

ANNUAL REPORT 2016

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



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**About the report**

On 19 July 2015, we announced a reorganisation of our business. This is the first Annual Report and Accounts to reflect those changes.

Sustainability reporting is embedded across our Annual Report and Accounts and is also available in consolidated form in our Sustainability Summary at [sc.com/sustainabilitysummary](http://sc.com/sustainabilitysummary)

**Content symbols**

Further information is available where you see these icons:

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

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

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 China, Hong Kong, Macau and Taiwan; North East Asia (NEA) includes Japan, Korea and Mongolia; Middle East, North Africa and Pakistan (MENAP) includes Bahrain, Egypt, Iraq, Jordan, Lebanon, Oman, Pakistan, Qatar, Saudi Arabia and the United Arab Emirates (UAE); South Asia includes Bangladesh, India, Nepal and Sri Lanka; and ASEAN includes Australia, Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Standard Chartered PLC is headquartered in London. The Group's head office provides guidance on governance and regulatory standards.

Standard Chartered PLC stock codes are: HKSE 02888; LSE STAN.LN; and BSE/NSE STAN.IN.

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# Group at a glance

## Who we are and how we have performed in 2016

### OUR GROUP

Standard Chartered PLC is made up of global and regional client segments, all supported by business functions. The Group's Board is headed by our Chairman, José Viñals. Its Management Team is led by Group Chief Executive, Bill Winters; supported by Group Chief Financial Officer, Andy Halford.



José Viñals

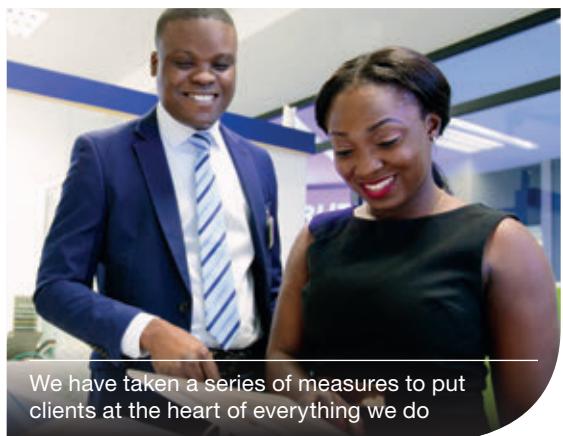
Bill Winters

Andy Halford

Find out more about our Group performance on pages 24 to 29

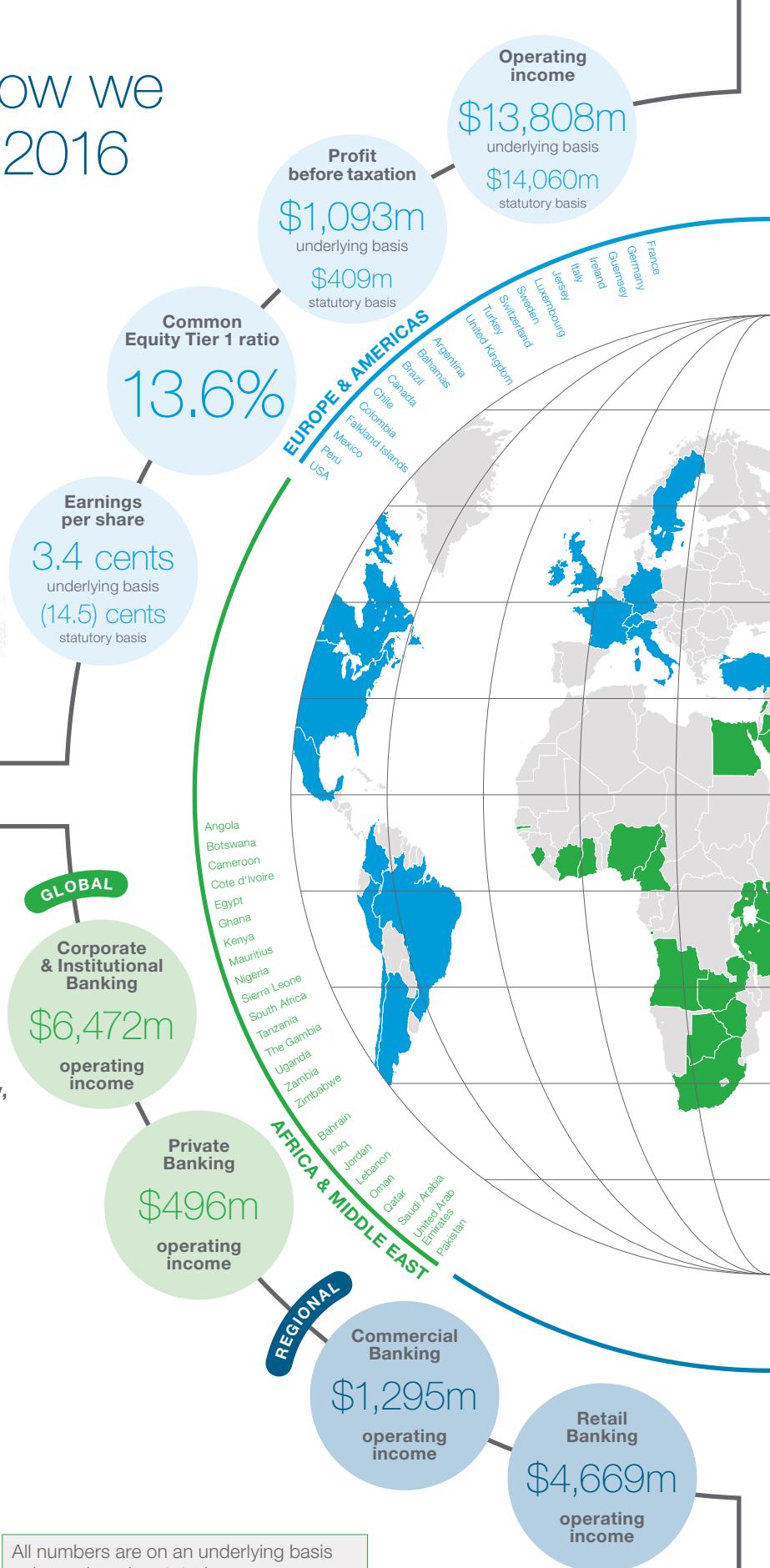
### OUR CLIENT SEGMENTS

We have four client segments: Corporate & Institutional Banking and Private Banking are run globally, with clients in those segments supported by relationship managers with global oversight; Commercial Banking and Retail Banking are run regionally with global oversight of segment strategy, systems and products. Clients are served by country-level relationship managers with specific knowledge of the local market.



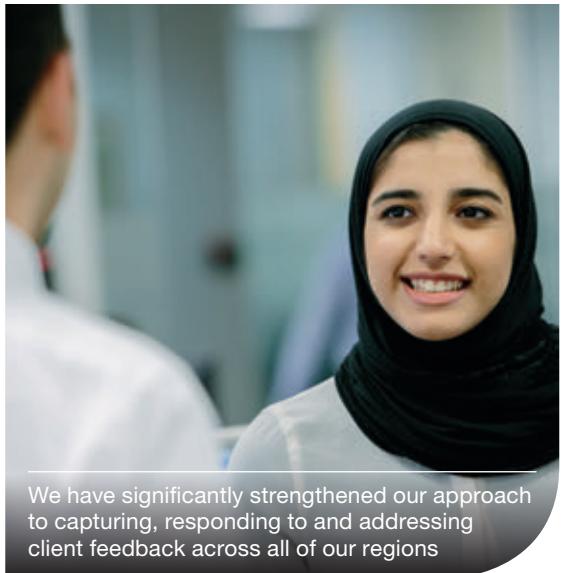
We have taken a series of measures to put clients at the heart of everything we do

Find out more about the performance of our client segments on pages 30 to 43



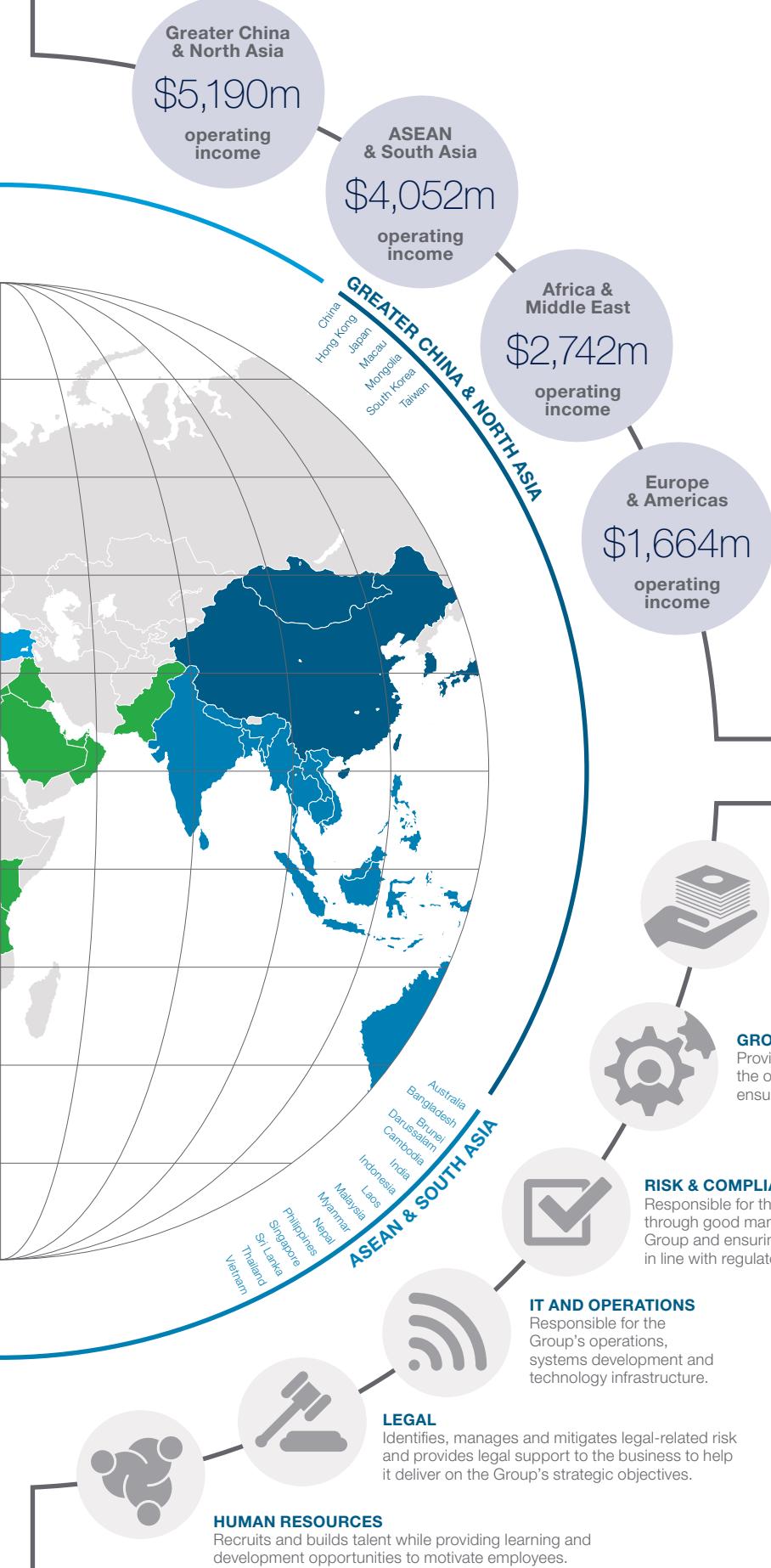
## OUR REGIONS

We have a simplified organisational structure that ensures we support clients across our footprint. Our four regions – Greater China & North Asia, ASEAN & South Asia, Africa & Middle East and Europe & Americas – are managed by their own CEOs.



We have significantly strengthened our approach to capturing, responding to and addressing client feedback across all of our regions

Find out more about the performance of our regions on pages 44 to 53



## GLOBAL FUNCTIONS

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

# Chairman's statement

## José Viñals discusses how the Group is unlocking its potential



It is both an honour and a privilege to deliver this statement, my first as Chairman of the Group. I joined in October 2016 and became Chairman in December, following a career as a public servant in the financial sector. Most recently I was at the International Monetary Fund, where my responsibilities included the global oversight and direction of its monetary and financial sector work. In that capacity I was able to develop a deep understanding of the markets that the Group operates in as well as a real respect for Standard Chartered as an organisation.

As Chairman of the Group I will focus my efforts on:

- Helping to unlock its true potential
- Improving its resilience to external shocks
- Ensuring excellent governance and the highest ethical standards

### Initial impressions and objectives

I joined Standard Chartered because it is an extraordinary organisation with a rich history and huge potential, serving a remarkably diverse range of clients across the most dynamic markets in the world. It is a bank with a soul.

From my discussions with employees it is clear that they take real pride in our culture and clients have told me they value our brand. I intend to support the Management Team while challenging appropriately to ensure that the Group continues to fulfil its obligations to our clients, the communities that we serve and our employees. Dedicating ourselves to those objectives is how the Group will create value for investors over the medium and longer term.

Being Chairman of the Group will always be my primary focus. So far I have concentrated on learning about the Group from the inside. I have visited local operations across our network to see first-hand how the Group operates and is managed in practice, the opportunities and risks our employees face and how they deliver value for our clients. I have also spent considerable time with my fellow

“

*Standard Chartered is an extraordinary organisation with a rich history and huge potential*

”

## SUMMARY

- We serve a diverse range of clients across the most dynamic markets in the world
- The Group has a clear strategy, a sensible business plan and exceptionally talented people
- We have made early progress but there is still a substantial way to go

Board directors, assessing how they function both as individuals and as a governance unit. I am impressed with what I have seen so far and am excited at the prospect of learning more about our unique franchise and engaging more deeply and frequently with my new colleagues and external stakeholders.

I would like to take this opportunity to thank Sir John Peace, the Group's previous Chairman, both for ensuring the handover process was carried out in an exemplary manner and for his leadership and personal contribution during what was a period of significant change for the Group.

### Progress

Risks in the banking sector generally accumulate during the good times and materialise in the bad. The Group has clearly experienced that in recent years. Following a difficult year in 2015 the Group, led by Bill Winters, Group Chief Executive, worked hard in 2016 to execute its restructuring plans against what was a challenging macroeconomic backdrop. As you will read later in this report, encouraging early progress has been made. The Board recognises, however, that as an organisation we still have a substantial way to go. The journey will be long and difficult to navigate at times and there are no short-cuts.

I faced many complex situations as a public official through the global financial crisis, but the requirements for success in each case were the same. There needs to be a clear strategy, a sensible business plan and exceptionally talented people who are determined to execute that plan with discipline and pace. From what I have seen of the Group so far, we certainly have those ingredients in place.

### Governance and conduct

Good governance is vital in any organisation, particularly one such as Standard Chartered, which operates in so many diverse and dynamic markets. A detailed review of how the Group manages its

governance obligations to support decisions and guide behaviours across our network can be found from page 56.

Bill has spoken about the Group having the privilege, opportunity and responsibility to be a force for good in the markets in which we operate. I agree wholeheartedly with this statement and I share his zero tolerance for any form of unethical behaviour and also fully endorse the Group's commitment to upholding environmental and social standards. I will use all my experience to help ensure the Group implements and upholds the highest ethical standards.

### Dividend

The Board has decided that it would be in the Group's best interests not to declare a dividend on Ordinary Shares for 2016. The Board believes in balancing returns to shareholders with investment to support future growth, while at the same time preserving strong capital ratios. While the Group has made good progress on the actions that we believe will drive a sustainable improvement in financial returns, the turnaround of the profitability of the Group is at a relatively early stage and a number of economic and regulatory uncertainties remain. The Board recognises the importance of dividends to shareholders and will keep the matter under close review.

### Summary

I am entirely realistic regarding the complexity of the challenges that lie ahead, not just for the Group but the global banking sector as a whole. Significant regulatory uncertainty will persist as policymakers grapple with the task of harmonising rules and enhancing the control environment while allowing banks to add value to the economies they serve and generate sustainable returns to shareholders. The recent postponement of the completion of the Basel III framework is just one example of the scale of the challenges faced.

Meanwhile, as you will read on pages 6 to 7, economic conditions in our markets are expected to remain uncertain. But the

inherent opportunity and our strategy to capture it is clear. The business plan set out in 2015 to execute our strategy is sensible and appropriate for the prevailing conditions. Investing in technology as a catalyst for better client experiences and stronger controls for example is absolutely the right way forward. As Bill, together with Andy Halford, Chief Financial Officer and Mark Smith, Chief Risk Officer, will explain later in this report, our plan has already delivered fundamental improvements, with the Group now having a stronger capital base and being much more resilient to headwinds. It is important that we remain focused on delivering the plan while being willing to adapt where necessary as conditions evolve.

Having substantially strengthened our foundations, we recognise the importance of re-energising growth in income together with strong cost and risk management so that returns to shareholders can be restored to a more appropriate and sustainable level.

This is an exciting time to have joined the Group and I am looking forward to the challenge of leading the Board, helping the Management Team to unlock the Group's true potential.



**José Viñals**  
Chairman

24 February 2017

### FURTHER READING

More information on corporate governance starts from page 56

# Economic environment

## The macroeconomic factors affecting the financial landscape

In 2016, the global economy lost momentum as the major economies and emerging markets slowed. Both the US and the Eurozone grew slower than in 2015. Emerging markets saw softer growth in 2016 despite stabilisation of growth in China. Standard Chartered's biggest markets in Asia continued to grow at a robust pace and once again proved to be the main engine of global growth. Growth in Sub-Saharan Africa (SSA) and the Middle East weakened on the back of low oil prices.

Estimates suggest that Asia, excluding Japan, expanded its GDP by 5.9 per cent; Africa growth slowed to 1.6 per cent and the Middle East to 2.1 per cent. China expanded by 6.7 per cent in 2016 and continues to be one of the fastest-growing economies in the world. India also maintained an impressive growth rate of approximately 6.8 per cent in 2016 despite the near-term growth pains from demonetisation. China focused on stabilising growth, with fiscal policy playing a more important role. The US continued

gradual normalisation of its monetary policy, with a 0.25 percentage point interest rate hike in December 2016. Despite the monetary tightening in the US, global monetary policy remained accommodative, with the Bank of Japan, the European Central Bank and the Bank of England all easing monetary conditions.

### The outlook for 2017

The economic landscape in 2017 is likely to be quite different from that in previous years. The potential reflation of the US economy is fuelling optimism while rising anti-globalisation and US-led protectionism are likely to result in higher volatility. No economy is likely to boom and geo-political events will continue to dominate macro and financial market moves. We expect the US economy to grow by 2.1 per cent in 2017 on the back of rising energy investment and consumer leverage. However, we doubt that the Trump administration will be able to implement its ambitious fiscal-easing plan. Policy divergence will remain a key theme.

We expect the Federal Reserve (Fed) to continue to tighten monetary policy gradually with two rate hikes in 2017. Euro area growth is likely to moderate slightly to 1.4 per cent on the back of greater political uncertainty and weak investments. Following a referendum on 23 June 2016, the UK voted to leave the European Union (Brexit). As a result, the country is likely to witness a slowdown in growth as both investor and consumer sentiment is affected by the likelihood of a so-called hard Brexit. Global growth is likely to rise modestly in 2017.

We expect Asia to remain the main driver of the global economy, with growth of 5.9 per cent. China is likely to continue to use fiscal policy to support GDP growth ahead of the 19th Communist Party Congress in autumn 2017. We expect oil prices to rise to \$70 per barrel by Q4 2017 and, broadly, higher metals prices, which should also help drive a cyclical recovery in growth of 2.2 per cent in SSA. Growth in the Middle East and North Africa (MENA) is likely to remain subdued at 2.1 per cent respectively, despite expected higher oil prices partly owing to the oil production cuts agreed by the Organization of Petroleum Exporting Countries (OPEC) members in November 2016.

### Medium-term outlook

Global growth is likely to remain moderate over the next two to five years, despite some pick-up in US growth. Reflationary policies such as tax cuts will provide some support for US GDP growth in the medium term, but we expect the extent of fiscal stimulus to be limited owing to deteriorating fiscal metrics. Growth beyond 2018 might also be constrained by likely trade protectionism measures and higher financing costs; we expect the Fed to raise rates by 75 basis points in 2018 on the back of higher inflation. The Fed's balance sheet may start passively shrinking in 2017. A stimulatory US fiscal policy, in the absence of similar easing by other major economies, is likely to be offset to a certain extent by tighter financial conditions, including a



### PROJECTED COUNTRY GROWTH DURING 2017

China	Hong Kong	India <sup>1</sup>	Indonesia
<b>6.6%</b> 2016: 6.7%	<b>2.2%</b> 2016: 1.9%	<b>7.2%</b> 2016: 6.8%	<b>5.3%</b> 2016: 5.0%
Nigeria	Singapore	South Korea	UAE
<b>2.8%</b> 2016: (1.7)%	<b>1.3%</b> 2016: 2.0%	<b>2.3%</b> 2016: 2.7%	<b>2.1%</b> 2016: 2.4%
UK	US		
<b>1.7%</b> 2016: 2.0%	<b>2.1%</b> 2016: 1.6%		

1. India's financial year starts in April

stronger US dollar. The benefits to other countries of an expansionary US fiscal policy may be constrained by US protectionism. We do not expect other countries to follow suit with substantial fiscal stimulus, with the euro area and Japan continuing to rely on monetary easing.

Emerging markets, however, are sensitive to US monetary policy shocks and we are likely to see greater volatility for countries that have weak fundamentals, particularly weak external positions. Anti-globalisation and anti-trade sentiments are also likely to be a key risk for emerging markets through global trade weakness. However, Asia is likely to remain one of the most resilient regions with robust growth of approximately 6 per cent, supported by domestic drivers. Rising anti-globalisation sentiment is also likely to be countered by renewed efforts for alternative regional trade deals led by China.

The pace of growth in MENA and SSA will depend upon continued measures to diversify economies away from commodity-dependent sectors. Over the last two years,

both oil-exporting and oil-importing MENA economies have taken the opportunity to reform subsidies while oil prices are low. Further structural reforms, together with recovering oil prices, are likely to support a growth recovery in these countries over the medium term. Tighter financial conditions could also affect SSA with record eurobond issuance in 2012 to 2014 resulting in a concentration of debt maturities in 2022 to 2024.

