dividends can be paid straight into your bank or building society account. Please register online at www.investorcentre.co.uk or contact our registrar for a mandate form.

Registrars and shareholder enquiries

If you have any enquiries relating to your shareholding and you hold your shares on the UK register, please contact our registrar Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 7ZY shareholder helpline number 0870 702 0138.

If you hold your shares on the Hong Kong branch register and you have enquiries, please contact Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. You can check your shareholding at: www.computershare.com.hk/investors.

If you hold Indian Depository Receipts and you have enquiries, please contact Karvy Computershare Private Limited, 17-24, Vithalrao Nagar, Madhapur, Hyderabad 500 001, India.

Chinese translation

If you would like a Chinese version of the 2014 Report and Accounts please contact Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

本年報之中文譯本可向香港中央證券登記有限公司索取，地址：香港灣仔皇后大道東183號合和中心17M樓。

Shareholders on the Hong Kong branch register who have asked to receive corporate communications in either Chinese or English can change this election by contacting Computershare.

If there is a dispute between any translation and the English version of this Report and Accounts, the English text shall prevail.

Taxation

Information on taxation applying to dividends paid to you if you are a shareholder in the United Kingdom, Hong Kong or the US will be sent to you with your dividend documents.

Electronic communications

If you hold your shares on the UK register and in future you would like to receive the Report and Accounts electronically rather than by post, please register online at: www.investorcentre.co.uk. Then click on Register and follow the instructions. You will need to have your Shareholder or ShareCare reference number when you log on. You can find this on your share certificate or ShareCare statement. Once registered you can also submit your proxy vote and dividend election electronically, and change your bank mandate or address information.

Forward-looking statements

It is possible that this document could or may contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

There are several factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

Any forward-looking statement contained in this document is based on past or current trends and/or activities of the Group and should not be taken as a representation that such trends or activities will continue in the future.

The Group undertakes no obligation to revise or update any forward-looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.



Glossary

Additional Tier 1 (AT1) capital

AT1 capital consists of instruments issued by the Group and related share premiums that meet the criteria for inclusion in AT1 capital (and are not included in Common Equity Tier 1 (CET1)), and regulatory adjustments required in the calculation of AT1 capital.

Additional value adjustment

See Prudent valuation adjustment.

Advanced internal ratings-based (AIRB) approach

The AIRB approach under the Basel II framework is used to calculate credit risk capital based on the Group's own estimates of certain parameters.

Advances-to-deposits ratio

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

Asset backed securities (ABS)

Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages and, in the case of collateralised debt obligations (CDOs), the reference pool may be ABS.

Association of South East Asian Nations (ASEAN)

ASEAN includes the Group's operation in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

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 2.5

In 2009, the European Commission proposed further changes to Capital Requirements Directive (CRD) III to address the lessons of the financial crisis. These changes reflected international developments and follow the agreements reached by the Basel Committee on Banking Supervision (BCBS). They included higher capital requirements for resecuritisations, upgrading disclosure standards for securitisation exposures and strengthening market risk capital requirements.

Basel III

In December 2010, the Basel Committee on Banking Supervision (BCBS) issued the Basel III rules

text, which was updated in June 2011, and represents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The new requirements will be phased in and fully implemented by 1 January 2019.

Basis point (bps)

One hundredth of a per cent (0.01 per cent): 100 basis points is 1 per cent. Used in quoting movements in interest rates or yields on securities.

BIPRU

The Prudential Regulation Authority's (PRA) Prudential Sourcebook for Banks, Building Societies and Investment Firms.

Capital Adequacy Directive (CAD) II

An amendment to CAD that gives national regulators the discretion to permit firms to use their own value-at-risk model for calculating capital requirements subject to certain criteria.

Capital Requirements Directive (CRD) III

See Basel 2.5.

Capital Requirements Directive (CRD) IV

Represents the CRD and Capital Requirements Regulation (CRR) that implement the Basel III proposals in Europe.

Capital resources

Sum of Tier 1 and Tier 2 capital after regulatory adjustments.

Collateralised debt obligations (CDOs)

Securities issued by a third party that reference asset-backed securities (ABS) and/or certain other related assets purchased by the issuer. CDOs may feature exposure to sub-prime mortgage assets through the underlying assets.

Collateralised loan obligation (CLO)

A security backed by the repayments from a pool of commercial loans. The payments may be made to different classes of owners (in tranches).

Collectively assessed loan impairment provisions

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that have been incurred but have not yet been identified at the balance sheet date. Typically, Retail Clients are assessed on a portfolio basis.