#### Long-term outlook

Our long-term forecasts, which look ahead more than five years, show developed countries stuck in a shallow recovery trend, held back by shrinking labour pools and weak productivity growth. Labour force growth could pick up with the rising participation of women, the elderly and immigrants. Rising anti-immigration rhetoric in the developed world would pose a threat to labour force growth, although efforts by European Union leaders to strengthen ties and keep borders open could counter

such concerns there. More widespread use of digital technologies could also boost productivity growth, which has been impeded by high leverage and weak investment. Digital technologies – such as robotics – will gain importance in a world of shrinking labour pools and governments will have to adjust redistribution mechanisms to support sections of the workforce that are losing out to technological change.

The onus is on emerging markets to support global growth in the long term, in our view. Many countries in Asia and Africa should benefit from comparatively better demographic trends in the coming decade. This improvement, together with low income starting points, suggests a period of rapid catch-up for these economies – India's economy is set to expand by over 8 per cent per annum, on average, for the next 15 years. As countries enter middle-income status, slower growth is normal. We expect China's growth rate to trend down to approximately 5 per cent in the late 2020s. Reforms, however, will be essential to ensuring that countries currently going through soft patches – such as Brazil, South Africa and Turkey – achieve their potential in the coming years.

Emerging Southeast Asian economies are on a solid growth trend of approximately 5-7 per cent. Steady progress in the ASEAN Economic Community and new reforms could provide upside risk to these forecasts. Reforms aimed at economic diversification could also help resource-rich countries such as Nigeria to overcome short-term volatility in commodity prices. Our forecasts show emerging-market economies continuing to grow substantially faster than developed-market economies, narrowing the income gap. This implies fairly strong global growth, partly driven by the rising share of fast-growing emerging markets in the world total.

The Economic environment report has been produced by our Global Research team. The forecasts for 2017 reflect its projections.



Any reflation policies in the US are unlikely to have an impact before 2018

# Business model

## How we are structured to create value for our stakeholders



<b>FURTHER READING</b>	
More on the economic outlook can be found on pages 6 to 7	
For more information on the Group's strategic actions go to Our strategy on pages 14 to 17	
For more information on how we serve and engage with our stakeholders go to the How we do business section on pages 10 to 11	



### Global

Clients in our global businesses are supported by relationship managers with global oversight

**Corporate & Institutional Banking** allows companies and financial institutions to operate and trade globally by serving them across multiple markets

**Private Banking** supports high net worth individuals with their banking needs across borders and offers access to global investment opportunities

### Regional

Clients in our regional businesses are supported by country-level relationship managers with global oversight of our systems and products

**Retail Banking** offers affluent and emerging affluent clients as well as small businesses a full spectrum of banking support solutions

**Commercial Banking** provides mid-sized companies with financial solutions and services that help them achieve their international expansion and growth ambitions

### Retail Products

Deposits, savings, mortgages, credit cards, personal loans and other retail banking products

### Wealth Management

Investments; portfolio management; insurance and advice; and planning services

### Transaction Banking

Cash management; payments and transactions; securities holdings; and trade finance products

### Corporate Finance

Financing; strategic advice; mergers and acquisitions; and equity

### Financial Markets

Investment, risk management and debt capital markets

### Income

Net interest income, fee income and trading income

### Profits

Income gained from providing our products and services, minus expenses, impairment and taxes

### Return on equity

Profit generated relative to equity invested

### Clients

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

### Investors

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

### Society

We collaborate with local partners to promote social and economic development

### Employees

We provide learning and development opportunities to create an engaged and values-driven team

### Regulators and governments

We engage with governing bodies to support the effective functioning of the financial system and the broader economy

## How we do business

We want all of our stakeholders to have a positive experience. One way to achieve this is by performing to the highest standards of conduct. This is a priority for both our stakeholders and the Group.

### Embedding good conduct

Our conduct management framework touches all parts of our business and sets out the elements that we need to identify, control and govern conduct-related risks. The framework aims to ensure that the Group is governed appropriately, with adequate infrastructure and a transparent business model. It empowers our leaders to create an ethical environment where our employees are incentivised to exercise good judgement. Managing the business in this way helps us to achieve fair outcomes for stakeholders and support our markets.

Employees receive mandatory conduct training, and their performance objectives and reward mechanisms are explicitly linked to behaving appropriately. In 2016, Bill Winters, our Group Chief Executive, launched a comprehensive global communications campaign on conduct, #knowtherules, which established a clear tone from the top and highlighted the importance of conduct to the Group.

### Financial crime and human rights

Financial crime, such as bribery, corruption and money laundering, hinders economic progress and harms communities. We are strengthening our Financial Crime Compliance standards by making enhancements to our financial crime controls, training our staff and sharing best practice with clients and partners.

As an employer, a provider of financial services and a procurer of goods and services, we have a responsibility to respect human rights across our business. We address human rights in our Code of Conduct, Supplier Charter and Position Statements, the latter protecting the rights of children, workers and communities in relation to specific industry-sector risks.

 For more information about how we manage environmental and social risks, go to [sc.com/positionstatements](#)

## How we serve clients

In 2016, we took a series of measures to put clients at the heart of our business. We invested heavily in improving their experience in each of our four client segments. For example, in Corporate & Institutional Banking we prioritised banking the end-to-end supply chain of our clients and improved our digital operations; in Retail Banking we launched video banking, voice biometric technology and offered clients innovative new payment options; in Commercial Banking we improved our client on-boarding process and turnaround time, and focused on banking our clients' networks; and in Private Banking we enhanced our Wealth Management proposition and simplified our account opening process.

We continue to build on these successes. We are investing more than \$3 billion from 2015 to 2017 to make us a simpler, faster and better organisation, focusing on technology innovation, process streamlining and faster turnaround times.

### How we engage with clients

During 2016 we significantly strengthened our approach to capturing and addressing client feedback.

We did this in a number of ways, including through third-party studies, which allowed us to benchmark our performance against competitors and gain expert insights; by broadening our client surveys to give us more accurate feedback across all client segments; and through client experience forums that allow us to hear directly from clients and respond to their needs by taking the appropriate action.

Taken together, these activities have shown us that we need to simplify our processes and become easier to deal with.

We are committed to achieving this goal and a selection of our key performance indicators can be found on pages 18 to 20 to show the progress we are making.

 For more information on how we have served our clients go to the Client segment reviews on pages 30 to 43

## How we serve investors

The Group receives capital from equity and debt investors. This supports the execution of our business model. How we create value for these investors depends on whether they are, for example, active traders or long-term stakeholders, interested primarily in social responsibility or concerned solely with investment returns. Whatever the nature of the investor, we treat them equally and aim to balance their diverse interests and expectations.

During 2016, we executed our strategy to secure the foundations and create a platform for sustainable growth. We returned the Group to profitability, delivered income and balance sheet stability, reduced exposures in the liquidation portfolio, achieved gross cost efficiencies, and significantly increased the pace of investment in the franchise. In 2017, we will build on these foundations and continue the execution of our strategic plan to reposition the Group for a sustainable improvement in returns.

### How we engage with investors

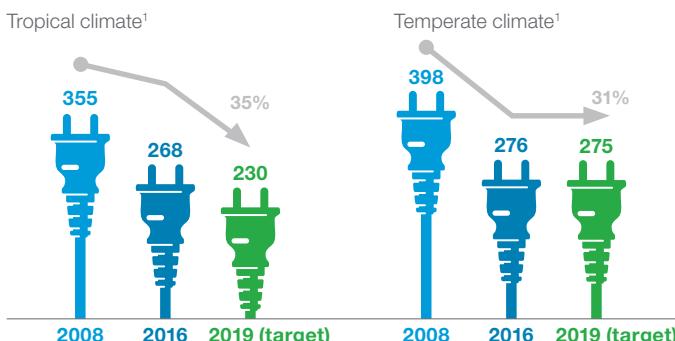
Transparent engagement with our investors and the wider market community helps us to understand what investors need so that we can tailor our public information accordingly. Feedback is taken seriously by the Board and it is aware of topics of particular interest, recommendations or requests.

We communicate with investors in several ways, including quarterly management statements, half- and full-year results, regulatory news services and media releases. We also meet investors at the Annual General Meeting and at investor meetings and conferences.

In 2016, acting on feedback that investors would like more direct access to our Management Team, our client segment and regional CEOs attended investor conferences to talk about their business areas. In 2017, we will strengthen our communications further.

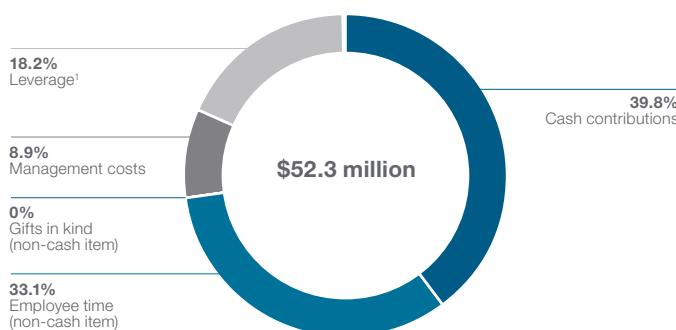
 More information for investors can be found at [investors.sc.com](#)

## Annual energy use of our property (kWh/m<sup>2</sup>/year)



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

## Our community expenditure 2016



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

## How we serve society

We collaborate with our clients and partners to promote social and economic development by financing key sectors of the economy that drive sustainable growth, minimising the impact of our lending and operations on the environment and investing in our communities.

In 2016, we agreed 11 Sustainability Aspirations which demonstrate how the financing that we provide contributes to sustainable development. We will embed these Aspirations in 2017.

The Aspirations are supported by our targets to reduce the environmental impact of our operations and to support local community programmes, including:

- Seeing is Believing (SiB), to eliminate avoidable blindness
- Goal, to empower girls and young women through sports and life skills training
- Financial education, to build the capability of youth and entrepreneurs

## How we engage with society

From 2008 to 2016, we reduced our energy consumption by 37 per cent, water consumption by 35 per cent and paper use by 71 per cent.

In 2016, we invested \$52.3 million in community programmes, and employees contributed to 67,611 volunteering days.

Through fundraising and matching from the Group, we raised \$6.5 million for SiB in 2016. Our fundraising from 2003 to 2016 is \$92.8 million, impacting 133.8 million people.

We celebrated the 10th anniversary of Goal in 2016 and reached nearly 69,000 girls, bringing the total since 2006 to 285,000 girls in 2016.

Through our Financial Education programmes, we trained more than 106,000 young people and 1,020 entrepreneurs, including 57 per cent women, in 2016.

 [For more information on how we support society, go to sc.com/sustainability](#)



## How we serve employees

We continue to deliver a comprehensive employee learning programme, with a focus on risk and conduct.

We have invested significantly in ensuring that our people connect with clients to understand their needs, and how we can serve them better.

We view diversity and inclusion as critical to our business success in the long term. It enables teams to unlock innovation, make better decisions and manage risk. We are committed to creating an inclusive environment, free from bias, where everyone can realise their full potential. We are committed to gender diversity, with a key performance indicator tracking our progress on page 19, and we are focused on developing African, Chinese and Emirati talent to better align our leadership composition to our footprint.

In 2017, we will implement a refreshed flexible working policy and enhanced parental leave benefits.

## How we engage with employees

We have over 40 country-based Employee Networks and three Global Networks (Women, Disability, and LGBT and Allies) to support our diversity ambitions. One of the ways in which we measure staff engagement is through My Voice, a global survey completed by approximately 70,000 employees across 68 countries in 2016.

Responding to My Voice feedback, in 2016 we sharpened our focus on quality performance and career coaching. We launched a new approach for developing managers together with new career development guides and toolkits.

In 2016, we also re-launched our Speaking Up Programme, linking this to our Group Code of Conduct, to which our people recommit annually. We see the programme as critical to ensuring good conduct and creating the right environment for our people.

 [For more information on how we engage with employees go to the Employee policies and engagement section on page 127](#)



## How we serve regulators and governments

We are committed to complying with all legislation, rules and other regulatory requirements applicable to our businesses and operations in the jurisdictions within which we operate. Our compliance with legal and regulatory frameworks across our markets ensures that the Group meets its obligations. In turn, this supports the resilience and effective functioning of the Group and the broader financial system and economy.

The Board, supported by the Brand, Values and Conduct Committee, is responsible for overseeing the Group's approach to its main government and regulatory relationships, focusing on the quality of these relationships and the engagement in place. On a day-to-day basis, our Compliance and Public Affairs functions are responsible for identifying changes in the legal and regulatory environment, ensuring that we comply with all requirements, and help to manage relationships.

## How we engage with regulators and governments

We actively engage with governments, regulators and policymakers at a global, regional and national level to share insights and technical expertise on key policy issues. This engagement supports the development of best practice and the adoption of consistent approaches across our markets.

We comply with all relevant transparency requirements and disclose information about our political activities.

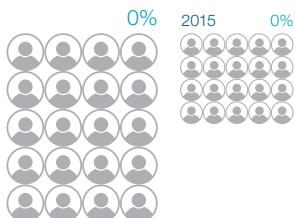
Our engagement with governments and regulators is through ongoing dialogue, submission of responses to formal consultations and by joining and participating in industry working groups. In 2016, for example, we submitted written and verbal responses to proposed changes to the regulatory framework for banks being developed by global standard-setters.

 [For more information on regulatory compliance go to the Principal uncertainties section on pages 136 to 138](#)

## Female representation

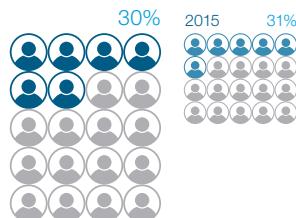
### Board (executive)

2016



### Board (non-executive)

2016



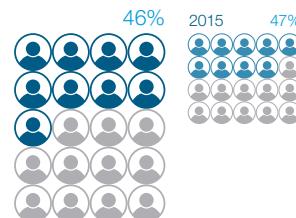
### Senior management

2016



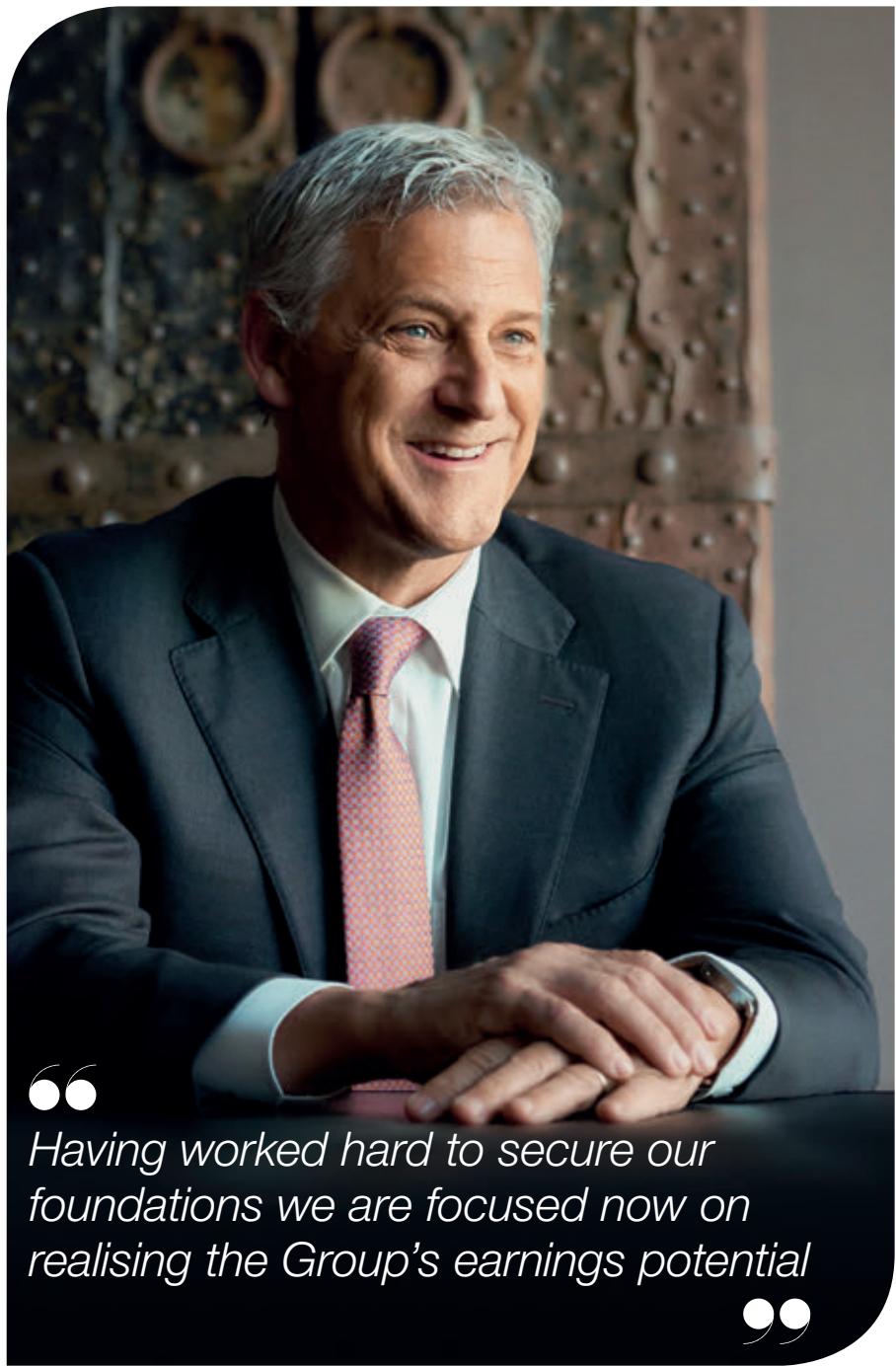
### All employees

2016



# Group Chief Executive's review

## Bill Winters on a year of progress and a future of sustainable growth



This time last year I set out what we needed to deliver in order for Standard Chartered to fulfil its true potential. We have made good progress. We have cleaned up our balance sheet and fortified our capital position. We are attacking our cost base, reinvesting significantly to strengthen the Group's competitive advantages, and continuing to enhance our financial crime controls. 2016 proved to be a stern test of our strategy and our business plans and has shown them to be the right ones for the environment in which we are operating. If those conditions change and require us to adapt, we will. We have many challenges still, but we have the resources, the capability and the will to overcome them.

Our financial returns are not yet where they need to be and do not reflect the earnings capability we believe we possess. Having worked hard to secure our foundations, we are now focused on realising this earnings potential. We will do this by fully re-engaging with our clients, improving productivity and investing in our people and culture.

I am delighted that we are joined on this journey by our new Chairman, José Viñals, who brings deep and extensive experience of the economic, political and regulatory environment in our markets and an exceptional grasp and understanding of the international financial system. José is a proven leader, truly global in his perspective and I am very glad that we are working together.

### **Securing our foundations**

Among the many positive steps taken in the past year to secure our foundations:

- We made substantial progress in exiting exposures beyond our tightened risk appetite, reducing risk-weighted assets in our liquidation portfolio by over 80 per cent
- Our business in Korea returned to a small underlying profit for the year as a result of some tough decisions and a lot of hard work
- As part of our commitment to divest peripheral businesses we have signed

or completed 12 transactions since November 2015

- We have taken steps to address the very poor performance of our Principal Finance business, putting the right team in place to reduce our exposure over the course of 2017
- We are addressing credit issues in PT Bank Permata, a joint venture in Indonesia in which we hold a 44.6 per cent stake, bolstering its management team and risk discipline. This will allow us to progress strategic options in the coming year

We will approach the remaining restructuring issues with a view to getting the best value for the Group's investors, on the shortest timeframe necessary.

### Getting lean and focused

The Group delivered its commitment to generate over \$1 billion of gross cost efficiencies in the year – producing the second successive year-on-year reduction in net expenses – and we remain on track to bring total costs in 2018 below the level incurred in 2015.

We have implemented significant improvements to our client coverage model in Corporate & Institutional Banking and are transforming our Retail Banking business to a more digital delivery model. Both sets of initiatives make us more efficient and easier to deal with. We have made good progress repositioning our Commercial Banking business for longer-term sustainable growth and better returns.

The refreshed organisational structure of the Group is now firmly embedded, with local management now better able to influence the delivery of the Group's products and services while leveraging our strong central capabilities.

### Investing and innovating

The cost efficiencies we achieved in 2016 created capacity for us to invest significantly to reinforce the Group's competitive advantages. These investments will enhance the quality of service that we can provide to clients, improve our ability to capture profitable and safe growth opportunities and differentiate us from our competitors.

We are increasingly recognised as an innovator and are confident we can leverage this to generate higher returns over the coming years:

- In Private Banking we have made significant investments in people and technology. It is still early days but we are encouraged that our capabilities and potential are attracting first rate talent
- We see significant opportunities in Africa for safe and profitable growth as other international banks pull back. Conditions remain volatile but we are strengthening our position on the ground and delivering

the benefits of our network to our clients in the region

- We have made good progress positioning ourselves as a leader in the internationalisation of the renminbi and the opening up of capital markets in China. We believe the medium- to long-term trend towards internationalisation remains and we are committed to providing cutting-edge services to our clients

You can read more about how we are getting more lean and focused and are investing and innovating in the Client segment and Regional review sections of this report, starting on page 30.

### Continuing to focus on conduct

We are passionate about advancing the Group's conduct agenda. We have made a lot of progress in 2016 and invested heavily to build effective and sustainable systems and infrastructure to ensure we can play a leading role in discovering and disrupting financial crime. We have created a new platform at sc.com/fightingfinancialcrime to demonstrate the contribution that we and others are making.

We have sharpened our focus on all aspects of conduct, not simply on combating financial crime, and have taken appropriate action where we find conduct inconsistent with our standards. We are focusing on the behaviours, values and principles that we follow as individuals to enable us each to make the right decisions and exercise good judgement. We do this because it is the right thing to do, and because it makes us stronger and more sustainable, as well as reinforcing stakeholder confidence.

We announced recently that Tracey McDermott will be joining the Group, having previously held a number of senior roles at the Financial Conduct Authority with responsibility for the conduct regulation of the UK's financial services sector. Tracey brings a wealth of leadership experience, huge knowledge of the industry and in-depth bank supervision, regulatory and policy expertise to our Management Team.

### Clients at the heart of our business

Most clients I meet have enormous affection for Standard Chartered and value our product capability and our presence in the markets we serve. Some have been clear though that we have become more difficult to deal with. We have restructured our organisation to address this, putting clients rather than products at the core of our coverage and they are responding well to our renewed focus.

The quality of the Group's client base enabled us to attract an impressive array of senior talent in the year. Out of the many examples I would highlight Simon Cooper, who has already made a big difference to how the Corporate & Institutional Banking business operates; Zarin Daruwala and

Torry Berntsen, who took over as CEO in India and the Americas, respectively; Paul Skelton, our new Global Head of Banking for Corporate & Institutional Banking; and Vivian Chan, who joined as Head of Private Banking in Greater China & North Asia, each of whom brings over 25 years' experience and will enhance our ability to capture growth opportunities.

### Outlook

We expect operating conditions in and between the markets in which the Group operates to remain challenging. There have been some improvements: growth in China has stabilised at a lower level, interest rates are at the early stage of normalisation and commodity prices have increased moderately. There are some new uncertainties ahead, including threats to open trade and globalisation, the impact of regulation and loose monetary policy. We are now better positioned to weather these challenges.

While the intensity of some headwinds has eased it will take time to fully capitalise on the opportunities that a better environment will present. Having worked quickly last year to secure our foundations we are now building deliberately and patiently to deliver safe business growth.

When I look back at the Group's long history it is clear that periods of heightened uncertainty can create opportunities for our clients and for the Group. The actions we have taken in 2016 are making us fitter, nimbler and better able to find and execute those opportunities.

### Summary

I am proud of the efforts made by the Group's employees in 2016 to secure our foundations. The pace and scale of those changes – many of which were done in parallel and required intense periods of adjustment for employees – undoubtedly impacted some elements of the Group's financial performance in the period. But they were the right things to do.

2017 needs to be the year we demonstrate we have the capacity to grow safely and sustainably. We are using a number of measures to track progress in that regard, some of which are included on pages 18 to 20.

We operate in economies that are growing and we serve clients whose wealth and businesses are growing. While 2017 will undoubtedly have its share of challenges and uncertainty, we are determined to deliver on our promises.

**Bill Winters**  
Group Chief Executive  
24 February 2017

# Our strategy

## An overview of the actions we are taking to deliver profitable growth

The rapid economic development of Asia, Africa and the Middle East is accompanied by a growing demand for increasingly sophisticated financial services. Our strategy is to capture this opportunity by developing long-term relationships with clients across our network of local markets. We place a particular focus on supporting clients who trade, operate or invest across our footprint.

We combine our local expertise with our international brand, products and network to differentiate ourselves from domestic and other international competitors.

At the heart of our strategy is the aim to meet the needs of our clients through global standards of conduct and compliance as well as ensuring we support sustainable economic and social development in our markets.

Underpinning this is more than 150 years of history in many of our markets and our commitment to our brand promise: Here for good. This builds on our rich heritage, culture and values and is at the core of who we are and how we work.

In November 2015 we rolled out a plan to strengthen and reposition the Group

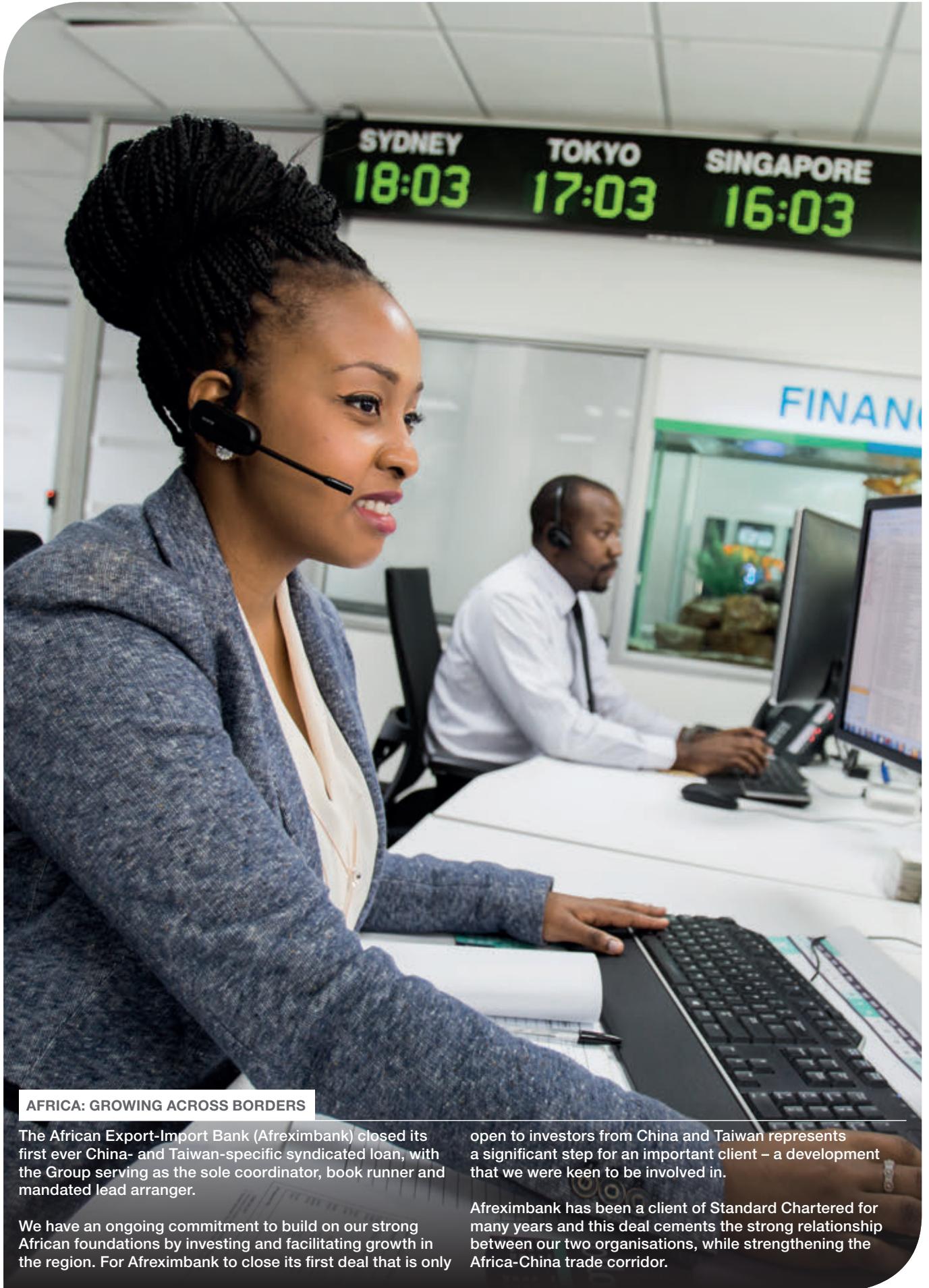
to ensure that it is well placed to capture the strategic opportunities in our markets. This plan remains unchanged. The focus is on disciplined execution of this plan, which will enable us to better serve the needs of our clients and deliver long-term sustainable value to all of our stakeholders.

In reaffirming our strategy and formulating our plan, we rigorously evaluated the external longer-term trends that are shaping banking opportunities in our footprint markets against our internal strengths and areas of differentiation and the challenges that lie ahead.

### LONGER-TERM TRENDS

**There are several structural longer-term trends that are shaping the economies in Asia, Africa and the Middle East. Although these trends may not evolve linearly, our footprint should uniquely position us to benefit from these trends.**

Rise of urban middle class	Digital revolution	Increasing regional connectivity	Financial deepening	The rise of renminbi (RMB)	The growth of Africa
Markets in our footprint are rapidly urbanising and becoming more consumption led. According to an Organisation for Economic Co-operation and Development study, by 2030, 73 per cent of the world's middle class population will be in our footprint (versus 36 per cent in 2009). By 2030, 29 of the top 41 global mega-cities will be in our footprint. These forces are driving rapid growth in demand for wealth and financing solutions.	Our markets are undergoing an unprecedented digital revolution and, in certain areas, the digital adoption in our markets is ahead of more developed western markets. Increasing internet connectivity and rapid mobile telephony adoption have led to the emergence of new and innovative ways of conducting business activities. Digitisation offers an opportunity for us to deliver more convenient solutions to clients while enabling us to increase our client reach.	Notwithstanding current protectionist sentiments in the US, the emergence of complex supply chain technologies, intra-regional trade pacts and new frameworks for cooperation, such as One Belt, One Road and ASEAN Economic Community, are reshaping trade and investment flows. These trends play to our natural advantage as the leading trade and commerce bank in Asia, Africa and the Middle East.	Clients are increasingly looking for innovative cross-border funding, cash management and investment solutions, coupled with local hedging instruments to better manage risks. This, along with the growing sophistication of the financial services sector, and ongoing government-led reforms, is driving the deepening and internationalisation of local capital markets in our footprint.	The launch of the Cross-Border Interbank Payment System (CIPS) and the inclusion of RMB in the International Monetary Fund's Special Drawing Rights basket of currencies are major landmarks on the RMB's path to internationalisation. Although the trend slowed in 2016, Standard Chartered's Renminbi internationalisation report suggests that by 2020, 5 per cent of global international payments could be settled in RMB (compared to 1.5 per cent in 2015).	Backed by a large workforce and a growing, connected urban middle class, there are many opportunities across African economies. This is particularly the case in sectors such as agriculture, fast-moving consumer goods and infrastructure. As a result, the favourable long-term trends – both in terms of GDP growth and opening up of the African economies – remain intact.



#### AFRICA: GROWING ACROSS BORDERS

The African Export-Import Bank (Afreximbank) closed its first ever China- and Taiwan-specific syndicated loan, with the Group serving as the sole coordinator, book runner and mandated lead arranger.

We have an ongoing commitment to build on our strong African foundations by investing and facilitating growth in the region. For Afreximbank to close its first deal that is only

open to investors from China and Taiwan represents a significant step for an important client – a development that we were keen to be involved in.

Afreximbank has been a client of Standard Chartered for many years and this deal cements the strong relationship between our two organisations, while strengthening the Africa-China trade corridor.

## Challenges going into 2016

The Group adds value to its clients by leveraging certain strengths and sources of competitive advantage, as highlighted by our business model. These strengths were instrumental in delivering a decade of rising profits and stakeholder value creation up until 2012.

However, the Group's performance started to plateau in 2012 and worsened progressively in subsequent years. As the economic growth de-accelerated in some of our major markets, it created strain for some of our large corporate borrowers and impacted our portfolio risk quality. The strategic review we conducted in late 2015 highlighted that whilst our strategic opportunities remain compelling, the Group had to consolidate and reposition to pursue

these opportunities differently. Changes in the external operating environment, particularly owing to regulation, economic developments and internal issues, such as organisational scale and complexity, highlighted the following key challenges:

- The Group had to absorb greater regulatory risk-weighted assets (RWAs) and meet increasingly stringent capital requirements following the global financial crisis, resulting in a steady decline in the Group's capital ratios over time
- Higher capital requirements and the sustained low interest-rate environment led to a structural decline in banking sector profitability, especially for international banks. The Group's profitability came under further pressure from over-concentrations

and a cyclical impact of higher loan impairments

- While the Group has always strived to put impeccable conduct at the heart of how we do business, we still had more to do to follow the letter and the spirit of the law across our diverse markets to ensure we play a robust role in the fight against financial crime
- The strategic review also highlighted that the slowdown in the Group's financial performance was partly a result of past underinvestment, particularly in technology. To reverse this and build a foundation for sustainable future growth, the Group had to create significant new investment capacity, while continuing to balance the trade-off between short- and longer-term profitability



### LEADING THE RENMINBI REVOLUTION

In 2015, China launched its Cross-Border Inter-Bank Payment System (CIPS) to connect with offshore renminbi (RMB) centres. Since then, Standard Chartered has been a leading force in RMB international settlements, reinforcing our commitment to capture opportunities from RMB internationalisation and the opening up of China.

We successfully completed over 200 cross-border RMB direct clearings on the first day of the CIPS launch, as well as a landmark clearing for IKEA – a transaction from China to Luxembourg.

Today, we are considered a market leader for RMB CIPS clearing, and are one of the top banks in terms of CIPS transaction volume.

We are now able to offer clearing positions across 46 currencies, with more than 100 payment clearing connections. We also have a presence in 47 out of 65 of the countries included in China's 'One Belt, One Road' strategic initiative, which effectively links trade and investment along a new maritime and land-based Silk Road, connecting Asia and Europe.

## Strategic objectives and underpinning actions

As mentioned in the introduction to this section, in November 2015 we rolled out a comprehensive action plan designed to enable us to execute the Group's strategy and capture the underlying strategic opportunity. In devising this plan we made certain conscious trade-offs. First, we prioritised the actions needed to ensure we can execute our strategy on strong foundations. Second, we prioritised improving returns to ensure that the Group maintains a value-accretive sustainable growth path. Third, we decided to channel our resources to key opportunities in which the Group has distinctive advantages.

As a result, our plan has three core objectives: secure the foundations; get lean

and focused; and invest and innovate. Underpinning this plan, we have a programme of actions designed to strengthen our capital base, improve portfolio risk and, over time, increase returns for our shareholders.

We remain excited by the opportunities present in our markets and the untapped potential of our franchise. We have a clear plan to restore the Group to a sustainable profitable growth trajectory and create value for all our stakeholders. We are also fully aware of our conduct and Financial Crime Compliance obligations and the overarching need to ensure safe growth.

Our focus is on disciplined execution of this plan. However, there are a number of external headwinds that could affect the Group's performance and, in turn, our ability

to deliver the plan. We are realistic about these challenges and believe that the right course of action for now is to continue to execute our plan with discipline and drive our business more dynamically.

 Details on our strategic objectives and the progress we made in 2016 are also available in the Client segment and Regional review section on pages 30 to 53

## STRATEGIC OBJECTIVES AND UNDERPINNING ACTIONS

1 <b>Secure the foundations</b>	2 <b>Get lean and focused</b>	3 <b>Invest and innovate</b>
<p>This is the first and foremost objective of the Group. We have made considerable progress since 2015, when we executed a rights issue that materially strengthened our balance sheet. We have also taken decisive action to improve portfolio quality.</p> <p>To safeguard against any future recurrence, our client segments have put in place more granular risk appetite levels. For example, reducing the appetite for risk concentrations such as commodities.</p> <p>In 2016, we invested heavily in our conduct and financial crime risk programmes and remain committed to making further investments as necessary. Our investment in control systems and data analytics is already improving our ability to fight financial crime.</p> <p>We are making good progress in embedding our regional execution model – operating Retail Banking and Commercial Banking with greater local decision-making and accountability, while managing Corporate &amp; Institutional Banking and Private Banking at a more global level.</p>	<p>Our second objective is to shift the business mix to deliver higher returns and create additional investment capacity through assertive cost management actions. This is critical for the long-term competitiveness and sustainability of our business.</p> <p>Our Corporate &amp; Institutional Banking segment is shifting away from capital-intensive businesses and has rolled out a new client coverage model to ensure we stay close to our clients and simplify the way we meet their needs.</p> <p>Corporate &amp; Institutional Banking has also diversified its portfolio of clients by selectively on-boarding new clients that will be critical to our future growth.</p> <p>Our Retail Banking segment remains focused on providing services for emerging affluent and affluent clients across 60 cities more cost efficiently. The segment will achieve this by improved digitisation, innovation, service quality and the development of multi-product relationships.</p> <p>We are making progress on our cost efficiency plans – in 2016 we achieved \$1.2 billion in gross cost efficiencies and created capacity to increase investment in the second half of 2016.</p>	<p>The purpose of our third strategic objective is to be more selective about the opportunities we pursue and channel sufficient resources accordingly.</p> <p>We have prioritised four long-term opportunities that we believe are most compelling for the Group: Private Banking and Wealth Management growth; RMB internationalisation and the broader opening up of China; Africa's growth potential; and digital revolution in Retail.</p> <p>As a result, we have launched a multi-year investment programme to upgrade our Private Banking and Wealth Management technology platforms and client capabilities.</p> <p>We remain committed to RMB's long-term growth potential in our footprint and continue to play a key role in shaping its future. In Africa, we will calibrate the pace of our growth by taking into account the broader risk environment.</p> <p>We are making significant investments in digital to deliver on our Retail transformation. We have also launched an investment programme for 2017 to improve our client offering in Foreign Exchange, Rates and Credit.</p>

# Key performance indicators

## How we measure performance and progress

We use a variety of financial and non-financial key performance indicators (KPIs) to measure performance and progress both for the Group as a whole and at an individual business level. A selection of some of the KPIs that we are particularly focused on in 2017 across all client segments and regions (measuring how we are putting clients at the heart of everything we do and delivering sustainably higher returns for investors for example) is included below. We have indicated in each case which of our five stakeholder groups it has most relevance for.



Clients



Investors



Society



Employees



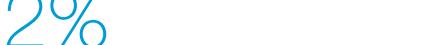
Regulators and governments

To find out more about how we are serving our five stakeholder groups, please see our How we do business chapter on pages 10-11

### SELECTED GROUP KEY PERFORMANCE INDICATORS

Indicator	Aim	Analysis	Performance						
<b>Financial</b> Underlying return on equity (ROE)	Deliver sustainable improvement in the Group's profitability as a percentage of the value of shareholders' equity	Underlying ROE of 0.3 per cent in 2016 was an improvement on negative 0.4 per cent in 2015 but significant further progress is required	<p><b>0.3%</b></p> <table> <tr> <td>2016</td> <td>0.3%</td> </tr> <tr> <td>2015</td> <td>(0.4)%</td> </tr> <tr> <td>2014</td> <td>7.8%</td> </tr> </table> <p>The underlying profit attributable to ordinary shareholders expressed as a percentage of average ordinary shareholders' equity</p>	2016	0.3%	2015	(0.4)%	2014	7.8%
2016	0.3%								
2015	(0.4)%								
2014	7.8%								
<b>Financial</b> Total shareholder return (TSR)	Deliver a positive return on shareholders' investment through share price appreciation and dividends paid	The Group's TSR in the full year 2016 was 17.7 per cent, which is a substantial improvement compared to negative 35.4 per cent in 2015 and negative 26.1 per cent in 2014	<p><b>17.7%</b></p> <table> <tr> <td>2016</td> <td>17.7%</td> </tr> <tr> <td>2015</td> <td>(35.4)%</td> </tr> <tr> <td>2014</td> <td>(26.1)%</td> </tr> </table> <p>Combines simple share price appreciation with dividends paid to show the total return to the shareholder and is expressed as a percentage</p>	2016	17.7%	2015	(35.4)%	2014	(26.1)%
2016	17.7%								
2015	(35.4)%								
2014	(26.1)%								
<b>Financial</b> Capital ratios	Maintain a strong capital base and a Common Equity Tier 1 (CET1) ratio of 12 to 13 per cent	The Group's CET1 ratio rose 100bps in 2016 to 13.6 per cent – above the top end of the target range – primarily as a result of reduced risk-weighted assets	<p><b>13.6% CET1</b></p> <table> <tr> <td>CET1</td> <td>13.6%</td> </tr> <tr> <td>2015</td> <td>12.6%</td> </tr> <tr> <td>2014</td> <td>10.5%</td> </tr> </table> <p>The components of the Group's capital are summarised on page 182</p>	CET1	13.6%	2015	12.6%	2014	10.5%
CET1	13.6%								
2015	12.6%								
2014	10.5%								

## SELECTED GROUP KEY PERFORMANCE INDICATORS continued

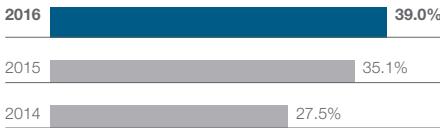
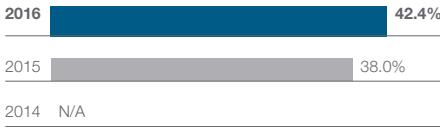
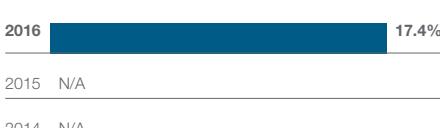
Indicator	Aim	Analysis	Performance
<b>Financial</b> Credit quality	Improve quality of Corporate & Institutional Banking and Commercial Banking loan book by originating stronger credit clients and actively managing the portfolio	New inflows into gross non-performing loans (NPLs) in the ongoing book decreased by 9 per cent in 2016, compared to a 60 per cent increase in 2015	(9.0)%  2016 (9.0)% 2015 60.0% 2014 30.0%
Absolute value of flow of new NPLs in the period. The 2014 flow figure represents the Group's 2013 client segmentation and may not be directly comparable			
<b>Diversity and Inclusion</b> Gender diversity in senior roles	Improve gender diversity in the Group's top levels of management by supporting, developing, promoting and retaining senior women employees	In 2016, we signed the UK HM Treasury Women in Finance Charter and announced an overall target of having women occupy 30 per cent of our top four levels of management by December 2020. The 25.3 per cent result in 2016 was an improvement on 2015 and takes us closer to our target	25.3% of senior roles  2016 25.3% 2015 24.8% 2014 23.3%
The total number of women in the most senior (band 1-4) roles expressed as a percentage of total band 1-4 roles			
<b>Employee engagement</b> Net Promoter Score (NPS)	Increase engagement across the Group by creating a better working environment for employees that should translate into improved client experience	In 2016, the first year that the Group introduced this measure, the employee NPS was +2 per cent, meaning that more participating employees would promote the Group than would not	2%  2016 2% 2015 N/A 2014 N/A
The proportion of participating employees that are promoters (would recommend the Group as a great place to work) compared to detractors			