Commercial mortgage backed securities (CMBS)

Securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from future

mortgage payments (interest and/or principal).

Commercial paper (CP)

An unsecured promissory note issued to finance short-term credit needs. It specifies the face amount paid to investors on the maturity date.

Commercial real estate

Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multifamily housing buildings, warehouses, garages and industrial properties. Commercial real estate loans are those backed by a package of commercial real estate assets.

Common Equity Tier 1 (CET1) capital

CET1 capital consists of the common shares issued by the Group and related share premium, retained earnings, accumulated other comprehensive income and other disclosed reserves, eligible non-controlling interests and regulatory adjustments required in the calculation of CET1.

Constant currency

Constant currency change is derived by applying a simple translation of the previous period functional currency number in each entity using the current average and period-end US dollar exchange rates to the income statement and balance sheet respectively.

Contractual maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Core Tier 1 capital

Core Tier 1 capital comprises called-up ordinary share capital and eligible reserves plus non-controlling interests, less goodwill and other intangible assets and deductions relating to excess expected losses over eligible provisions and securitisation positions as specified by the UK's Prudential Regulation Authority (PRA).

Core Tier 1 capital ratio

Core Tier 1 capital as a percentage of risk-weighted assets.

Cost-to-income ratio

Represents the proportion of total operating expenses to total operating income.

Counterparty credit risk

The risk that a counterparty will default before satisfying its obligations under a contract.

Country of credit responsibility

Total exposure to a client is aggregated to its parent's predominant risk location regardless of where the exposure is booked.

Country cross-border risk assets

Assets where the main source of repayment or security is derived from a country other than that in which the asset is booked.

Cover ratio

Represents the extent to which non-performing loans are covered by impairment allowances.

Covered bonds

Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets, solely for the benefit of the holders of the covered bonds.

Credit conversion factor (CCF)

Either prescribed by the Prudential Regulation Authority's (PRA) Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) or modelled by the Group, an estimate of the amount the Group expects a customer to have drawn down further on a facility limit at the point of default.

Credit default swaps (CDSs)

A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A CDS 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 (CRM)

CRM is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees.

Credit risk spread

The credit spread is the yield spread between securities with the same coupon rate and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.

Credit valuation adjustments (CVA)

An adjustment to fair value primarily in respect of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions.

Customer deposits

Money deposited by all individuals and companies that are not credit institutions including securities sold under a repurchase agreement (repo). Such funds are recorded as liabilities in the Group's balance sheet under Customer accounts.

Debt restructuring

This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction.

Debt securities

Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings, excluding those issued by central banks.

Debt securities in issue

Debt securities in issue are transferable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.

Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as arrears.

Deposits by banks

Deposits by banks comprise amounts owed to other domestic or foreign credit institutions by the Group including securities sold under a repurchase agreement (repo).

Dividend per share

Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.

Early alerts

An early alert is the process for proactive identification and management of counterparty exposures exhibiting signs of weakness of a material nature requiring monitoring, supervision or close attention by management.

Effective tax rate (ETR)

The tax on profits on ordinary activities as a percentage of profit on ordinary activities before taxation.

Expected loss (EL)

The Group measure of anticipated loss for exposures captured under an internal ratings-based credit risk approach for capital adequacy calculations. EL is measured as the Group-modelled view of anticipated

loss based on probability of default (PD), loss given default (LGD), and exposure at default (EAD), with a one-year time horizon.

Exposures

Credit exposures represent the amount lent to a customer, together with an undrawn commitment.

Exposure at default (EAD)

The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

External Credit Assessment Institutions (ECAIs)

For the standardised approach to credit risk for sovereigns, corporates and institutions, external ratings are used to assign risk weights. These external ratings must come from Prudential Regulation Authority (PRA)-approved rating agencies, known as ECAIs: namely Moody's, Standard & Poor's and Fitch.

Eurozone

Represents the 19 European Union countries that have adopted the euro as their common currency. The 19 eurozone countries are Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain.

Forbearance

Forbearance takes place when a concession is made to the contractual terms of a loan in response to an obligor's financial liabilities.

Foundation internal ratings-based approach

A method of calculating credit risk capital requirements using internal probability of default (PD) models but with supervisory estimates of loss given default (LGD) and conversion factors for the calculation of exposure at default (EAD).

Free deliveries

A transaction in which securities, foreign currencies or commodities have been paid for before receiving them, or where securities, foreign currencies or commodities have been delivered before receiving payment for them.