## SELECTED CLIENT KEY PERFORMANCE INDICATORS

Indicator	Aim	Analysis	Performance
<b>Corporate &amp; Institutional Banking</b> Client diversity	Deliver higher returns by adding and deepening client relationships in high-growth consumption-led industries, typically with more 'flow' product needs	While income in Corporate & Institutional Banking fell 10 per cent year-on-year the proportion of client income from consumption-led industries increased from 27.9 per cent to 30.0 per cent	30.0% of client income  2016 30.0% 2015 27.9% 2014 27.0%
Proportion of corporate income from clients in consumption-led industries, including Consumer Services, Food and Staples Retailing, Household and Personal Products, Media, as well as Telecommunications Services			
<b>Corporate &amp; Institutional Banking</b> Collaboration with other client segments	Increase collaboration with other client segments to generate cross-segment business opportunities	Employee Banking account sign-ups from Corporate & Institutional Banking clients have increased by 45 per cent year-on-year from 89,000 to 129,000	129,000 new sign-ups  2016 129k 2015 89k 2014 N/A
Number of Employee Banking account sign-ups from Corporate & Institutional Banking client relationships. Tracked on this basis from 2015			

## SELECTED KEY PERFORMANCE INDICATORS

### SELECTED CLIENT KEY PERFORMANCE INDICATORS continued

Indicator	Aim	Analysis	Performance						
<b>Retail Banking</b> Online adoption	Align the Group's service to how clients want to interact and increase efficiency by reducing the amount of manual processing	Online applications have doubled year-on-year, with the proportion of Retail Banking clients that are digital-active up from 35.0 per cent in 2015 to 38.9 per cent at the end of 2016	<b>38.9% of clients</b>  <table border="1" data-bbox="1008 422 1448 550"> <tr> <td>2016</td> <td>38.9%</td> </tr> <tr> <td>2015</td> <td>35.0%</td> </tr> <tr> <td>2014</td> <td>32.4%</td> </tr> </table>	2016	38.9%	2015	35.0%	2014	32.4%
2016	38.9%								
2015	35.0%								
2014	32.4%								
	Digital-active clients as a proportion of total Retail Banking active clients								
<b>Retail Banking</b> Priority client focus	Increase the proportion of income from Priority clients, reflecting the strategic shift in client mix towards affluent and emerging affluent clients	The share of Retail Banking income from Priority clients increased to 39.0 per cent in 2016 from 35.1 per cent in 2015, supported by more than 90,000 new-to-bank Priority clients in the year	<b>39.0% of Retail Banking income</b>  <table border="1" data-bbox="1008 691 1448 819"> <tr> <td>2016</td> <td>39.0%</td> </tr> <tr> <td>2015</td> <td>35.1%</td> </tr> <tr> <td>2014</td> <td>27.5%</td> </tr> </table>	2016	39.0%	2015	35.1%	2014	27.5%
2016	39.0%								
2015	35.1%								
2014	27.5%								
	Income from Priority clients as a proportion of total Retail Banking income								
<b>Commercial Banking</b> Straight2Bank utilisation	Improve client experience and minimise manual transactions and the reliance on branches for cash, trade and FX, thereby reducing the cost of servicing	Straight2Bank utilisation increased 11 per cent in 2016, with 42.4 per cent of active Commercial Banking clients using the capability by the end of 2016  Comparable data for 2014 is not available as Commercial Banking was formed in 2015	<b>42.4% of clients</b>  <table border="1" data-bbox="1008 961 1448 1089"> <tr> <td>2016</td> <td>42.4%</td> </tr> <tr> <td>2015</td> <td>38.0%</td> </tr> <tr> <td>2014</td> <td>N/A</td> </tr> </table>	2016	42.4%	2015	38.0%	2014	N/A
2016	42.4%								
2015	38.0%								
2014	N/A								
	The proportion of active Commercial Banking clients that are active on Straight2Bank								
<b>Commercial Banking</b> New-to-bank ecosystem clients	Bank our clients' international and domestic networks of suppliers and buyers (the ecosystem)	Commercial Banking on-boarded 26.9 per cent more clients through its 'banking the ecosystem' initiative in 2016. This was a significant improvement compared to 2015	<b>26.9% increase in clients on-boarded</b>  <table border="1" data-bbox="1008 1230 1448 1358"> <tr> <td>2016</td> <td>26.9%</td> </tr> <tr> <td>2015</td> <td>(1.7)%</td> </tr> <tr> <td>2014</td> <td>N/A</td> </tr> </table>	2016	26.9%	2015	(1.7)%	2014	N/A
2016	26.9%								
2015	(1.7)%								
2014	N/A								
	Number of new-to-bank clients on-boarded in the period as part of our 'banking the ecosystem' initiative								
<b>Private Banking</b> Net new money	Grow and deepen client relationships, improve investment penetration and attract new clients	We saw significant outflows in 2016, particularly in ASEAN & South Asia and Europe & Americas, where investor sentiment was impacted by volatility in equity and other markets, coupled with actions taken to improve our risk profile	<b>\$ (2.0) bn</b>  <table border="1" data-bbox="1008 1500 1448 1628"> <tr> <td>2016</td> <td>\$ (2.0) bn</td> </tr> <tr> <td>2015</td> <td>\$ 0.3 bn</td> </tr> <tr> <td>2014</td> <td>N/A</td> </tr> </table>	2016	\$ (2.0) bn	2015	\$ 0.3 bn	2014	N/A
2016	\$ (2.0) bn								
2015	\$ 0.3 bn								
2014	N/A								
	Net new money added in the period in US dollar billions. Tracked on this basis since 2015.								
<b>Private Banking</b> Net client score for ease of doing business	Holistically improve the Private Banking client experience through all touch points with the Group	Launched in 2016, the annual Private Banking client satisfaction survey reviews multiple dimensions of client sentiment and measures our progress in putting client needs at the heart of everything we do  In 2016, significantly more clients rated us very easy to do business with than those that rated us difficult to do business with	<b>17.4%</b>  <table border="1" data-bbox="1008 1769 1448 1897"> <tr> <td>2016</td> <td>17.4%</td> </tr> <tr> <td>2015</td> <td>N/A</td> </tr> <tr> <td>2014</td> <td>N/A</td> </tr> </table>	2016	17.4%	2015	N/A	2014	N/A
2016	17.4%								
2015	N/A								
2014	N/A								
	The percentage of clients who rate us very easy to do business with, less the percentage who find us difficult to do business with								

We have also developed our Sustainability Aspirations to demonstrate progress against each of our three sustainability pillars. You can find these at [sc.com/sustainabilityaspirations](http://sc.com/sustainabilityaspirations)

# Group Chief Risk Officer's review

## Mark Smith on the risks that could impact our strategic objectives



2016 has been a year of progress on many fronts from a risk and compliance perspective. We ended the year with a balance sheet that is less concentrated, with more granular risk appetite<sup>1</sup> levels that have broader coverage, and a risk governance structure that is better aligned to support the execution of the Group's strategy.

Despite this progress there is more we can do. Loan impairment is at an elevated level in our corporate portfolio and we remain focused on executing our multi-year Financial Crime Compliance and Operational Risk Framework programmes. It is imperative that risks are identified, measured and managed in a holistic manner and that the risk and compliance function supports and enables sustainable performance for the Group despite the uncertainties in the external environment.

### Risk management approach

The risk and compliance function is an integral part of the Group's strategic decision-making process and plays a key role in building a stronger and more efficient business with the potential to produce better returns. The Group's business plans to execute our strategy are fully aligned with our tightened risk appetite and both have appropriate Board level oversight.

We have a strong capital and liquidity position and a robust risk governance structure managed by an experienced senior team which enables the support of our clients. Action taken to reduce our concentrations is making the Group less sensitive to idiosyncratic impairment volatility. Good risk management is not just about reducing exposures and we have selectively increased exposures in certain sectors and locations, further diversifying our portfolio.

We are focused on ensuring that risk and compliance work effectively as control

1. In 2016 our risk tolerance and risk appetite definitions were updated. Risk appetite is defined by the Group and approved by the Board. It is the maximum amount and type of risk that the Group is willing to assume in pursuit of its strategy. The management monitors against a risk tolerance that is within the Board approved risk appetite, in order to provide a buffer.

functions to holistically identify and manage risks. A healthy risk culture owned collectively by everyone within the Group is critical to the successful delivery of our

business objectives and to facilitate safe and sustainable growth.

The table below shows the Group's principal risks and how they are managed.

 Further details of our risk management approach are set out on pages 139 to 149

Principal risks	Our approach
<b>Credit risk and country cross-border risk</b>	The Group manages its credit and country cross-border exposures following the principle of diversification across products, regions, client segments and industry sectors
<b>Market risk</b>	The Group controls its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Group's franchise
<b>Liquidity and funding risk</b>	The Group should be able to manage its portfolio to meet its payment and collateral obligations under extreme but plausible liquidity stress scenarios without recourse to extraordinary central bank support
<b>Capital risk</b>	The Group maintains a strong capital position including the maintenance of management buffers sufficient to support its strategic aims
<b>Operational risk (including, among others, financial crime, regulatory compliance and cyber risk)</b>	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
<b>Strategic risk</b>	The Group reviews its strategy on an annual basis to take account of external and internal developments and monitors execution of strategic plans to ensure their effective implementation
<b>Reputational risk</b>	The Group will protect its reputation to ensure that there is no material damage to the Group's franchise

### Risk profile and performance in 2016

Overall, the credit quality for the Group has improved in 2016, although stresses remain in some sectors. This reflects significant exits within the liquidation portfolio and a repositioning of the corporate portfolio in line with our new granular risk appetite levels. The Group continues to take action to improve returns safely and sustainably. In 2016, the Group disclosed its decision to reduce balance sheet exposure to Principal Finance by streamlining the business over time. As a non-strategic business, the Group will exit Principal Finance and future gains and losses will be treated as restructuring and excluded from the underlying results of the Group. The Group's client exposures remain short tenor and our portfolio is increasingly well diversified across various dimensions as we manage within the Group's tighter risk appetite.

Conditions remain challenging in our markets in 2016. Loan impairment in the Group's ongoing business was broadly stable compared to last year, representing an historically elevated level.

Risk performance by client segment is as follows:

- Corporate & Institutional Banking loan impairment remains elevated compared to long run historical levels. Economic conditions in certain sectors remained challenging, notably in the oil and gas support services and diamond and jewellery sector, although exposures to these sectors are not material in the context of the Group. Conditions also remain stressed in certain countries impacted by sustained low commodities prices. The cover ratio for the Corporate & Institutional Banking ongoing business

has improved to 62 per cent from 47 per cent through 2016

- Commercial Banking loan impairment remained elevated but improved significantly across all regions benefitting from improvements in credit and account management. The cover ratio increased from 70 per cent in 2015 to 75 per cent in 2016
- Retail Banking loan impairment continued to benefit from actions taken to reduce higher risk unsecured portfolios, and the rollout of a new Retail decisioning framework in 11 markets to target high quality originations

The Group's gross non-performing loans (NPLs) fell year-on-year, mainly due to progress on the liquidation portfolio. Gross NPLs in the ongoing business increased, driven by a small number of exposures in the Corporate & Institutional Banking segment.

NPL inflows, credit grade 12 inflows and accounts on early alert fell in the second half of 2016. However, it is likely that the challenging conditions in our markets will persist into 2017 and therefore we remain vigilant.

 Further details of the 2016 risk performance are set out in the Chief Financial Officer's review on pages 24 to 29 and the Risk profile section on pages 150 to 181

### Update on key risk priorities

In the Group's 2016 half year report and accounts I described the priorities that we were focused on in 2016. We still have more work to do on many of these objectives but I can report the following progress on each priority:

#### • Build on the Group's risk culture

We made good progress in embedding accountability and end-to-end ownership of risk within the business teams. We continue to set the tone from the top to build a strong first line of defence

#### • Proactive portfolio management

We worked closely in the year with the credit portfolio management team within Corporate & Institutional Banking to reshape the segment's risk appetite, ensuring pricing discipline and improved distribution. We continue to enhance our stress-testing capability and build our enterprise-wide risk management function so that we can better manage the boundaries within which the Group operates

#### • Right-size our risk appetite

The Board approved more granular risk appetite levels to avoid the build-up of concentrations. We have actively reduced exposures in key areas such as commodity producers and in higher risk sectors in China. We will continue to identify and manage risks as they emerge

#### • Exit the liquidation portfolio and learn the lessons

We exited more than 80 per cent of RWAs in the liquidation portfolio with limited additional impairment. The hard lessons learnt from this exercise influence our approach to addressing the preceding three priorities

#### • Enhance our compliance risk management framework

We are making progress to implement our multi-year programme to upgrade systems. We are investing in best-in-class systems and are committed to achieving the highest possible standards of

conduct from all employees under our firm-wide conduct programme

#### ● Mitigating financial crime risks

Our investment in control systems and data analytics is improving our ability to fight financial crime. We are committed to being a leader in fighting financial crime

#### ● Strengthen the management of information and cyber security risks

The evolving threat landscape and increased focus by regulators on

information and cyber security (ICS) risk has led to enhanced focus by the Group. While much progress has been made, we will continue to assess and invest in our ICS risk capability

#### ● Improve risk infrastructure

We have multiple initiatives to improve infrastructure for exposure management, data quality, stress-testing, operational risk management and reporting

### 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 appetite and are adequately compensated. The table below shows the Group's principal uncertainties and how we are managing them.

 Further details on principal uncertainties are set out in the Risk review on pages 136 to 138

Principal uncertainties	Change from prior year	How this is mitigated	
<b>Deteriorating macroeconomic conditions including continuing slow growth in the eurozone, moderation of growth in China and asset price correction</b>		<ul style="list-style-type: none"> <li>• We have a framework that provides a 12 to 18 month forward view of the economic, business and credit conditions across our key markets, enabling us to take proactive action</li> <li>• We monitor economic trends and geo-political events and conduct stress tests and portfolio reviews at a Group, country and business level to assess the impact of extreme but plausible events</li> </ul>	 Risk heightened in 2016  Risk remained consistent with 2015 levels
<b>Geo-political uncertainties, including increasing protectionist policies following the US Presidential elections and the UK referendum decision to leave the European Union (Brexit) and the impact on world trade</b>		<ul style="list-style-type: none"> <li>• We ensure that there is regular senior level oversight, through the Group Risk Committee, of work undertaken to assess and manage geo-political risk</li> <li>• We continue to proactively assess and where appropriate, manage the impact to the Group and our exposures to clients, taking account of geo-political risks</li> </ul>	
<b>Evolving financial crime, fraud and cybercrime</b>		<ul style="list-style-type: none"> <li>• We continue to execute the Financial Crime Risk Mitigation Programme</li> <li>• A Global Fraud Risk Management Group has been instituted to augment our fraud risk standards</li> <li>• The Group has implemented a range of cyber crime defences to protect from hacking, misuse, malware, errors, social engineering and physical threats in recognition of heightened risk of cyber security</li> </ul>	
<b>Operational performance eroding external confidence in the Group</b>		<ul style="list-style-type: none"> <li>• The Group has a clear strategy, consistent with the risk appetite and financial objectives that are agreed with the Board from time to time.</li> <li>• The strategy is reviewed and challenged regularly at the Board level, with a focus on execution</li> <li>• We update our equity and debt providers and rating agencies regularly to ensure they understand our progress against strategy</li> </ul>	
<b>Exchange rate movements</b>		<ul style="list-style-type: none"> <li>• We monitor movements closely and adjust our exposures accordingly. We hedge our exposures to protect our capital ratios where practicable</li> </ul>	
<b>Evolving impact of regulatory compliance</b>		<ul style="list-style-type: none"> <li>• We have implemented Group-wide policies and procedures to manage the risks associated with managing regulatory change and to inform behaviour across the organisation with clear accountability and responsibilities</li> <li>• We are closely monitoring the discussions of the Basel Committee of Banking Services on the standards for the calibration and implementation of capital floors</li> </ul>	
<b>Regulatory investigations, reviews and legal proceedings</b>		<ul style="list-style-type: none"> <li>• We have invested in improving compliance controls, including increasing the capacity and capability of compliance resources, enhancing systems and controls, and implementing remediation programmes</li> <li>• We are cooperating with all relevant ongoing reviews, requests for information and investigations and we actively manage legal proceedings, including in respect of legacy issues. We are restructuring or otherwise mitigating higher-risk business activities</li> </ul>	

### Conclusion

The Group has considerable opportunities to add value to our clients in our footprint. We are pursuing this objective – putting their interests at the heart of everything we do – while aligning our portfolio to our more granular risk appetite thresholds.

The economic landscape remains challenging in many of our markets and we continue to take assertive actions where required.

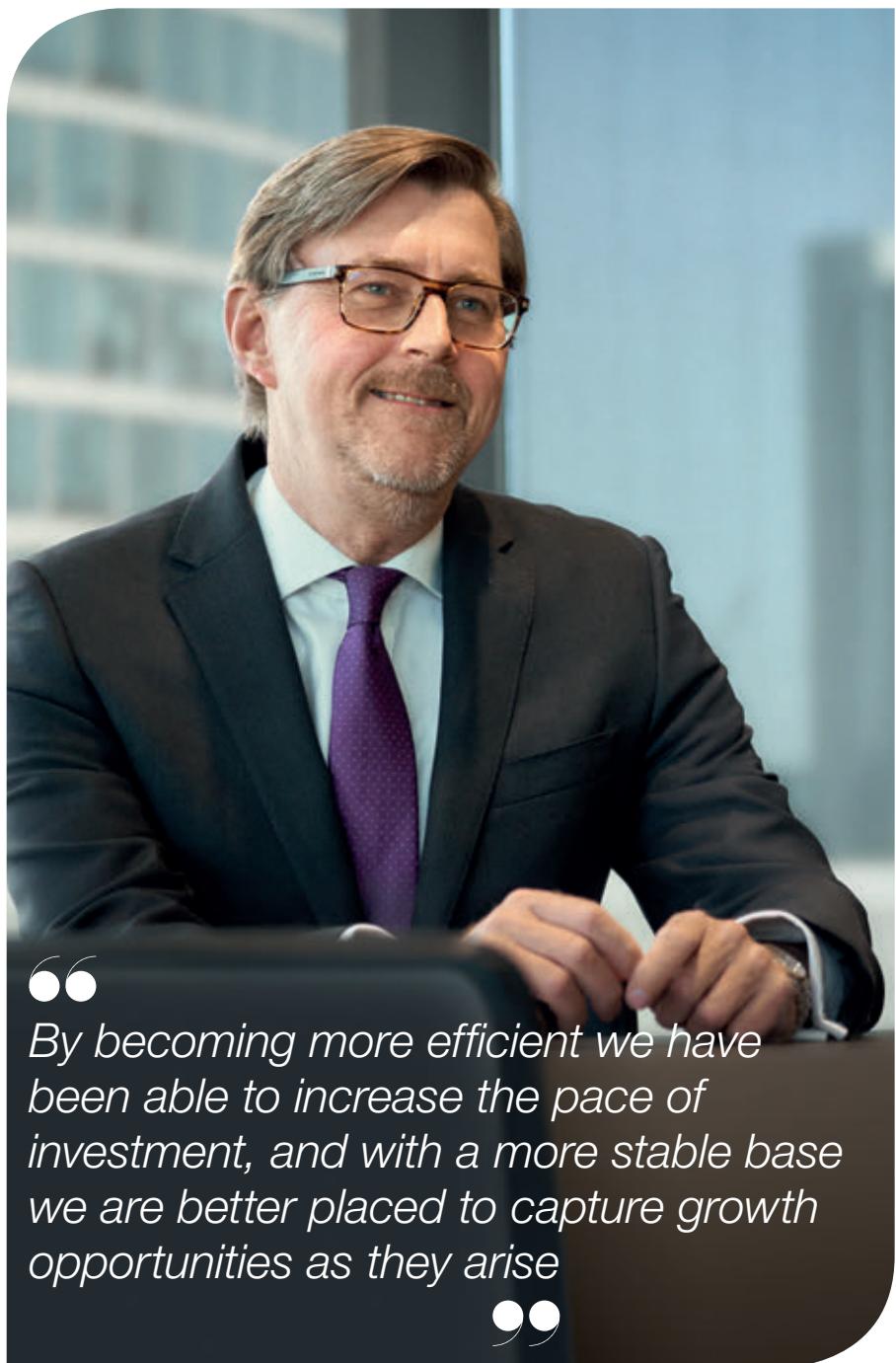


**Mark Smith**  
Group Chief Risk Officer

24 February 2017

# Group Chief Financial Officer's review

## Andy Halford on the Group's financial performance in 2016



The Group committed to a set of actions at the end of 2015 designed to stabilise its financial performance. As a result of disciplined execution in 2016 we delivered quarterly income stability, lower costs and a higher quality balance sheet. This is encouraging early progress but we have a long way to go and further significant improvement in financial performance is required.

### Financial performance highlights:

- Underlying income of \$13.8 billion was down 11 per cent year-on-year but stable during 2016
- Underlying operating expenses were 5 per cent lower, a second successive year-on-year reduction. Gross cost efficiencies of over \$1.2 billion in 2016 created capacity to increase investment in the second half
- Overall credit quality improved though stresses remain. Underlying loan impairment in the ongoing business of \$2.4 billion was flat year-on-year
- Underlying profit before tax of \$1.1 billion includes Principal Finance losses of around \$650 million
- Statutory profit before tax of \$409 million in 2016 was a significant improvement on the \$1.5 billion loss in 2015
- Due to a strong focus on returns and progress reducing exposures in the liquidation portfolio the Group's Common Equity Tier 1 (CET1) ratio increased 100 basis points in the year to 13.6 per cent
- Underlying return on equity (ROE) of 0.3 per cent while low is an improvement on the negative 0.4 per cent reported in 2015. Statutory ROE was negative 1.1 per cent
- ROE was impacted by a high effective tax rate. This was driven primarily by non-deductible Principal Finance losses and other non-deductible expenses

- In addition to the \$2 billion Additional Tier 1 (AT1) securities issued in August 2016, the Group issued a further \$1 billion of AT1 securities in January 2017
- The Board has decided not to declare a dividend on Ordinary Shares for 2016

The performance commentary that follows is on an underlying basis unless otherwise stated. A reconciliation between underlying and statutory results is set out on page 27.

### Underlying income

Income of \$13.8 billion was down 11 per cent year-on-year or 8 per cent on a constant currency basis. Factors negatively impacting income include US dollar strength against emerging market currencies and businesses that were sold or exited in 2015. Included in income is a \$217 million loss in respect of the fair valuation of Principal Finance investments. The Group's Net Interest Margin declined 16 basis points year-on-year to 1.53 per cent, largely driven by actions taken to improve the Group's risk profile as well as changes in product mix.

Despite difficult market conditions quarterly trends remained stable through the year. This is a significant improvement on the sequential quarterly decline experienced through 2015 and reflects the good early progress made against our strategic priorities.

### Underlying operating expenses

Operating expenses excluding the UK bank levy were 4 per cent lower year-on-year or 2 per cent on a constant currency basis. Regulatory costs continue to be a significant part of overall costs given the number of continuing initiatives.

### Underlying performance summary

	2016 \$million	2015 \$million	Better / (worse) %
Operating income	<b>13,808</b>	15,439	(11)
Operating expenses	<b>(9,975)</b>	(10,478)	5
Operating profit before impairment losses and taxation	<b>3,833</b>	4,961	(23)
Impairment losses on loans and advances and other credit risk provisions	<b>(2,382)</b>	(4,008)	41
Other impairment	<b>(383)</b>	(311)	(23)
Profit from associates and joint ventures	<b>25</b>	192	(87)
Underlying profit before taxation <sup>1</sup>	<b>1,093</b>	834	31
Restructuring	<b>(855)</b>	(1,845)	54
Other items	<b>171</b>	(512)	nm <sup>2</sup>
Statutory profit/(loss) before taxation	<b>409</b>	(1,523)	127
Taxation	<b>(600)</b>	(673)	11
Loss for the year	<b>(191)</b>	(2,196)	91
Underlying return on equity (%)	<b>0.3</b>	(0.4)	
Return on equity (%)	<b>(1.1)</b>	(5.3)	
Underlying earnings/(loss) per share (cents)	<b>3.4</b>	(6.6)	
(loss) / earnings per share (cents)	<b>(14.5)</b>	(91.9)	
Dividend per share (cents)	<b>—</b>	13.7	
Common Equity Tier 1 ratio end point basis (%)	<b>13.6</b>	12.6	

1. A reconciliation between underlying and statutory results is set out on page 27

2. Not meaningful

The Group delivered more than \$1.2 billion of gross cost efficiencies in 2016 primarily through actions taken to reduce staff costs at the end of 2015. This created capacity for 50 per cent more investment year-on-year, which contributed to higher expenses in the second half. This investment was focused on enhancing our regulatory and compliance infrastructure and upgrading or replacing technology platforms. This will over time improve our control environment

and make us more efficient and better able to serve our clients.

Actions are underway to achieve at least a further \$1.1 billion of gross cost efficiencies by the end of 2018 such that operating expenses excluding the UK bank levy in 2018 are lower than in 2015.

	2016 \$million	2015 \$million	Better / (worse) %
Staff costs	<b>5,576</b>	5,994	7
Premises costs	<b>740</b>	779	5
General administrative expenses	<b>1,469</b>	1,620	9
Depreciation and amortisation	<b>680</b>	639	(6)
Other operating expenses	<b>8,465</b>	9,032	6
UK bank levy	<b>383</b>	440	13
Regulatory costs	<b>1,127</b>	1,006	(12)
Total operating expenses	<b>9,975</b>	10,478	5
Staff numbers	<b>86,693</b>	84,075	
Cost to income ratio	<b>72.2%</b>	67.8%	
Statutory cost to income ratio	<b>72.6%</b>	73.1%	

### Underlying loan impairment

Loan impairment in 2015 included \$1.6 billion related to exposures transferred to the liquidation portfolio that was incurred prior to transfer. Excluding this, loan impairment in our ongoing business of \$2.4 billion was flat year-on-year and remains elevated relative to historic trends.

Within the ongoing business, Commercial Banking loan impairment was lower

year-on-year across all regions although it remains elevated. Continued improvement in Retail Banking loan impairment was driven primarily by a better performance in Korea and our focus on affluent clients that resulted in an improved portfolio mix. Offsetting this were increases in Corporate & Institutional Banking loan impairment related to a small number of clients engaged in commodity-related sectors and parts of the diamond and jewellery industry.

	2016 \$million	2015 \$million	Better / (worse) %
Corporate & Institutional Banking	1,401	723	(94)
Retail Banking	489	677	28
Commercial Banking	491	980	50
Private Banking	1	1	—
Central & other items	—	—	—
Ongoing business loan impairment	2,382	2,381	—
Corporate & Institutional Banking	—	1,353	
Commercial Banking	—	181	
Private Banking	—	93	
Liquidation portfolio loan impairment	—	1,627	
Underlying Impairment on loans and advances and other credit risk provisions	2,382	4,008	41
Loan impairment / loan book (bps)	92	143	

### Other impairment

Other impairment of \$383 million included Principal Finance valuation impairment of \$226 million, up \$153 million year-on-year, related to changes in the trading outlook for companies invested in.

### Profit from associates and joint ventures

Profit from associates and joint ventures of \$25 million included a \$153 million loss in relation to the Group's share of losses arising from credit issues recently reported by its Permata joint venture in Indonesia. In addition to the underlying loss, a further \$62 million was taken as a restructuring charge, giving a total loss of \$215 million relating to this joint venture.

### Ongoing business and liquidation portfolio

Credit quality for the Group overall has improved although stresses remain in parts of the portfolio.

We have made significant progress in 2016 exiting exposures in the liquidation portfolio. As a result, gross non-performing loans (NPLs) in the liquidation portfolio were \$3.7 billion lower and the NPL cover ratio improved from 47 per cent to 64 per cent.

Gross NPLs in the ongoing business of \$5.9 billion were \$633 million higher year-on-year following the downgrade of a small number of exposures in Corporate & Institutional Banking. New inflows into NPLs in the ongoing business have slowed year-on-year, however continued challenging market conditions mean

stresses remain in certain commodities-related sectors. The NPL cover ratio of our ongoing business rose to 69 per cent and 73 per cent after including collateral.

Credit grade 12 accounts in the ongoing business increased to \$1.5 billion in 2016 but new inflows have slowed in the second half.

We continue to take action to improve the Group's credit quality, exiting weaker credit or lower return clients, and we are selectively adding new clients. Overall the Group's exposures remain short tenor and are becoming increasingly diverse as we proactively manage our portfolios within the Group's tighter risk appetite.

Further details can be found in the Risk review and Capital review on pages 134 to 189.

	31.12.16			31.12.15		
	Ongoing business \$million	Liquidation portfolio \$million	Total \$million	Ongoing business \$million	Liquidation portfolio \$million	Total \$million
Impairment						
Underlying loan impairment	2,382	—	2,382	2,381	1,627	4,008
Restructuring loan impairment	—	409	409	—	968	968
Statutory loan impairment	2,382	409	2,791	2,381	2,595	4,976
Loans and advances						
Gross loans and advances	258,396	3,854	262,250	260,143	7,940	268,083
Net loans and advances	254,463	1,433	255,896	257,007	4,396	261,403
Credit quality						
Gross Non Performing Loans	5,880	3,807	9,687	5,247	7,512	12,759
Individual Impairment Provisions	(3,355)	(2,421)	(5,776)	(2,584)	(3,544)	(6,128)
Net Non Performing Loans	2,525	1,386	3,911	2,663	3,968	6,631
Credit Grade 12 accounts <sup>1</sup>	1,499	22	1,521	893	318	1,211
Cover ratio % <sup>2</sup>	69	64	67	62	47	53
Cover ratio (after collateral) % <sup>3</sup>	73	80	76	71	64	67
Risk-weighted assets	265,637	3,808	269,445	283,298	19,627	302,925

1. Includes Corporate & Institutional Banking, Commercial Banking and Central & other items

2. Including portfolio impairment provision

3. Excluding portfolio impairment provision

### Restructuring and other items

We have made good early progress executing against the commitments we made to restructure the Group's businesses.

The Group incurred further restructuring charges in 2016 of \$855 million taking the

total since November 2015 to \$2.7 billion. The main components of the 2016 charges include:

- A charge against income of \$85 million comprising net interest income on the liquidation portfolio offset by fair value adjustments and gains and losses on

business disposals. This includes write-downs of legacy assets in a non-strategic Corporate Finance business and our closed equity derivatives business, and a gain on the sale of our Philippines Retail Banking business offset by a loss following the reclassification of our Thailand Retail Banking business.

- Expenses of \$236 million largely arising from redundancy costs and further branch rationalisation most of which was incurred in the fourth quarter
- Loan impairment of \$409 million and other impairment of \$63 million related almost entirely to the liquidation portfolio
- A \$62 million loss related to the Group's share of losses on a portfolio of loans separately identified by its Permata joint venture that are to be liquidated

In 2016 the Group disclosed its decision to reduce its balance sheet exposure to Principal Finance by streamlining the business over time and managing its third party portfolio to maximise value for shareholders and third party investors. In 2016 Principal Finance incurred losses of around \$650 million compared to losses of around \$300 million in 2015. As a

non-strategic business the Group will exit Principal Finance and future gains and losses will be treated as restructuring and excluded from the underlying results of the Group.

It remains our expectation that restructuring charges will total around \$3 billion once complete.

In addition to restructuring charges other items excluded from the Group's underlying performance include:

- In 2015 the Group incurred a one-off valuation adjustment of \$863 million relating to a change in its methodology for estimating credit and funding valuation adjustments
- In 2015 the Group realised a \$218 million net gain on the sale of standalone consumer finance businesses in Hong Kong and elsewhere. In 2016 the Group

booked a \$253 million net gain relating to the sale of its Mandatory Provident Fund business in Hong Kong

- The Group has adopted the IFRS 9 Financial Instruments requirement to reflect changes in the value attributable to own credit on fair value elected liabilities in other comprehensive income. As a result, in 2016 the Group's own credit adjustment loss of \$372 million was reported within equity instead of through the income statement. This change will remove future volatility in the reported results arising from changes in the Group's own credit risk
- Goodwill impairment of \$166 million in 2016 related to the Group's subsidiary in Thailand where market conditions remain challenging and we are exiting our local Retail Banking business

	2016							
	Underlying \$million	Restructuring \$million	Valuation methodology changes \$million	Net gain on businesses disposed/ held for sale \$million	Own credit adjustment \$million	Goodwill impairment \$million	Gains arising on repurchase of subordinated liabilities \$million	Statutory \$million
Operating income	13,808	(85)	–	253	–	–	84	14,060
Operating expenses	(9,975)	(236)	–	–	–	–	–	(10,211)
Operating profit before impairment losses and taxation	3,833	(321)	–	253	–	–	84	3,849
Impairment losses on loans and advances and other credit risk provisions	(2,382)	(409)	–	–	–	–	–	(2,791)
Other impairment	(383)	(63)	–	–	–	(166)	–	(612)
Profit / (loss) from associates and joint ventures	25	(62)	–	–	–	–	–	(37)
Profit before taxation	1,093	(855)	–	253	–	(166)	84	409

	2015							
	Underlying \$million	Restructuring \$million	Valuation methodology changes \$million	Net gain on businesses disposed/ held for sale \$million	Own credit adjustment \$million	Goodwill impairment \$million	Gains arising on repurchase of subordinated liabilities \$million	Statutory \$million
Operating income	15,439	(863)	218	495	–	–	–	15,289
Operating expenses	(10,478)	(695)	–	–	–	–	–	(11,173)
Operating profit before impairment losses and taxation	4,961	(695)	(863)	218	495	–	–	4,116
Impairment losses on loans and advances and other credit risk provisions	(4,008)	(968)	–	–	–	–	–	(4,976)
Other impairment	(311)	(182)	–	–	–	(362)	–	(855)
Profit from associates and joint ventures	192	–	–	–	–	–	–	192
Profit/(loss) before taxation	834	(1,845)	(863)	218	495	(362)	–	(1,523)

### Group summary consolidated balance sheet

As a result of actions taken in 2016 the Group's balance sheet is more resilient, more liquid and becoming increasingly diverse across multiple dimensions including industry, region and single names.

We continue to be funded primarily by client deposits with a client advances-to-deposits ratio of 67.6 per cent. The Group's funding structure remains conservative with limited

refinancing requirements over the next few years.

Around 70 per cent of the Group's financial assets are held at amortised cost and 61 per cent of total assets have a residual maturity of less than one year.

Key points to note:

- Cash balances increased by \$5.4 billion reflecting higher surplus liquidity held primarily in Europe & Americas

- Loans to banks and customers remained stable year-on year. Loans to customers were lower by 2 per cent despite increases in short-term reverse repurchase transactions due to a strong focus on returns and restructuring activities. Offsetting this, loans to banks were up 12 per cent with strong growth in ASEAN & South Asia and Greater China & North Asia as we redeployed liquidity into these markets

- Investment securities were down 6 per cent or \$8 billion as we reduced holdings of UK Government bonds and other debt securities due to price volatility and increased to a lesser degree investments in US treasury bills to take advantage of the eligibility criteria for liquid asset buffers. Around 90 per cent of our investment in treasury bills and debt securities are of investment grade and 48 per cent have a residual maturity of less than 12 months
- Customer appetite for derivative transactions has increased in currency and rates markets as political

uncertainties caused volatility in the US dollar against emerging markets and G10 currencies. This was partially offset by declines commodity derivatives as the Group was managing its commodity exposures. Our derivative positions continue to be largely balanced

- Customer accounts increased by 5 per cent or \$19 billion to \$378 billion year-on-year with more focus on diverse sources of funding including from repurchase transactions
- Debt securities of \$52 billion were \$16 billion lower compared to 2015

as the Group focused on customer accounts as a source of efficient funding

- Subordinated liabilities decreased \$2.3 billion primarily due to the redemption and repurchase of notes partly offset by debt issued in the year

Total shareholders' equity of \$49 billion was \$146 million higher reflecting the \$2 billion of AT1 securities issued in the year partly offset by \$779 million foreign currency translation reserve loss, a \$342 million own credit adjustment, \$231 million of dividend on preference shares and AT1 coupons, and a loss after tax in the year of \$191 million.

	31.12.16 \$million	31.12.15 \$million	Increase / (decrease) \$million	Increase / (decrease) %
<b>Assets</b>				
Cash and balances at central banks	<b>70,706</b>	65,312	5,394	8
Loans and advances to banks <sup>1</sup>	<b>74,669</b>	66,769	7,900	12
Loans and advances to customers <sup>1</sup>	<b>255,896</b>	261,403	(5,507)	(2)
Investment securities <sup>1</sup>	<b>123,812</b>	131,846	(8,034)	(6)
Derivative financial instruments	<b>65,509</b>	63,143	2,366	4
Other assets	<b>56,100</b>	52,010	4,090	8
<b>Total assets</b>	<b>646,692</b>	640,483	6,209	1
<b>Liabilities</b>				
Deposits by banks <sup>1</sup>	<b>37,612</b>	38,248	(636)	(2)
Customer accounts <sup>1</sup>	<b>378,302</b>	359,127	19,175	5
Debt securities in issue <sup>1</sup>	<b>52,370</b>	68,797	(16,427)	(24)
Derivative financial instruments	<b>65,712</b>	61,939	3,773	6
Subordinated liabilities and other borrowed funds	<b>19,523</b>	21,852	(2,329)	(11)
Other liabilities <sup>1</sup>	<b>44,515</b>	42,008	2,507	6
<b>Total liabilities</b>	<b>598,034</b>	<b>591,971</b>	<b>6,063</b>	<b>1</b>
<b>Equity</b>	<b>48,658</b>	<b>48,512</b>	<b>146</b>	<b>–</b>
<b>Total liabilities and shareholders' funds</b>	<b>646,692</b>	<b>640,483</b>	<b>6,209</b>	<b>1</b>
<b>Advances to deposits ratio</b>	<b>67.6%</b>	<b>72.8%</b>		

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

#### Risk-weighted assets

Total Group RWAs of \$269.4 billion at the end of 2016 were 11 per cent or \$33.5 billion lower compared to 31 December 2015.

Credit RWAs were \$31.5 billion lower following the exit of exposures in the liquidation portfolio that reduced RWAs

by \$15.8 billion, changes in Financial Markets and Principal Finance assets and reductions from model, methodology and policy changes as well as foreign currency translation.

Operational risk RWAs were \$1.9 billion lower due to the change in income over a rolling three-year time horizon.

Market risk RWAs were broadly flat with XVA and hedging increases offset by reductions elsewhere including various structured products.

Further details are contained in the Risk review and Capital review on pages 134 to 189 of this report.

	31.12.16 \$million	31.12.15 \$million	Increase / (decrease) \$million	Increase / (decrease) %
<b>By client segment</b>				
Corporate & Institutional Banking	<b>142,765</b>	167,735	(24,970)	(15)
Retail Banking	<b>42,163</b>	47,659	(5,496)	(12)
Commercial Banking	<b>31,938</b>	34,628	(2,690)	(8)
Private Banking	<b>6,088</b>	7,173	(1,085)	(15)
Central & other items	<b>46,491</b>	45,730	761	2
<b>Total</b>	<b>269,445</b>	302,925	(33,480)	(11)
<b>By risk type</b>				
Credit Risk	<b>213,875</b>	245,402	(31,527)	(13)
Operational Risk	<b>33,693</b>	35,610	(1,917)	(5)
Market Risk	<b>21,877</b>	21,913	(36)	0
<b>Total Risk</b>	<b>269,445</b>	302,925	(33,480)	(11)

## Capital base and ratios

The Group remains well capitalised with its CET1 capital ratio of 13.6 per cent up 100 basis points in 2016 primarily due to the reduction of RWAs. The Group's leverage ratio increased to 5.7 per cent from 5.5 per cent due to a small increase in Tier 1 capital as a result of Tier 1 capital issued in the year.

The Group issued \$2 billion of AT1 securities in August 2016 which contributed to an improvement in its Tier 1 capital ratio by nearly 160 basis points to 15.7 per cent at the end of 2016.

The Group met both the CET1 ratio and the leverage ratio requirements of the 2016 Bank of England stress test after the impact of strategic management actions.

The Group did not meet its Tier 1 capital requirement but the Prudential Regulation Authority (PRA) Board concluded that in light of the steps the Group had already taken during 2016 to strengthen its capital position it was not required to submit a revised capital plan.

In January 2017 the Group strengthened its capital position further by issuing another \$1 billion of AT1 securities.

The eventual outcome of regulatory reforms to finalise banks' capital requirements remains unclear. The Basel Committee on Banking Supervision intended to publish the final standards for the calibration and implementation of capital floors by the end of 2016 but recently communicated that it required more time to finalise the package. Until these proposals and the extent to which Europe and the PRA will adopt them is known eventual bank capital requirements that affect the Group remains uncertain.

	31.12.16 \$million	31.12.15 \$million
Common Equity Tier 1 capital	<b>36,608</b>	38,182
Additional Tier 1 capital (AT1) instruments	<b>5,684</b>	4,591
Tier 1 capital	<b>42,292</b>	42,773
Tier 2 capital	<b>15,146</b>	16,248
Total capital	<b>57,438</b>	59,021
Common Equity Tier 1 capital ratio (end point)	<b>13.6%</b>	12.6%
Total capital ratio (transitional)	<b>21.3%</b>	19.5%
Leverage ratio	<b>5.7%</b>	5.5%
Average leverage ratio	<b>5.6%</b>	n/a

## Summary

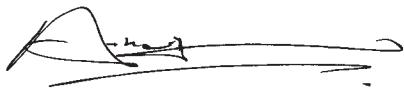
The series of actions that we committed to at the end of 2015 and executed throughout 2016 were designed with a challenging macro environment in mind.

Despite these challenges we ended the year with income stability, lower costs and we have strengthened our foundations, increasing our resilience to economic cycles.

While this early progress is encouraging, further significant improvement in our financial performance is required.

The timing and extent of any financial benefit that might arise should the macro environment improve in 2017 remains uncertain. Our collective actions in 2016 will in any event enable us to build a stronger business over time with better returns.

We remain confident in the opportunities in our markets as well as the ability of our people and our strategy to capture them.



**Andy Halford**  
Group Chief Financial Officer

24 February 2017

# Client segment reviews

We have four client segments. Corporate & Institutional Banking and Private Banking are run globally, with clients in those segments supported by relationship managers with global oversight. Commercial Banking and Retail Banking are run regionally with global oversight of segment strategy, systems and products. Clients are served by country-level relationship managers with specific knowledge of the local market. Items not directly managed by client segments are included in Central & other items. The following table highlights the performance of our client segments during 2016.