Funded/unfunded exposures

Exposures where the notional amount of the transaction is funded or unfunded. Represents exposures where there is a commitment to provide future funding, but funds have been released/not released.

GENPRU

The Prudential Regulation Authority's (PRA) General Prudential Sourcebook

for Banks, Building Societies, Insurers and Investment Firms.

Guaranteed mortgages

Mortgages for which there is a guarantor to provide the lender a certain level of financial security in the event of default of the borrower.

High quality liquid assets (HQLA)

Assets that are unencumbered, liquid in markets during a time of stress and, ideally, central bank eligible. These include, for example, cash and claims on central governments and central banks. The Basel III rules require this ratio to be at least 100 per cent and it is expected to apply from 2015.

Impaired loans

Loans where individual identified impairment provisions have been raised and also include loans that are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans that, while impaired, are still performing.

Impairment allowances

Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

Individual liquidity guidance

Guidance given to the Group about the amount, quality and funding profile of liquidity resources that the Prudential Regulation Authority (PRA) has asked the Group to maintain.

Individually assessed loan impairment provisions

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically, assets within the Corporate & Institutional Clients segment of the Group are assessed individually.

Innovative Tier 1 capital

Innovative Tier 1 capital consists of instruments that incorporate certain features, the effect of which is to weaken (but only marginally) the key characteristics of Tier 1 capital (that is, fully subordinated, perpetual and non-cumulative). Innovative Tier 1 capital is subject to a limit of 15 per cent of total Tier 1 capital.

Internal ratings-based (IRB) approach

The IRB approach is used to calculate risk-weighted assets in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of certain parameters.

Internal capital adequacy assessment process (ICAAP)

A requirement on institutions under Pillar 2 of the Basel II framework to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other mitigants are not available.

Internal model approach (IMA)

The approach used to calculate market risk capital and risk-weighted assets (RWA) with an internal market risk model approved by the Prudential Regulation Authority (PRA) under the terms of Capital Requirements Directive (CRD) IV/ Capital Requirements Regulation (CRR). Formerly referred to as Capital Adequacy Directive (CAD) II.

Interest rate risk (IRR)

IRR arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements.

Investment grade

A debt security, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.

Jaws

The rate of income growth less the rate of expense growth. Expressed as positive jaws when income growth exceeds expense growth (and vice versa for negative jaws).

Leveraged finance

Loans or other financing agreements provided to companies whose overall level of debt is high in relation to their cash flow (net debt: earnings before interest, tax, depreciation and amortisation (EBITDA)), typically arising from private equity sponsor-led acquisitions of the businesses concerned.

Leverage ratio

A ratio introduced under Capital Requirements Directive (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.

Liquidity and credit enhancements

Credit enhancement facilities are used to enhance the creditworthiness of financial obligations and cover losses due to asset default. Two general types of credit enhancement are third-party loan guarantees and self-enhancement through over-collateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing commercial paper.

Liquid asset buffer

These assets include high-quality government or central bank securities, certain deposits with central banks and securities issued by designated multilateral development banks to meet the Prudential Regulation Authority's (PRA) requirement for liquidity.

Liquid asset ratio

Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.

Liquid cover ratio (LCR)

A short-term liquidity measure that considers a 30-day period of liquidity stress.

Loans and advances

This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument. An example of a loan product is a home loan.

Loans to banks

Amounts loaned to credit institutions, including securities bought under a reverse repurchase agreement (repo).

Loans to individuals

Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays, and other consumer uses.

Loan-to-value ratio

A mathematical calculation that 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.

Loss given default (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

Master netting agreement

An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.

Mezzanine capital

Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.

Mortgage backed securities (MBS)

Securities that represent interests in a group of mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Mortgage related assets

Assets that are referenced to underlying mortgages.

Medium-term notes (MTNs)

Corporate notes continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years.

Net asset value per share

Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.

Net 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.

Net interest income

The difference between interest received on assets and interest paid on liabilities.

Net interest margin

The margin is expressed as net interest income divided by average interest-earning assets.

Net interest yield

Interest income divided by average interest-earning assets less interest expense divided by average interest-bearing liabilities.

Net stable funding ratio (NSFR)

The ratio of available stable funding to required stable funding over a one-year time horizon, assuming a stressed scenario. It is a longer-term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one-year time horizon.

Non-performing loans

A non-performing loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is:

- Renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected
- Renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected

Normalised earnings

Profit attributable to ordinary shareholders adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.