GROUP PERFORMANCE BY CLIENT SEGMENT (AUDITED)						
	2016					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other Items \$million	Total \$million
<b>Underlying performance</b>						
<b>Operating income</b>	6,472	4,669	1,295	496	876	13,808
<b>Operating expenses</b>	(4,268)	(3,413)	(929)	(463)	(902)	(9,975)
<b>Operating profit/(loss) before impairment losses and taxation</b>	2,204	1,256	366	33	(26)	3,833
Impairment losses on loans and advances and other credit risk provisions	(1,401)	(489)	(491)	(1)	–	(2,382)
Other impairment	(368)	(1)	5	–	(19)	(383)
Profit from associates and joint ventures	–	–	–	–	25	25
<b>Underlying profit/(loss) before taxation</b>	435	766	(120)	32	(20)	1,093
Restructuring	(459)	(47)	(26)	(73)	(250)	(855)
Net gains on businesses disposed/held for sale	–	–	–	–	253	253
Own credit adjustment <sup>1</sup>	–	–	–	–	–	–
Goodwill impairment	–	–	–	–	(166)	(166)
Gains arising on repurchase of subordinated liabilities	–	–	–	–	84	84
<b>Statutory profit/(loss) before taxation</b>	(24)	719	(146)	(41)	(99)	409
<b>Total assets</b>	289,183	96,834	27,151	11,974	221,550	646,692
Of which: loans and advances to customers	122,231	93,488	24,013	11,908	4,256	255,896
<b>Total liabilities</b>	347,865	121,015	35,576	21,840	71,738	598,034
Of which: customer accounts	204,279	117,355	32,570	21,767	2,331	378,302
Risk-weighted assets (unaudited)	142,765	42,163	31,938	6,088	46,491	269,445
Underlying return on risk-weighted assets (unaudited)	0.3%	1.7%	(0.4)%	0.5%	(0.0)%	0.4%
	2015 <sup>2</sup>					
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other Items \$million	Total \$million
<b>Underlying performance</b>						
<b>Operating income</b>	7,181	5,107	1,605	534	1,012	15,439
<b>Operating expenses</b>	(4,456)	(3,510)	(1,071)	(341)	(1,100)	(10,478)
<b>Operating profit/(loss) before impairment losses and taxation</b>	2,725	1,597	534	193	(88)	4,961
Impairment losses on loans and advances and other credit risk provisions	(2,076)	(678)	(1,160)	(94)	–	(4,008)
Other impairment	(244)	–	(17)	–	(50)	(311)
Profit from associates and joint ventures	–	–	–	–	192	192
<b>Underlying profit/(loss) before taxation</b>	405	919	(643)	99	54	834
Restructuring	(1,193)	(395)	(61)	(7)	(189)	(1,845)
Valuation methodology changes	(863)	–	–	–	–	(863)
Net gains on businesses disposed/held for sale	–	–	–	–	218	218
Own credit adjustment <sup>1</sup>	–	–	–	–	495	495
Goodwill impairment	–	–	–	–	(362)	(362)
<b>Statutory profit/(loss) before taxation</b>	(1,651)	524	(704)	92	216	(1,523)
<b>Total assets</b>	288,047	97,266	25,460	15,393	214,317	640,483
Of which: loans and advances to customers	121,523	94,697	24,340	15,296	5,547	261,403
<b>Total liabilities</b>	347,184	117,189	32,361	24,627	70,610	591,971
Of which: customer accounts	187,462	114,584	30,685	24,540	1,856	359,127
Risk-weighted assets (unaudited)	167,735	47,659	34,628	7,173	45,730	302,925
Underlying return on risk-weighted assets (unaudited)	0.2%	1.8%	(1.6)%	1.4%	0.1%	0.3%

1. In 2016 the Group was an early adopter of the IFRS 9 Financial Instruments requirement to reflect changes in the value attributable to own credit on fair value elected liabilities in other comprehensive income. IFRS 9 does not permit the prior year to be restated. Refer to note 1 for further details

2. The 2015 comparatives have been re-presented to reflect the reorganisation of the Group's client segments. Refer to notes 1 and 2 for details

 For operating income by product and client segment please see page 297

# Corporate & Institutional Banking

## OUR SEGMENT AT A GLANCE



*“By focusing on our clients, by understanding their financing, investment and risk mitigation needs, by serving them more efficiently, we will drive growth and returns for the Group”*

**Simon Cooper**  
CEO, Corporate & Institutional Banking

### Key numbers for 2016

#### Profit/(loss) before taxation

**\$435 million**  
underlying basis

**\$(24) million**  
statutory basis

#### Risk-weighted assets

**\$143 billion**

#### Return on risk-weighted assets

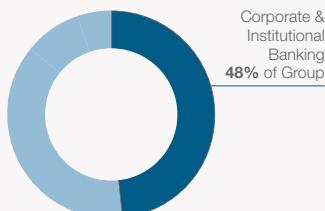
**0.3%**  
underlying basis

**(0.0)%**  
statutory basis

A reconciliation of underlying profit to statutory profit is on page 30

Comparative key numbers for 2015 are on page 30

### Loans and advances to customers



### Income split by product



Excludes Principal Finance which recorded negative income of \$(219) million in 2016

### Segment overview

Corporate & Institutional Banking supports our clients with transaction banking, corporate finance, financial markets and lending products and services in over 50 countries. We provide solutions to over 4,000 clients in some of the world's fastest-growing economies and most active trade corridors. Our clients include large corporations, governments, banks and investors headquartered and operating in Asia, Africa and the Middle East as well as those looking for access to and support in these dynamic markets.

### Strategic objectives

We want to be the bank of choice for our clients' global investment, trade and payment needs.

Our priorities for the segment are to:

- Better organise ourselves around our clients to deliver a service that is more aligned to their needs
- Improve the efficiency of how we do business to provide clients with a seamless experience, irrespective of jurisdiction or time zone
- Diversify and expand our client base, particularly to those based in OECD countries, to drive revenues and returns
- Leverage our unique footprint by focusing on clients for whom our network is a key differentiator
- Embed ourselves in our clients' operations and supply chains to maximise the relevance of our network and product suite
- Improve and grow our asset distribution capabilities to increase balance sheet efficiency and better mitigate against risks
- Improve the quality of our funding base to reduce funding costs, improve returns and enable future growth
- Deliver our conduct and financial crime risk programmes



#### CREATING OPPORTUNITIES IN OUR MARKETS

In 2016, Standard Chartered signed a risk-sharing agreement with the International Finance Corporation (IFC) in Bangladesh, the first and largest corporate risk participation programme to be launched in Bangladesh on a funded basis.

The agreement comes under the IFC's global Critical Commodities Finance Program (CCFP) and will allow us to originate trade finance transactions from Bangladesh. This could enable over \$1 billion in trade globally over a three-year period.

The IFC's CCFP shares risks with banks as they expand their emerging market commodities trade portfolios, and finances the export and import of commodities to the world's poorest economies.

Given that commodities are an essential part of the Bangladesh economy, the agreement with the IFC is aimed at providing sustainable economic growth in the region.

## PERFORMANCE HIGHLIGHTS

- Underlying income down owing to difficult market conditions, Principal Finance losses and assertive management actions which impacted balance sheet momentum
- Underlying profit rose with tightly controlled costs and reduced loan impairment more than offsetting lower income and significant Principal Finance losses
- Balance sheet momentum improved in the second half of 2016, supported by Trade Finance

## Progress against strategic objectives

- Identified a new generation of clients to drive growth, including selectively on-boarding new clients in the OECD region for whose business the Group's network is a differentiator
- Restructured our client coverage model to improve efficiency and reduce overlaps
- Won multiple key mandates from our buyer-supplier ecosystem initiative
- Delivered our cost reduction target for 2016 and took actions that will drive further efficiency improvements
- On track to exit or up-tier the low-returning portfolio identified in 2015
- Improved processes with significantly faster credit turnaround times and a reduction in the average number of days taken to on-board a new client
- Took significant actions to improve our risk profile

## Financial performance summary

Statutory loss before taxation of \$24 million in 2016 compared with a loss of \$1,651 million in 2015.

Underlying profit before taxation rose 7 per cent year-on-year to \$435 million due to reduced loan impairment and expenses which more than offset lower income and significant Principal Finance losses.

The difference between underlying and statutory profit before taxation is explained by restructuring charges of \$459 million in 2016 and \$1,193 million in 2015 as well as a \$863 million loss on valuation methodology changes recorded in 2015. Commentary hereafter is on an underlying basis, unless otherwise stated.

### Income

Income of \$6,472 million was down 10 per cent year-on-year as a result of challenging market conditions, Principal Finance losses and loss of income from exposures that were moved to the liquidation portfolio during 2016. This was partially offset by the non-recurrence of mark-to-market losses on syndicated loans in the prior year and by credit and funding valuation adjustment gains. Income in the second half of 2016 rose 6 per cent compared to the first half.

Transaction Banking income fell 11 per cent year-on-year. Within this, Trade Finance income fell 20 per cent due to weaker demand and declining commodity prices early in the year. Cash Management income was impacted by lower balances, although margins improved from higher central bank rates in the US and a change in mix towards high quality operating account balances. Custody income was lower owing to the weaker investment environment in emerging markets. Transaction Banking income grew 4 per cent in the second half compared to the first half of 2016, driven by balance sheet growth and improved

margins in Cash Management, coupled with a stabilised performance in Trade Finance.

Financial Markets income fell 2 per cent year-on-year, impacted by actions taken to rationalise the product range to enhance capital efficiency. This was coupled with lower income from Foreign Exchange and Rates. Foreign Exchange income declined 10 per cent as spread compression offset volume growth. Rates income fell 10 per cent from lower structured callable notes issuance. This was offset by credit and funding valuation adjustment gains and increased Credit income, which benefited from higher secondary market activity.

Corporate Finance income rose 4 per cent year-on-year although income in 2015 was significantly impacted by mark-to-market losses on syndicated loans. Excluding these from both years, income fell 19 per cent, impacted by more selective origination and challenging market conditions.

Lending and Portfolio Management income fell 43 per cent, reflecting lower balances as we exited low-returning relationships and from margin compression.

Principal Finance income fell from \$53 million in 2015 to negative \$219 million in 2016 due to fair valuation of Principal Finance investments.

### Expenses

Expenses fell 4 per cent year-on-year to \$4,268 million. These savings and the wider cost efficiency programme created capacity for increased investment to enhance our regulatory and compliance platforms and to deliver strategic initiatives.

### Impairment

Loan impairment fell 33 per cent year-on-year to \$1,401 million. 2015 included \$1,353 million of impairment relating to exposures transferred to the liquidation portfolio that was incurred prior to transfer. Loan impairment of \$795 million in the second half of 2016 compared with \$606 million in the first half with the increase driven by exposures to the diamond and jewellery sector.

Other impairment rose 51 per cent due to valuation impairment of Principal Finance investments following changes in the trading outlook for companies we invested in.

### Balance sheet

Loans and advances to customers rose 1 per cent as higher reverse repo balances were offset by lower balances in Lending and Portfolio Management. The exit of exposures within the liquidation portfolio also impacted loans and significantly reduced risk-weighted assets balances. Asset momentum improved in the second half, supported by growth in Trade Finance balances.

Customer accounts rose 9 per cent, driven by repo balances, operating account balances and corporate term deposits.

	Total		
	2016 \$million	2015 \$million	Better/ (worse)
<b>Underlying performance</b>			
Transaction Banking	<b>2,168</b>	2,448	(11)%
Financial Markets	<b>2,486</b>	2,533	(2)%
Corporate Finance	<b>1,801</b>	1,733	4%
Lending and Portfolio Management	<b>236</b>	414	(43)%
Principal Finance	<b>(219)</b>	53	nm <sup>1</sup>
<b>Operating income</b>	<b>6,472</b>	7,181	(10)%
Operating expenses	<b>(4,268)</b>	(4,456)	4%
Loan impairment	<b>(1,401)</b>	(2,076)	33%
Other impairment	<b>(368)</b>	(244)	(51)%
<b>Underlying profit before taxation</b>	<b>435</b>	405	7%
<b>Statutory loss before taxation</b>	<b>(24)</b>	(1,651)	99%
Loans and advances to customers	<b>122,231</b>	121,523	1%
Customer accounts	<b>204,279</b>	187,462	9%
Risk-weighted assets	<b>142,765</b>	167,735	(15)%
Underlying return on risk-weighted assets	<b>0.3%</b>	0.2%	5bps

1. Not meaningful

 A reconciliation of underlying profit to statutory profit is on page 30

# Retail Banking

## OUR SEGMENT AT A GLANCE



*We are two years into our transformation and making good progress. 2017 will be about further digitisation and returning to sustainable growth*

**Karen Fawcett**  
CEO, Retail Banking

### Key numbers for 2016

#### Profit before taxation

**\$766 million**

underlying basis

**\$719 million**

statutory basis

#### Risk-weighted assets

**\$42 billion**

#### Return on risk-weighted assets

**1.7%**

underlying basis

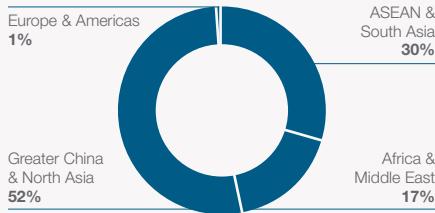
**1.6%**

statutory basis

### Loans and advances to customers



### Income split by region



A reconciliation of underlying profit to statutory profit is on page 30

Comparative key numbers for 2015 are on page 30

### Segment overview

We serve over 9 million affluent and emerging affluent clients and small businesses in many of the world's fastest growing cities across Asia, Africa and the Middle East. Our focus is on serving the banking needs of these Priority, Business and Personal Clients with market-leading digital capabilities and best-in-class products.

### Strategic objectives

We have made significant progress transforming Retail Banking in the last two years, sharpening our client proposition and building new technology.

Our priorities for the segment are:

- Continue to shift the client mix towards affluent and emerging affluent clients by focusing on our corporate ecosystems and alliances
- Improving quality of income through changes in client mix, risk profiles and products
- Invest to improve client experience through an enhanced end-to-end digital offering, with straightforward platforms and best-in-class products and services
- Move towards a more automated and standardised business model to improve efficiency and reduce our cost-to-income ratio
- Focus on core cities to drive income growth supported by digitisation and branch optimisation
- Reinvigorate our brand by clearly defining our proposition and simplifying our product and service offering
- Deliver our conduct and financial crime risk programmes



#### BANKING AT OUR FINGERTIPS

Standard Chartered is rolling out enhanced digital capabilities across its footprint, including a suite of cutting-edge biometric and voice technology platforms. This is fundamentally improving the client experience and enhancing the security of our clients' banking and investment transactions.

This technology will reach in excess of five million clients, making it the most extensive rollout of fingerprint biometric technology by any international bank, and a first in most markets. Thanks to touch login and voice recognition, clients are able to swiftly and securely access banking services, adding ease of use and a new layer of security to their interactions with the Group.

In 2015, we announced a \$1.5 billion investment drive in technology over a three-year period, and this global rollout of new technology represents one stage of that drive.

In addition, the Group has launched its Retail Workbench sales-and-service tool in 10 major markets; rolled out a new mobile and internet banking platform across 12 markets, including eight markets in Africa; as well as launching market-leading video/chat banking in Singapore, Malaysia and Taiwan, with plans to expand this service into China, Hong Kong and India during the first quarter of 2017.

**PERFORMANCE HIGHLIGHTS**

- Transformation is well underway with significant investment in digitisation and improvement in leading performance indicators**
- Continued improvement in expenses and loan impairment offset by lower income**
- Income declined year-on-year, but rose in the second half of 2016, underpinned by improved client quality, balance sheet growth and Wealth Management**

**Progress against strategic objectives**

- Increased share of income from Priority clients to 39 per cent of Retail Banking income supported by more than 90,000 new-to-bank Priority clients
- Announced the exit of Retail Banking in the Philippines and Thailand
- New risk decision framework in 11 markets to target high-quality growth and lower volatility in our unsecured asset portfolio
- Step-up of investment in digitisation with Retail Workbench now operational in 10 markets, upgraded mobile and internet banking platform in 12 markets, the launch of video/chat banking in three markets, and enhanced client payment capabilities in selected markets
- Commenced a multi-year overhaul of core platforms and digital sales capability in Wealth Management
- Launched focused client campaigns with new alliance partners, including Uber in six markets, Asia Miles in Hong Kong and Samsung Card and Shinsegae/E-mart in Korea

**Financial performance summary**

Statutory profit before taxation of \$719 million in 2016 compared with a statutory profit of \$524 million in 2015.

Retail Banking recorded underlying profit before taxation of \$766 million in 2016 compared to a profit of \$919 million in 2015 owing to lower income, which more than offset continued improvement in expenses and loan impairment. Excluding the impact of currency translation, the exit of our consumer finance business and a property disposal gain recorded in 2015, underlying profit declined 10 per cent due to lower income and increased investment.

The difference between underlying and statutory profit before taxation is explained by restructuring charges of \$47 million in 2016 and \$395 million in 2015. Commentary hereafter is on an underlying basis, unless otherwise stated.

**Income**

Income fell 9 per cent year-on-year to \$4,669 million, or 4 per cent excluding the impact of currency translation, business exits and a property disposal gain recorded in 2015. This decline was driven by weaker Wealth Management income in the first half of the year and lower income from unsecured lending. Income rose 2 per cent in the second half driven by Deposits and Wealth Management.

Greater China & North Asia income declined 9 per cent year-on-year, or 2 per cent excluding the impact of local currency depreciation, business exits and a property disposal gain recorded in 2015. Growth in Hong Kong from Deposits was offset by declines in Korea and to a lesser extent China and Taiwan. Korea income fell due to lower central bank rates and actions to improve the risk profile of our unsecured lending portfolio. Income rose in Korea in the second half compared to the first half driven by Mortgages and Wealth Management.

Wealth Management income also rose in all other markets in the region during the second half of 2016 benefiting from improved market conditions.

ASEAN & South Asia income fell 10 per cent year-on-year or 8 per cent on a constant currency basis. Income was impacted by central bank rate cuts in India which offset asset growth, and by lower Credit Cards and Personal Loans income in Singapore and Malaysia resulting from actions to improve client quality.

Africa & Middle East income fell 6 per cent year-on-year, impacted by local currency depreciation, particularly in Nigeria. On a constant currency basis, income fell 3 per cent with growth in Africa from Deposits and Wealth Management offset by central bank rate cuts in Pakistan and lower Wealth Management income in UAE.

**Expenses**

Retail Banking expenses fell 3 per cent year-on-year to \$3,413 million. On a constant currency basis, expenses were flat with cost efficiency initiatives and business exits offset by increased investment in digitisation and in our sales force.

**Impairment**

Loan impairment fell 28 per cent year-on-year to \$489 million. Reduced loan impairment in 2016 is an outcome of improving portfolio performance and mix across markets, notably Korea.

**Balance sheet**

Loans and advances to customers decreased by 1 per cent compared with the end of 2015 as growth in Mortgages was offset by a decline in Personal Loans. Risk-weighted assets fell due to model changes and a reduction in higher risk weighted balances. Customer accounts increased by 2 per cent driven by Greater China & North Asia.

Underlying performance	Greater China & North Asia		ASEAN & South Asia		Africa & Middle East		Europe & Americas		Total		
	2016 \$million	2015 \$million	2016 \$million	2015 \$million	2016 \$million	2015 \$million	2016 \$million	2015 \$million	2016 \$million	2015 \$million	Better/ (worse)
<b>Operating income</b>	<b>2,445</b>	2,683	<b>1,381</b>	1,531	<b>809</b>	864	<b>34</b>	29	<b>4,669</b>	5,107	(9)%
Operating expenses	(1,714)	(1,866)	(1,054)	(1,012)	(623)	(615)	(22)	(17)	(3,413)	(3,510)	3%
Loan impairment	(180)	(296)	(222)	(312)	(87)	(70)	—	—	(489)	(678)	28%
Other impairment	—	—	—	—	(1)	—	—	—	(1)	—	nm <sup>1</sup>
<b>Underlying profit before tax</b>	<b>551</b>	521	<b>105</b>	207	<b>98</b>	179	<b>12</b>	12	<b>766</b>	919	(17)%
<b>Statutory profit before tax</b>	<b>524</b>	171	<b>102</b>	182	<b>82</b>	162	<b>11</b>	9	<b>719</b>	524	37%
Loans and advances to customers	62,261	60,388	25,001	27,667	5,912	6,360	314	282	93,488	94,697	(1)%
Customer accounts	79,627	75,523	27,892	28,974	8,606	8,744	1,230	1,343	117,355	114,584	2%
Risk-weighted assets	21,205	24,262	14,327	16,284	6,423	6,927	208	186	42,163	47,659	(12)%
Underlying return on risk-weighted assets									1.7%	1.8%	(11)bps

1. Not meaningful

> A reconciliation of underlying profit to statutory profit is on page 30

# Commercial Banking

## OUR SEGMENT AT A GLANCE



“

*We have worked hard in 2016 on several fronts to reposition the business and get us ready for safe, differentiated growth*

”

**Anna Marrs**  
CEO, Commercial and Private Banking

### Key numbers for 2016

#### Loss before taxation

**\$120 million**  
underlying basis

**\$146 million**  
statutory basis

#### Risk-weighted assets

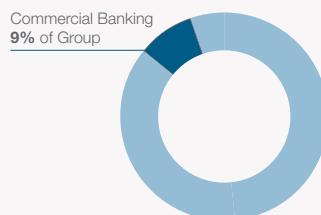
**\$32 billion**

#### Return on risk-weighted assets

**(0.4)%**  
underlying basis

**(0.4)%**  
statutory basis

### Loans and advances to customers



### Income split by region



A reconciliation of underlying profit to statutory profit is on page 30

Comparative key numbers for 2015 are on page 30

### Segment overview

Our clients are small and mid-sized companies in 27 markets across Asia, Africa and the Middle East. We serve these clients through dedicated relationship managers, providing financial solutions and services in areas such as trade finance, cash management, foreign exchange and interest rate hedging.

### Strategic objectives

Our ambition is to be our clients' partner of choice as they build their businesses internationally.

Our priorities for the segment are:

- Focus on digital channels and process efficiencies to improve client experience
- Materially improve the risk profile of the business by continuing to upgrade the standard of our client due diligence and credit risk management
- Leverage the Corporate & Institutional Banking product set and technology capabilities to strengthen our client offering
- Continue to control expenses in support of a lower cost-to-income ratio
- Invest in frontline staff to upgrade relationship manager capabilities and invest to create targeted value propositions to meet our clients' needs
- Deliver our conduct and financial crime risk programmes



#### HELPING CLIENTS TO EXPAND INTERNATIONAL TRADE NETWORKS

We continue to build out our network of cross-border relationship managers to support clients as they expand their international trade networks and invest overseas. Outbound trade in our top corridors across Asia, Africa and the Middle East originates largely from China and Korea; we invested in dedicated network teams in 2016 to focus on key trade and investment corridors.

In Korea, our geographic network gives us a competitive edge relative to other banks. Our Korean relationship managers in China, Hong Kong, Vietnam and India work closely with our mid-sized clients to navigate new countries and provide advisory solutions as they grow their businesses internationally.

For example, we recently created a cross-border trade receivables discounting solution for a Korean exporter

against the credit of a large Chinese electronics client, improving the Korean exporter's cash conversion cycle and balance sheet.

Similarly, our dedicated Chinese relationship teams located in Kenya, Tanzania and Uganda support clients from China as they trade within and invest in East Africa and the rest of the region. The focus of the Chinese segment has shifted over time from pure trading to tangible, long-term capital investments into Africa. Using Kenya as the East Africa gateway for business, investment and trade under China's One Belt, One Road policy, we expect to build on the more than 30 per cent growth achieved in 2016.

The corridors within Greater China and those between China and Southeast Asia remain important to our clients and continue to be a focus for us.