Over-the-counter (OTC) derivatives

A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.

Pre-provision profit

Operating profit before impairment losses and taxation.

Private equity investments

Equity securities in operating companies generally not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buy-outs, venture capital, growth capital, distressed investments and mezzanine capital.

Probability of default (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Profit attributable to ordinary shareholders

Profit for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.

Prudent valuation adjustment

A deduction from Common Equity Tier 1 (CET1) capital, to reflect the difference between fair value and prudent value positions, where the application of prudent results in a lower absolute carrying value than recognised in the financial statements.

Renegotiated loans

Loans and advances are generally renegotiated either as part of an ongoing client relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. Such assets will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset and are defined as forbearance loans. In other cases, renegotiation may lead to a new

agreement, which would be treated as a new loan.

Repo/reverse repo

A repurchase agreement or repo is a short-term funding agreement that allows a borrower to sell financial assets, such as asset backed securities (ABS) or government bonds as collateral for cash. As part of the agreement, the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

Residential mortgage

A loan to purchase a residential property that is then used as collateral to guarantee repayment of the loan. The borrower gives the lender a lien against the property, and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a home loan.

Residential mortgage backed securities (RMBS)

Securities that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Return on equity

Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders' equity for the reporting period.

Return on risk-weighted assets

Operating profit (excluding civil monetary penalty, goodwill impairment and own credit) divided by average total risk-weighted assets.

Risks-not-in-value at risk (RNIV)

A framework for identifying and quantifying marginal types of market risk that are not captured in the value at risk measure for any reason, such as being a far-tail risk or the necessary historical market data not being available.

Risk-weighted assets

A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the Financial Services Authority (FSA).

Seasoning

The emergence of credit loss patterns in portfolio over time.

Secured (fully and partially)

A secured loan is a loan in which the borrower pledges an asset as collateral for a loan that, in the event that the borrower defaults, the

<p>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.</p>	<p>issuer, are subordinated to the claims of depositors and other creditors of the issuer.</p>
<p>Securitisation</p>	<p>Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a special purpose entity (SPE) who then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors.</p>
<p>Senior debt</p>	<p>Senior debt, frequently issued in the form of senior notes, is debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.</p>
<p>Sovereign exposures</p>	<p>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 (EBA), include only exposures to central governments.</p>
<p>Standardised approach</p>	<p>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.</p>
<p>Stressed value at risk</p>	<p>A regulatory market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.</p>
<p>Structured finance/notes</p>	<p>A structured note is an investment tool that 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.</p>
<p>Subordinated liabilities</p>	<p>Liabilities that, in the event of insolvency or liquidation of the</p>
<p>Sub-prime</p>	<p>Sub-prime is defined as loans to borrowers typically having weakened credit histories that include payment delinquencies and potentially more severe problems such as court judgements and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, high debt-to-income ratios, or other criteria indicating heightened risk of default.</p>
<p>Tangible net asset value per share</p>	<p>Ratio of parent shareholders' equity less preference shares classified as equity and goodwill and intangible assets to the number of ordinary shares outstanding at the end of the reporting period.</p>
<p>Tier 1 capital</p>	<p>Tier 1 capital comprises common Equity Tier 1 capital plus Additional Tier 1 securities and related share premium accounts.</p>
<p>Tier 1 capital ratio</p>	<p>Tier 1 capital as a percentage of risk-weighted assets.</p>
<p>Tier 2 capital</p>	<p>Tier 2 capital comprises qualifying subordinated liabilities and related share premium accounts.</p>
<p>UK bank levy</p>	<p>A levy that applies to certain UK banks and the UK operations of foreign banks from 1 January 2011. The levy is payable each year based on a percentage of the chargeable liabilities of the Group as at 31 December.</p>
<p>Value at risk (VaR)</p>	<p>VaR is an estimate of the potential loss that might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.</p>
<p>Working profit</p>	<p>Operating profit before impairment losses and taxation.</p>
<p>Write-downs</p>	<p>After an advance has been identified as impaired and is subject to an impairment allowance, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Writedowns will occur when, and to the extent that, the whole or part of a debt is considered irrecoverable.</p>

Major awards 2014

African Investor Awards 2014

- Best Africa Research Team 2014



Asia Risk Awards 2014

- Energy & Commodities Derivatives House of the Year

Asia Risk Corporate Rankings 2014

- #1 Overall for all categories

Asiamoney fixed income poll 2014

- #1 in Macroeconomic Research Asia, 2014
- #2 Overall Interest Rate Research Analyst, 2014
- #2 for Interest Rates Research in India, 2014
- #2 for Interest Rates Research in Thailand, 2014