## PERFORMANCE HIGHLIGHTS

- We made good progress on our multi-year overhaul of the business and improving its risk profile**
- Lower loss for the year with reduced loan impairment and expenses more than offsetting a decline in income**
- Customer deposits grew in the second half but loans and advances were lower, impacted by management actions to improve the business' risk profile**

## Progress against strategic objectives

- Completed a client due diligence remediation programme and the exit of our small and mid-sized enterprise (SME) business in the UAE as well as enhancing financial crime controls
- Enhanced credit risk management by implementing refreshed portfolio standards for originating business and increased credit training for relationship managers
- Integrated Local Corporates clients, roughly doubling the size of Commercial Banking
- Migrated from legacy platforms and made progress integrating our infrastructure with Corporate & Institutional Banking
- Began setting up sector-specific offerings for clients and rolled out a dedicated Transaction Banking and Financial Markets sales coverage model to meet clients' international banking needs
- Reduced the cost base through targeted initiatives

## Financial performance summary

Statutory loss before taxation in 2016 of \$146 million compared with a loss of \$704 million in 2015.

Commercial Banking recorded an underlying loss before taxation of \$120 million in 2016 compared to a loss of \$643 million in 2015 owing to lower loan impairment and expenses.

The difference between underlying and statutory loss before taxation is explained by restructuring charges of \$26 million in 2016 and \$61 million in 2015. Commentary hereafter is on an underlying basis unless otherwise stated.

### Income statement

Income fell 19 per cent year-on-year to \$1,295 million due to declines in Greater China & North Asia and to a lesser extent ASEAN & South Asia and Africa & Middle East. The decline was driven by a slowdown in economic activity, reduced demand for Foreign Exchange hedging products in Hong Kong and by assertive steps taken to improve the risk profile of the business including the exit of our SME business in the UAE. Income in the second half declined 6 per cent owing to lower Lending income, which was impacted by management actions to optimise returns and reduce risk.

Greater China & North Asia income fell 26 per cent year-on-year, impacted mainly by a slowdown in economic activity in China. Income in Hong Kong was particularly impacted by reduced demand for Foreign Exchange products used for hedging, owing to renminbi depreciation. Income from Korea declined owing to lower balances in Transaction Banking and Lending, as well as margin reduction in Cash Management and Lending as a result of central bank rate cuts.

Income from ASEAN & South Asia fell 10 per cent year-on-year. Income was down across most products due to the impact of management actions to optimise returns

and reduce risk, coupled with unfavourable macroeconomic environment and local currency depreciation. Income from Trade Finance and Financial Markets stabilised in the second half compared to the first half of 2016.

Income from Africa & Middle East fell 19 per cent year-on-year, largely owing to our tightened risk appetite and the exit of our SME business in the UAE, which impacted income from Trade Finance and Financial Markets. African markets, notably Nigeria, were impacted primarily by local currency depreciation.

### Expenses

Expenses declined 13 per cent year-on-year to \$929 million, benefiting from cost efficiency actions and reduced headcount in Korea following the Special Retirement Plan announced at the end of 2015.

### Impairment

Loan impairment improved 58 per cent year-on-year to \$491 million – or a decline of 50 per cent in the ongoing business – but remains elevated, particularly in Africa & Middle East.

### Balance sheet

Loans and advances to customers decreased 1 per cent compared to 2015 as a result of management actions to improve the business' risk profile. Risk-weighted assets decreased by 8 per cent over the period.

Customer accounts increased 6 per cent year-on-year driven by Greater China & North Asia and Africa & Middle East. Commercial Banking remains a liquidity generator for the Group with a ratio of customer advances to deposits of 74 per cent.

	Greater China & North Asia		ASEAN & South Asia		Africa & Middle East		Total		
	2016 \$million	2015 \$million	2016 \$million	2015 \$million	2016 \$million	2015 \$million	2016 \$million	2015 \$million	Better (worse)
<b>Underlying performance</b>									
Operating income	522	709	478	533	295	363	1,295	1,605	(19)%
Operating expenses	(427)	(510)	(280)	(313)	(222)	(248)	(929)	(1,071)	13%
Loan impairment	(114)	(423)	(158)	(429)	(219)	(308)	(491)	(1,160)	58%
Other impairment	2	(9)	3	(8)	–	–	5	(17)	nm <sup>1</sup>
<b>Underlying profit/(loss) before taxation</b>	<b>(17)</b>	<b>(233)</b>	<b>43</b>	<b>(217)</b>	<b>(146)</b>	<b>(193)</b>	<b>(120)</b>	<b>(643)</b>	<b>81%</b>
<b>Statutory profit/(loss) before taxation</b>	<b>(23)</b>	<b>(285)</b>	<b>27</b>	<b>(221)</b>	<b>(150)</b>	<b>(198)</b>	<b>(146)</b>	<b>(704)</b>	<b>79%</b>
Loans and advances to customers	11,925	12,097	8,306	8,307	3,782	3,936	24,013	24,340	(1)%
Customer accounts	20,107	17,717	8,699	9,523	3,764	3,445	32,570	30,685	6%
Risk-weighted assets	11,346	14,431	13,301	12,521	7,291	7,676	31,938	34,628	(8)%
Underlying return on risk-weighted assets							(0.4)%	(1.6)%	126bps

1. Not meaningful

➤ A reconciliation of underlying profit to statutory profit is on page 30

# Private Banking

## OUR SEGMENT AT A GLANCE



“

*2016 was a year of transformation led by a new executive management team, with significant investment in our business to build the foundations for 2017 and beyond*

”

**Anna Marrs**

CEO, Commercial and Private Banking

### Key numbers for 2016

#### Profit/(loss) before taxation

\$32 million  
underlying basis

\$(41) million  
statutory basis

#### Risk-weighted assets

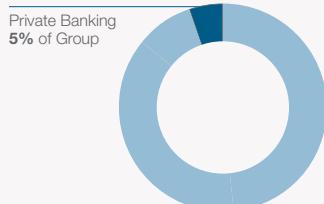
\$6 billion

#### Return on risk-weighted assets

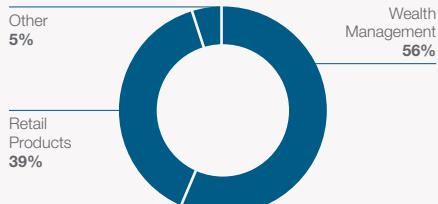
0.5%  
underlying basis

(0.6)%  
statutory basis

#### Loans and advances to customers



#### Income split by product



A reconciliation of underlying profit to statutory profit is on page 30

Comparative key numbers for 2015 are on page 30

## Segment overview

We help our clients manage, preserve and grow their wealth, recognising that in many cases their personal and business banking needs are closely linked. Through our presence in Asia, Africa, the Middle East and the UK, we offer clients access to a full suite of private banking services from investment and credit solutions to wealth preservation and succession planning. We combine market insights from multiple sources with our own research to deliver investment recommendations and our open architecture platform ensures clients can access a wide range of investment solutions.

## Strategic objectives

We want to be recognised as the private bank for entrepreneurs and are investing significantly to capture the opportunities present in our footprint.

Our priorities for the segment are:

- Enhance controls and processes to increase productivity
- Invest in our core banking platform and upgrade technology to improve the quality and breadth of our client service
- Broaden our product offering to give our staff the tools they need to attract new clients with assets under management of at least \$5 million
- Leverage the deep relationships across other client segments to expand our Private Banking client base
- Enhance our ability to attract and service ultra high net worth clients by investing in existing staff and hiring senior private bankers
- Deliver our conduct and financial crime risk programmes



#### ADVICE TO BENEFIT PRIVATE BANKING CLIENTS

We have developed an innovative solution with Thomson Reuters for our Private Banking clients. Named ADVICE, the application makes us the first in the industry to integrate product recommendations and advice into the Eikon platform.

The ADVICE platform aggregates all of our conviction lists, latest views, trade ideas and reference portfolios into a single, integrated application that allows relationship managers and investment advisors to view all the information they need in one location.

Hosting all this information on one platform drastically reduces the amount of time our relationship managers and investment advisors spend looking for information and preparing client proposals and updates, ensuring that the needs of our clients' needs are being met in a more responsive, timely manner.

ADVICE, which was rolled out in January 2017, will strengthen our advisory proposition, make us more efficient, and help us serve our Private Banking clients better.

**PERFORMANCE HIGHLIGHTS**

- **Income was impacted by market volatility and actions taken to improve the risk profile of the segment**
- **Investment increased significantly to enhance our control environment, improve our technology infrastructure and hire senior private bankers**
- **Assets under management declined owing to actions we took to improve our risk profile as well as maturing deposits**

**Progress against strategic objectives**

- Put in place a new Executive Management Team to drive the segment forward
- Intensified frontline hiring with a greater focus on more senior private bankers who are better able to acquire and service ultra high net worth clients
- In partnership with Thomson Reuters, we were the first in the industry to deliver cross-asset product recommendations and investment advice live through our online client interface
- Delivered a number of exclusive product launches, strengthened our discretionary proposition with our new US high yield fixed income portfolio and capitalised on demand for yield to launch our non-resident external deposit product

**Financial performance summary**

Statutory loss before taxation of \$41 million in 2016 compared with a profit of \$92 million in 2015.

Private Banking recorded underlying profit of \$32 million in 2016 compared to a profit of \$99 million in 2015, owing to lower income and higher expenses, which more than offset the benefit of lower loan impairment.

The difference between underlying and statutory profit before taxation is explained by restructuring charges of \$73 million in 2016 and \$7 million in 2015. Commentary hereafter is on an underlying basis unless otherwise stated.

**Income**

Income declined 7 per cent year-on-year to \$496 million, or a decline of 12 per cent excluding a one-off insurance recovery booked in 2016. The performance was impacted by market volatility and actions taken to improve the risk profile of the segment.

Wealth Management income fell 23 per cent year-on-year as market volatility early in the year impacted sales of funds and treasury products. Income was also impacted by actions we took which reduced secured lending balances in ASEAN & South Asia and Africa & Middle East. Wealth Management income declined in the second half of the year compared with the first half of 2016 owing to our actions to refocus the segment.

Income from Retail Products grew 17 per cent year-on-year, mainly in Deposits, which benefited from interest rate rises on foreign currency deposits in

Hong Kong and Singapore. This momentum continued in the second half of the year with income growth of 12 per cent in Retail Products compared with the first half.

**Expenses**

Expenses rose 36 per cent year-on-year to \$463 million, or an increase of 17 per cent excluding a one-off insurance credit in 2015. This increase was driven by a step-up in investment to enhance our control environment, the upfront cost to upgrade to our core banking platform and the hiring of new senior private bankers.

**Impairment**

Loan impairment benefited from the non-repeat of a provision relating to a single client in the first half of 2015. In the ongoing business, loan impairment was negligible in 2016.

**Assets under management**

Assets under management declined 4 per cent to \$54 billion as growth in Hong Kong was offset by actions we took to improve our risk profile in other markets as well as maturing deposits.

**Balance sheet**

Loans and advances to customers declined 22 per cent year-on-year and customer accounts declined 11 per cent year-on-year impacted by the maturity of fixed-term leveraged deposit products during the period. Loans and advances were also impacted by actions to improve our risk profile. Risk-weighted assets fell by 15 per cent year-on-year impacted by these same factors.

	Total		
	2016 \$million	2015 \$million	Better (worse)
<b>Underlying performance</b>			
Transaction Banking	1	1	–
Corporate Finance	–	2	(100)%
Wealth Management	280	365	(23)%
Retail Products	193	165	17%
Principal Finance	–	1	nm
Other	22	–	nm
<b>Operating income</b>	496	534	(7)%
Operating expenses	(463)	(341)	(36)%
Loan impairment	(1)	(94)	99%
Other impairment	–	–	nm <sup>1</sup>
<b>Underlying profit before taxation</b>	32	99	(68)%
<b>Statutory profit/(loss) before taxation</b>	(41)	92	(145)%
Loans and advances to customers	11,908	15,296	(22)%
Customer accounts	21,767	24,540	(11)%
Assets under management	54,218	56,664	(4)%
Risk-weighted assets	6,088	7,173	(15)%
Underlying return on risk-weighted assets	0.5%	1.4%	(95)bps

1. Not meaningful

➤ A reconciliation of underlying profit to statutory profit is on page 30

# Central & other items

## Segment overview

Items included in Central & other items in client segments and regions analysis differ, depending on whether they are managed directly by client segments, regions or centrally. The graphic below provides further details on what is included within Central & other items.

Central & other items in the client segment analysis includes corporate centre costs, Asset and Liability Management (ALM), treasury activities, joint ventures and associate investments, and the UK bank levy.

## Financial performance summary

Statutory loss before taxation of \$99 million in 2016 compared with a profit of \$216 million in 2015.

Underlying loss before taxation of \$20 million in 2016 compared with a profit of \$54 million in 2015, with improved expenses and other impairments offset by lower profits from associates and joint ventures and lower income.

The difference between underlying and statutory profit before taxation is primarily explained by the following items:

- Restructuring charges of \$250 million in 2016 and \$189 million in 2015
- Gain on sale of \$253 million in 2016 and \$218 million in 2015. The gain in 2016 relates to the sale of Mandatory Provident Fund in Hong Kong, while the gain in 2015 relates to the sale of Prime Credit in Hong Kong
- An own credit adjustment gain of \$495 million reported in the income statement in 2015. In 2016 an own credit adjustment loss of \$372 million was reported within equity. For further details on this change in treatment please refer to note 1.
- Goodwill impairment of \$166 million in 2016 and \$362 million in 2015. The 2016 impairment relates to our business in

	2016 \$million	2015 \$million	Total
<b>Underlying performance</b>			Better (worse)
<b>Operating income</b>	<b>876</b>	1,012	(13)%
Operating expenses	(902)	(1,100)	18%
Loan impairment	–	–	nm <sup>1</sup>
Other impairment	(19)	(50)	62%
Profit from associates and joint ventures	25	192	(87)%
<b>Underlying profit/(loss) before taxation</b>	<b>(20)</b>	54	nm <sup>1</sup>
Restructuring	(250)	(189)	(32)%
Net gains on businesses disposed/held for sale	253	218	16%
Own credit adjustment	–	495	nm <sup>1</sup>
Goodwill impairment	(166)	(362)	54%
Gains arising on repurchase of subordinated liabilities	84	–	nm <sup>1</sup>
<b>Statutory profit/(loss) before taxation</b>	<b>(99)</b>	216	nm <sup>1</sup>
Loans and advances to customers	4,256	5,547	(23)%
Customer accounts	2,331	1,856	26%
Risk-weighted assets	46,491	45,730	2%
Underlying return on risk-weighted assets	(0.0)%	0.1%	(16)bps

1. Not meaningful

Thailand while the 2015 impairment related to our business in Taiwan

- Gains arising on repurchase of subordinated liabilities of \$84 million in 2016 compared with nil in 2015 as wider credit spreads enabled the Group to buy back Standard Chartered's issued debt from the market at a discount

Commentary hereafter is on an underlying basis unless otherwise stated.

## Income

Income declined 13 per cent year-on-year owing to lower yields on liquid asset securities on lower central bank rates in Korea, India and China, and lower gains from the realisation of available-for-sale securities. This was partly offset by the non-repeat of the foreign exchange related loss on the prior year rights issue.

## Expenses

Operating expenses declined 18 per cent owing to the non-recurrence of one-off items from 2015, lower UK bank levy and a reduction in costs relating to structural cost hedges. The UK bank levy declined to \$383 million in 2016 compared to \$440 million in 2015 due to reduced rates and an increase in assets qualifying for relief.

## Impairment

Other impairment was lower by 62 per cent due to non-recurring strategic investment writedowns in 2015.

## Associates and joint ventures

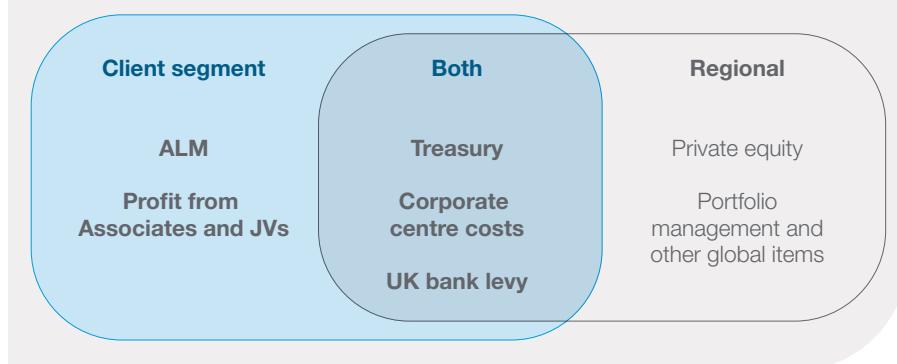
Associates and joint ventures recorded a profit of \$25 million in 2016 compared with a profit of \$192 million in 2015 impacted by losses at joint venture PT Bank Permata on elevated impairments.

## Balance sheet

Loans and advances to customers and customer accounts mainly relate to ALM activity. Balances are generally small, but can fluctuate between periods.

Risk-weighted assets rose 2 per cent predominantly due to higher securities holdings by ALM.

## ITEMS INCLUDED IN CENTRAL & OTHER



# Regional reviews

We have a simplified organisational structure that ensures we support clients across our footprint. Our four regions – Greater China & North Asia, ASEAN & South Asia, Africa & Middle East and Europe & Americas – are managed by their own CEOs. Items not directly managed by regions are included in Central & other items. The following table outlines the 2016 performance of each of our regions.

GROUP PERFORMANCE BY REGION (AUDITED)						
	2016					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other items \$million	Total \$million
<b>Underlying performance</b>						
<b>Operating income</b>	5,190	4,052	2,742	1,664	160	13,808
<b>Operating expenses</b>	(3,546)	(2,518)	(1,730)	(1,302)	(879)	(9,975)
<b>Operating profit/(loss) before impairment losses and taxation</b>	1,644	1,534	1,012	362	(719)	3,833
Impairment losses on loans and advances and other credit risk provisions	(424)	(762)	(563)	(511)	(122)	(2,382)
Other impairment	(47)	3	(18)	1	(322)	(383)
Profit/(loss) from associates and joint ventures	167	(146)	–	–	4	25
<b>Underlying profit/(loss) before taxation</b>	1,340	629	431	(148)	(1,159)	1,093
Restructuring	(137)	(443)	(82)	(113)	(80)	(855)
Valuation methodology changes	–	–	–	–	–	–
Net gains on businesses disposed/held for sale	253	–	–	–	–	253
Own credit adjustment <sup>1</sup>	–	–	–	–	–	–
Goodwill impairment	–	–	–	–	(166)	(166)
Gains arising on repurchase of subordinated liabilities	–	–	–	–	84	84
<b>Statutory profit/(loss) before taxation</b>	1,456	186	349	(261)	(1,321)	409
Net interest margin	1.3%	2.0%	3.2%	0.5%	–	1.5%
<b>Total assets</b>	239,740	143,704	56,980	195,937	10,331	646,692
Of which: loans and advances to customers	110,533	73,161	28,140	44,062	–	255,896
<b>Total liabilities</b>	210,795	126,701	38,020	181,639	40,879	598,034
Of which: customer accounts	169,957	88,141	29,931	90,273	–	378,302
Risk-weighted assets (unaudited)	76,665	96,673	52,849	43,487	(229)	269,445
	2015 <sup>2</sup>					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other items \$million	Total \$million
<b>Underlying performance</b>						
<b>Operating income</b>	6,077	4,253	2,858	1,877	374	15,439
<b>Operating expenses</b>	(3,763)	(2,621)	(1,790)	(1,387)	(917)	(10,478)
<b>Operating profit/(loss) before impairment losses and taxation</b>	2,314	1,632	1,068	490	(543)	4,961
Impairment losses on loans and advances and other credit risk provisions	(935)	(1,942)	(844)	(192)	(95)	(4,008)
Other impairment	(28)	(63)	(36)	18	(202)	(311)
Profit from associates and joint ventures	172	15	–	–	5	192
<b>Underlying profit/(loss) before taxation</b>	1,523	(358)	188	316	(835)	834
Restructuring	(520)	(547)	(112)	(516)	(150)	(1,845)
Valuation methodology changes	–	–	–	–	(863)	(863)
Net gains on businesses disposed/held for sale	217	–	1	–	–	218
Own credit adjustment <sup>1</sup>	–	–	–	–	495	495
Goodwill impairment	–	–	–	–	(362)	(362)
<b>Statutory profit/(loss) before taxation</b>	1,220	(905)	77	(200)	(1,715)	(1,523)
Net interest margin	1.5%	2.1%	3.4%	0.6%	–	1.7%
<b>Total assets</b>	233,102	150,566	60,123	188,478	8,214	640,483
Of which: loans and advances to customers	106,161	86,343	31,070	37,829	–	261,403
<b>Total liabilities</b>	208,220	130,253	40,961	170,142	42,395	591,971
Of which: customer accounts	163,519	90,731	33,013	71,864	–	359,127
Risk-weighted assets (unaudited)	82,070	109,730	57,566	56,815	(3,256)	302,925

1. In 2016 the Group was an early adopter of the IFRS 9 Financial Instruments requirement to reflect changes in the value attributable to own credit on fair value elected liabilities in other comprehensive income. IFRS 9 does not permit the prior year to be restated. Refer to note 1 for further details

2. The 2015 comparatives have been re-presented to reflect the reorganisation of the Group's regions. Refer to notes 1 and 2 for details

 For key country disclosures please see page 296

# Greater China & North Asia

## OUR REGION AT A GLANCE



*We are one of very few international banks that are well placed to capture opportunities arising from China's opening. We have taken action on costs and risks and now have a robust platform from which to grow*

**Benjamin Hung**  
Regional CEO, Greater China & North Asia

### Key numbers for 2016

#### Profit before taxation

\$1,340 million  
underlying basis

\$1,456 million  
statutory basis

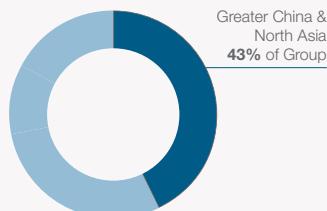
#### Risk-weighted assets

\$77 billion

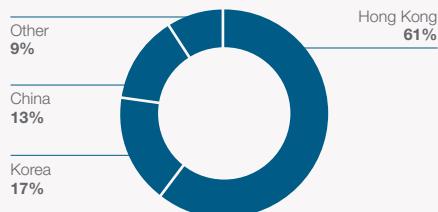
A reconciliation of underlying profit to statutory profit is on page 44

Comparative key numbers for 2015 are on page 44

#### Loans and advances to customers



#### Income split by key country



## Region overview

Greater China & North Asia is the Group's largest region and includes our client segments in Hong Kong, China, Taiwan, Korea, Japan and Mongolia. Hong Kong remains our single largest market, underpinned by a diversified franchise and deeply-rooted presence. Our distinctive proposition and continued investment position us strongly to capture opportunities as they arise from the continuing opening up of China's economy.