The Asset Triple A Asset Servicing, Fund Management and Investor Awards

- Rising Star Custody Specialist – Middle East
- Best Custody Specialist – Africa



The Asset Triple A Islamic Finance Awards

- Best Islamic Investment Bank, Middle East
- Best Islamic Private Bank
- Best Islamic Loan House of the Year



The Asset Triple A Regional House and Deal Awards 2014

- Best Transport Finance House

The Asset Triple A Treasury, Trade and Risk Management Awards 2014

- Best RMB Trade Settlement Services Bank
- Best in Working Capital & Trade Finance in North Asia (Regional)



The Banker Technology Projects of the Year Award

- Wholesale payments – Mobile Money/Straight2Bank



The Banker Transaction Banking Awards 2014

- Best Global Transaction Bank 2014



The Banker Transaction Banking Awards 2014

- Best Transaction Bank for Cash Management 2014



The Banker Transaction Banking Awards 2014

- Best Transaction Bank from Europe 2014

EMEA Finance Best Bank Awards

- Best Bank in Botswana
- Best Bank in Gambia

EMEA Finance Best Foreign Bank Awards

- Best Foreign Bank in Ghana
- Best Foreign Bank in Kenya
- Best Foreign Bank in Zambia
- Best Foreign Bank in Zimbabwe

Euromoney Awards for Excellence 2014

- Best Flow House in Africa
- Best Risk Advisor in Africa
- Best Transaction Services House in Africa
- Best Transaction Services House in the Middle East



Euromoney FX Survey 2014

- #1 in North America
- #1 in Western Europe
- #1 with Leveraged Funds
- #2 Globally
- #2 with Real Money Funds
- #3 with Banks

Euromoney Islamic Finance Awards 2014

- Best International Islamic Bank
- Best Structured Products House



Global Custodian Agent Banks in Emerging Markets Survey 2014

- India – Global Outperformer



Global Custodian Agent Banks in Emerging Markets Survey 2014

- India – Category Outperformer – Settlement; Relationship & Client Service; and Ancillary Services



Global Custodian Agent Banks in Emerging Markets Survey 2014

- Thailand – Category Outperformer – Settlement; and Value Delivered



Global Custodian Agent Banks in Major Markets Survey 2014

- Singapore – Global Outperformer



Global Custodian Agent Banks in Major Markets Survey 2014

- Singapore – Category Outperformer – Relationship & Client Service; Ancillary Services; and Value Delivered



Global Custodian Agent Banks in Major Markets Survey 2014

- Korea – Global Outperformer



Global Custodian Agent Banks in Major Markets Survey 2014

- Korea – Category Outperformer – Asset Servicing, Relationship & Client Service; Ancillary Services; and Value Delivered



Global Custodian Agent Banks in Major Markets Survey 2014

- Hong Kong – Category Outperformer – Relationship & Client Service; and Value Delivered

Global Finance Best Bank Awards in Africa

- Best Bank in Zambia
- Best Bank in Zimbabwe
- Best Bank in Sierra Leone
- Best Bank in Gambia
- Best Bank in Cote d'Ivoire



Global Finance Best Trade Finance Provider Award 2014

- Best Trade Finance Provider Asia Pacific



Global Finance Best Treasury & Cash Management Awards 2014

- Best Overall Bank for Cash Management – Asia Pacific



Global Finance World's Best Internet Bank Awards

- Best Consumer Internet Bank – Global



Global Finance World's Best Consumer Internet Bank

- Best Bill Payment & Presentment – Global
- Best Integrated Consumer Bank Site – Global
- Best Information Security Initiatives – Global
- Best in Social Media – Global



Global Finance World's Best Supply Chain Finance Providers

- Best Global Supply Chain Finance Provider – Bank
- Best Pre-Shipment Financing Solution
- Best Integrated Trade, Supply Chain Finance and Cash Management Solutions
- Best Supply Chain Finance Provider in Africa
- Best Supply Chain Finance Provider in the Middle East



IFR Asia Awards 2014

- Loan House of the Year
- China Loan House of the Year



Private Banker International

- Outstanding Private Bank – South Asia



Private Banker International

- Outstanding Private Bank – NRI Offering



Private Banker International – London

- Outstanding Private Bank, London – International Clients



PWM – The Banker

- Best Private Bank in India



Seatrade Asia Awards

- The Ship Finance Award

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