## Strategic objectives

Our business is fit for growth after a series of management actions that include significantly improving the risk profile of our credit portfolios – particularly in China and Korea – and reducing our cost base, which has created the capacity to invest.

Our priorities for the region are:

- Leverage our network strength to serve inbound and outbound cross-border trade and investment needs of our Corporate & Institutional Banking clients
- Invest to capture opportunities arising from China's opening, including renminbi, One Belt, One Road, onshore capital markets and mainland wealth flows
- Invest in digital capabilities to improve our client service and experience in our Retail Banking and Private Banking segments
- Optimise physical presence and invest in core cities
- Return China and Korea to sustained profitability and strengthen market position in Hong Kong
- Continue to leverage strategic alliances to accelerate client acquisition
- Deliver our conduct and financial crime risk programmes

## PERFORMANCE HIGHLIGHTS

- Underlying profit down with income impacted by a slowdown in China and actions taken to improve our risk profile
- Performance momentum improved in the second half with income up half-on-half
- Progress made addressing performance challenges, particularly in Korea and China

### Progress against strategic objectives

- Strong progress in Retail Banking with over 40,000 Priority new-to-bank clients in Hong Kong
- Launched several alliances including Asia Miles and Disney in Hong Kong and Samsung and Shinsegae/E-Mart in Korea
- Significant investment in digital platforms supporting the rollout of enhanced payment capabilities and digital Wealth Management solutions
- Returned Korea to profitability through focused client acquisition, cost efficiencies and an improved risk profile
- Strengthened China desks across the network to better position the Group to capture growth in cross-border trade and investment
- Maintained leadership in renminbi services. We became the first commercial issuer of Special Drawing Rights bonds in China and are well positioned to benefit from One Belt, One Road initiatives

### Financial performance summary

Statutory profit before taxation of \$1,456 million in 2016 compared with a profit of \$1,220 million in 2015.

Greater China & North Asia recorded underlying profit before taxation of

\$1,340 million in 2016 compared to a profit of \$1,523 million in 2015 owing to lower income, which more than offset lower expenses and improved loan impairment.

Underlying profit before taxation rose 27 per cent to \$108 million in China, but fell 14 per cent in Hong Kong to \$1,111 million and 59 per cent to \$69 million in Taiwan. Korea reported underlying profit before taxation of \$35 million in 2016 compared with a loss of \$17 million in 2015.

The difference between underlying and statutory profit before taxation is explained by restructuring charges of \$137 million in 2016 and \$520 million in 2015 as well as business disposal gains of \$253 million in 2016 and \$217 million in 2015. Commentary hereafter is on an underlying basis unless otherwise stated.

#### Income

Income from the region fell 15 per cent year-on-year to \$5,190 million and was impacted by a slowdown in China as well as actions taken in 2015 to improve the risk profile of the region. Income momentum improved in the second half across all markets and client segments, with a 3 per cent increase half-on-half.

Income in Hong Kong fell 9 per cent year-on-year to \$3,138 million owing to lower income from Foreign Exchange, Trade Finance and Lending. This impacted Corporate & Institutional Banking and Commercial Banking, which saw income fall 14 per cent and 29 per cent, respectively. Retail Banking income fell 1 per cent owing to business exits. Excluding business exits, Retail Banking income rose 5 per cent year-on-year, benefiting from improved margins and volumes in Deposits. Wealth Management income fell compared to 2015, but momentum improved during the year, with second half income up 10 per cent compared with the first half.

In Korea, income fell 23 per cent year-on-year to \$881 million. Retail Banking income fell 23 per cent impacted by business exits and a property disposal gain recorded in 2015.

Excluding these, income fell 12 per cent due to actions taken to improve the risk profile of our unsecured lending portfolio and from Deposit margin compression from central bank rate cuts. Income from Corporate & Institutional Banking fell 18 per cent, impacted by lower Rates income while Commercial Banking income fell 21 per cent due to lower loans and advances and margin compression.

Income in China declined 22 per cent year-on-year to \$696 million, or 16 per cent on a constant currency basis, driven by policy measures impacting margins and actions taken to improve our risk profile. Slower economic and trade activity also impacted business volume. We successfully on-boarded strategic clients from growth industries as China continues to be a key origination market for network income.

Income in Taiwan declined 20 per cent year-on-year to \$407 million, impacted by weaker Financial Markets income across Corporate & Institutional Banking and Commercial Banking. Retail Banking was affected by lower income from unsecured lending, a slowdown in the property market and by weak investor sentiment which impacted Wealth Management in the first half of the year.

#### Expenses

Expenses were well controlled across the region and declined 6 per cent year-on-year to \$3,546 million, or 4 per cent on a constant currency basis. Cost efficiency initiatives focused on premises and branch rationalisation and staff headcount reduction, particularly around removing role duplications, which created capacity for increased investments in our strategic objectives.

#### Impairment

Loan impairment decreased 55 per cent year-on-year to \$424 million reflecting good progress in the strengthening of our risk profile. Non-performing loan levels improved across our largest markets. Impairments in Commercial Banking and Retail Banking were lower, however Corporate & Institutional Banking impairments rose driven by a small number of exposures.

#### Balance sheet

Loans and advances to customers rose 4 per cent year-on-year, mainly due to growth in reverse repos and improved momentum in Corporate Finance in Hong Kong. Risk-weighted assets fell 7 per cent due to actions taken to optimise low-returning client relationships in Corporate & Institutional Banking.

Customer accounts rose 4 per cent driven by Retail Banking.

 A reconciliation of underlying profit to statutory profit is on pages 44

# ASEAN & South Asia

## OUR REGION AT A GLANCE



*After significant actions to improve the risk profile of our business, we have stronger foundations from which we can grow*

**Anna Marrs**

Regional CEO, ASEAN & South Asia



### Key numbers for 2016

#### Profit before taxation

**\$629 million**

underlying basis

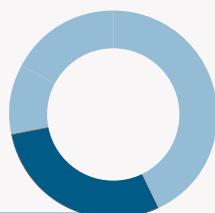
**\$186 million**

statutory basis

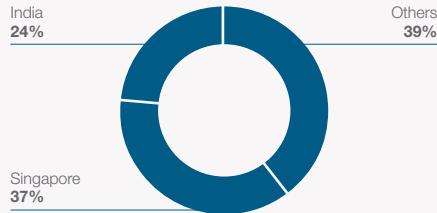
#### Risk-weighted assets

**\$97 billion**

### Loans and advances to customers



### Income split by key country



A reconciliation of underlying profit to statutory profit is on page 44

Comparative key numbers for 2015 are on page 44

### Region overview

Our ASEAN & South Asia business is well balanced with strong representation from all four of the Group's client segments. We are the only international bank with a presence in all 10 ASEAN countries and have meaningful operations in all key South Asian markets. With a deep-rooted presence for more than 150 years, our two largest markets are Singapore and India.

### Strategic objectives

Our aim is to be the international banking partner of choice for our clients in the region. We will deliver this through a comprehensive client offering in larger markets and a more targeted proposition in smaller, high-growth markets.

Our priorities for the region are:

- Profitably build Retail Banking segments in key markets – Singapore, India, Malaysia, Bangladesh and Vietnam – through significant investment in client-facing and operationally efficient technology
- Reshape Corporate & Institutional Banking for better returns by leveraging flow and network opportunities within the Group's tightened risk appetite
- Focus on safe, differentiated growth in Commercial Banking. This will include banking the supply chains of our International Corporate clients, leveraging our international product set and helping our clients grow across our markets
- Grow Private Banking and Financial Markets by leveraging Singapore as a Wealth Management and regional hub
- Reshape or selectively exit businesses with a sub-scale or unprofitable position, while continuing to focus on cost and balance sheet efficiency to improve returns
- Improve portfolio quality by applying more rigorous risk standards
- Deliver our conduct and financial crime risk programmes

## PERFORMANCE HIGHLIGHTS

- The region returned to profit as we controlled expenses and the improved risk profile resulted in lower loan impairments
- Income declined year-on-year driven by weaker market conditions, local currency depreciation and actions we took to reposition our business
- Cost efficiencies enabled increased investment in the second half

## Progress against strategic objectives

- Good progress in securing the foundations of the business through the rigorous application of our tightened risk appetite
- Improved processes and efficiency and created capacity to invest in our competitive strengths
- Announced the exit of Retail Banking in the Philippines and Thailand
- Added over 1,000 frontline full-time Retail Banking employees in India, Singapore and Bangladesh
- Improved our end-to-end digital sales processes resulting in a significant increase in online card acquisition in countries such as Singapore
- Our focus on banking the ecosystem of our International Corporate clients led to strong momentum in attracting new-to-bank Commercial Banking clients in India, Singapore, Malaysia and Indonesia

## Financial performance summary

Statutory profit before taxation in 2016 of \$186 million in 2016 compared with a statutory loss of \$905 million in 2015.

ASEAN & South Asia recorded underlying profit before taxation of \$629 million in 2016 compared to a loss of \$358 million in 2015 due to lower loan impairment and improved expense efficiency, partly offset by a loss from associates and joint ventures.

Underlying profit before taxation rose 14 per cent to \$416 million in Singapore. India recorded an underlying loss before taxation of \$24 million in 2016 compared with a loss of \$551 million in 2015. The return to profit for the region was also driven by Indonesia and Thailand.

The difference between underlying and statutory profit before taxation is explained by restructuring charges of \$443 million in 2016 and \$547 million in 2015. Commentary hereafter is on an underlying basis unless otherwise stated.

### Income

Income in the region fell 5 per cent year-on-year to \$4,052 million reflecting weaker market conditions, lower central bank rates in some of our markets, actions taken to reposition our business and local currency depreciation. Income declined 3 per cent in the second half of the year.

Income in Singapore declined 6 per cent year-on-year to \$1,489 million in 2016, reflecting margin compression and lower Financial Markets activity in Corporate & Institutional Banking and weaker demand for Wealth Management products. This was partially offset by higher Deposit income in Retail Banking which benefited from new product offerings such as the re-launch of our Bonus\$aver account and improved margins. Income also benefited from credit and funding valuation adjustment gains in Financial Markets. Market-wide levels of trade activity remained weak in the period although we have regained some momentum with Trade Finance balances up during the second half of the year.

Income in India fell 4 per cent year-on-year to \$960 million in 2016 driven by local currency depreciation and margin

compression from central bank interest rate cuts, which particularly impacted income from Deposits and Cash Management. In addition, Lending and Trade Finance income was impacted by actions we took to improve our risk profile.

Income in Malaysia fell 12 per cent year-on-year to \$451 million in 2016, driven by local currency depreciation and actions taken to improve the risk profile of our unsecured lending portfolio in Retail Banking. Reduced volumes impacted Financial Markets income, while margin pressure impacted Trade Finance.

Income in Indonesia rose 38 per cent to \$310 million as the prior year mark-to-market losses on syndicated loans were not repeated. Excluding this, income fell 8 per cent due to actions taken to improve the risk profile of our unsecured lending portfolio in Retail Banking.

### Expenses

Expenses for the region declined 4 per cent year-on-year to \$2,518 million with the impact of cost efficiencies enabling increased investment in the second half, in particular to build infrastructure and frontline capacity in Retail Banking.

### Impairment

Loan impairment decreased 61 per cent year-on-year to \$762 million. 2015 included \$982 million of impairment relating to exposures transferred to the liquidation portfolio that was incurred prior to transfer. Excluding this, loan impairment fell 21 per cent due to actions we took to improve our risk profile in Commercial Banking and Retail Banking. This was partly offset by increased impairment in Corporate & Institutional Banking driven by a small number of exposures in the commodity sector in India.

### Associates and joint ventures

Profit from associates and joint ventures was impacted by losses in PT Bank Permata due to elevated impairments.

### Balance sheet

Loans and advances to customers fell by 15 per cent and risk-weighted assets fell by 12 per cent compared with 2015 due to business exits, challenging market conditions and more selective asset origination.

Customer accounts fell by 3 per cent due to balance sheet optimisation actions.

1. Not meaningful

 A reconciliation of underlying profit to statutory profit is on page 44

# Africa & Middle East

## OUR REGION AT A GLANCE



*We are executing our strategy and investing through the cycle in controls, people and infrastructure to grow safely and capture the medium-term opportunity within our region*

**Sunil Kaushal**  
Regional CEO, Africa & Middle East

### Key numbers for 2016

#### Profit before taxation

\$431 million

underlying basis

\$349 million

statutory basis

#### Risk-weighted assets

\$53 billion

### Loans and advances to customers



### Income split by key country



A reconciliation of underlying profit to statutory profit is on page 44

Comparative key numbers for 2015 are on page 44

### Region overview

We have a deep-rooted heritage of over 150 years in the region and are present in 25 markets, of which the most sizeable are the UAE, Nigeria, Pakistan and Kenya. We are the largest international bank by number of markets with a presence in Sub-Saharan Africa and one of only few banks with a strong network across Africa, Asia and the Middle East. This, coupled with our presence in origination centres in Europe & Americas, enables us to connect clients to opportunities in some of the world's most exciting growth markets.

### Strategic objectives

We have made a conscious decision to invest through the cycle in Sub-Saharan Africa, while continuing to consolidate and build on our differentiated position across the rest of the region. Recognising near-term challenges, the Group has taken early actions to secure and invest in a platform suitable for sustainable, profitable growth, which we will leverage to capture opportunities in the medium term.

Our priorities for the region are:

- Protect and grow Retail Banking in core markets, supported by the rollout of digital capability for our clients
- Become a market leader in providing best-in-class structuring and financing solutions to our Corporate & Institutional Banking clients
- Rebuild Commercial Banking, targeting a low-cost, low-risk, supply chain-driven model with tightened underwriting standards and a focus on specific trade corridors
- Deliver our conduct and financial crime risk programmes

## PERFORMANCE HIGHLIGHTS

- Underlying profit improved due to lower impairments and expense efficiencies, offsetting lower income
- Our diversification within the region limited the income decline despite significant strategic actions in the UAE and local currency depreciation in Africa
- Good progress on improving conduct and controls, as well as investment priorities including the digitisation of Retail Banking in Africa

## Progress against strategic objectives

- Invested in the digitisation of Retail Banking in Africa, including upgrading our mobile and internet banking platform in eight markets and launching Retail Workbench in Kenya and Nigeria
- Improved conduct and controls capabilities through increased system automation, hubbing and increased investment in our staff
- Improved our Corporate & Institutional Banking management structure and client coverage model to enhance our offering to clients
- Deepened our relationships with Corporate & Institutional Banking clients reflected by winning more employee banking and multi-country cash management mandates, and by leading several landmark transactions
- Rolled out new underwriting standards in Commercial Banking, exited low-returning clients and developed our relationship managers

## Financial performance summary

Statutory profit before taxation of \$349 million in 2016 compared with a profit of \$77 million in 2015.

Africa & Middle East recorded underlying profit before taxation of \$431 million in 2016 compared to \$188 million in 2015 due to lower impairments and reduced expenses. The UAE reported an underlying loss before taxation of \$31 million in 2016 compared with a loss of \$91 million in 2015.

The difference between underlying and statutory profit before taxation is primarily explained by restructuring charges of \$82 million in 2016 and \$112 million in 2015. Commentary hereafter is on an underlying basis unless otherwise stated.

### Income

Income from the region fell 4 per cent year-on-year to \$2,742 million reflecting local currency depreciation in Africa, actions taken to improve our risk profile, lower commodity prices and a slowdown in corporate activity in the Middle East. On a constant currency basis, income rose 2 per cent year-on-year.

Income from the UAE declined 6 per cent year-on-year to \$754 million impacted by actions taken to improve our risk profile, including the exit of our SME business in Retail Banking and Commercial Banking, and from weak market conditions.

Income in the second half of the year was 12 per cent lower compared with the first half due to lower client activity in Corporate Finance and Foreign Exchange.

Income from Africa was flat year-on-year at \$1,429 million impacted by local currency depreciation, particularly in Nigeria. On a constant currency basis, income from Africa rose 12 per cent year-on-year. Despite the adverse impact of local currency depreciation, income from Kenya increased with growth across all Retail Banking products, in particular Deposits, as well as higher Corporate & Institutional

Banking income due to increased activity in Corporate Finance. Income from Africa increased 2 per cent in the second half of the year compared to the first half, driven by higher Foreign Exchange and Rates income, and from improved yield on our Asset and Liability Management portfolio.

### Expenses

Expenses fell 3 per cent year-on-year to \$1,730 million, but rose 3 per cent on a constant currency basis with cost savings from headcount reductions and improved efficiency more than offset by increased investment in areas such as the digitisation of our Retail Banking business and conduct and controls.

### Impairment

Loan impairment was down 33 per cent year-on-year to \$563 million. 2015 included \$230 million of impairment relating to exposures transferred to the liquidation portfolio that was incurred prior to transfer. Excluding this, loan impairment fell 8 per cent reflecting actions taken as a result of tightened risk appetite levels in our Commercial Banking portfolio. Levels of loan impairment in both Commercial Banking and Corporate & Institutional Banking, however, remained elevated due to challenging market conditions.

### Balance sheet

Loans and advances to customers declined 9 per cent year-on-year driven by local currency depreciation, actions taken to improve our risk profile and selective origination efforts in Corporate & Institutional Banking. Risk-weighted assets declined 8 per cent driven by the same factors.

Customer accounts fell 9 per cent year-on-year driven by a reduction in corporate term deposits as we took steps to improve our liability funding mix.

	Total		
	2016 \$million	2015 \$million	Better (worse)
<b>Underlying performance</b>			
<b>Operating income</b>	<b>2,742</b>	2,858	(4)%
Operating expenses	(1,730)	(1,790)	3%
Loan impairment	(563)	(844)	33%
Other impairment	(18)	(36)	50%
Profit from associates and joint ventures	–	–	nm <sup>1</sup>
<b>Underlying profit before taxation</b>	<b>431</b>	188	129%
<b>Statutory profit before taxation</b>	<b>349</b>	77	nm <sup>1</sup>
Net interest margin	3.2%	3.4%	(23)bps
Loans and advances to customers	28,140	31,070	(9)%
Customer accounts	29,931	33,013	(9)%
Risk-weighted assets	52,849	57,566	(8)%

1. Not meaningful

➤ A reconciliation of underlying profit to statutory profit is on page 44

# Europe & Americas

## OUR REGION AT A GLANCE



*“Our long established presence in the UK and US positions us well to grow income and returns within the region and across the Group’s footprint”*

**Tracy Clarke**  
Regional CEO, Europe & Americas

### Key numbers for 2016

#### Loss before taxation

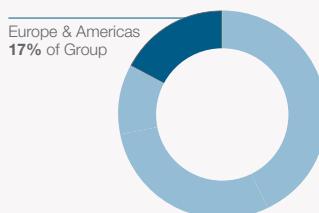
**\$148 million**  
underlying basis

**\$261 million**  
statutory basis

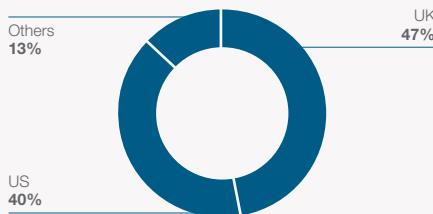
#### Risk-weighted assets

**\$43 billion**

### Loans and advances to customers



### Income split by key country



A reconciliation of underlying profit to statutory profit is on page 44

Comparative key numbers for 2015 are on page 44

### Region overview

With hubs in London and New York as well as a presence in several European and Latin American markets, we are the Group's largest origination centre. Our clients generate over one-third of Corporate & Institutional Banking income globally, the majority of which is booked outside the region in Asia, Africa and the Middle East. We provide our clients with rich network capabilities, comprehensive offerings in key product areas including transaction banking, corporate finance and financial markets, and deep industry expertise. We also have a profitable Private Banking business in London and Jersey.

### Strategic objectives

The Europe & Americas region will play a vital role in delivering the Group's strategic priorities by delivering client growth, optimising returns, and through continued focus on risk and compliance management.

Our priorities for the region are:

- Serve our Corporate & Institutional Banking clients better in our emerging markets by embedding our ‘one team’ client approach
- Attract new International Corporate clients, deepen relationships with existing clients by banking them across the network, and expand the depth and breadth of our coverage of Financial Institutions clients
- Enhance capital efficiency, maintain strong risk oversight and further improve the quality of our funding base
- Grow our Private Banking franchise and assets under management in London and Jersey
- Deliver our conduct and financial crime risk programmes

**PERFORMANCE HIGHLIGHTS**

- **Income fell as a result of the transfer of loans to the liquidation portfolio, and risk-weighted assets declined as these exposures were exited**
- **Expenses benefited from cost efficiency initiatives and some reductions in regulatory remediation costs**
- **Loan impairment remained elevated following additional individual and portfolio impairments**

**Progress against strategic objectives**

Our focus in 2016 was on building the foundations for growth:

- Strengthened our core bank positioning with Corporate & Institutional Banking clients by restructuring our client coverage model and improving processes which has enabled better cross-sell and the on-boarding of new clients
- Continued to demonstrate renminbi expertise, acting as an advisor on the first ever Panda bond by a French issuer, and the second ever Panda bond issued by a European corporate
- Strengthened control environment and risk profile through active risk management and reduced exposure to sectors we consider higher risk in a challenging environment
- Increased investment in our Private Banking business, adding over 150 new clients in 2016
- Made good progress on the financial crime remediation programme including introducing state-of-the-art surveillance technology and launching the second phase of our internal awareness campaign

**Financial performance summary**

Statutory loss before taxation of \$261 million in 2016 compared with a loss of \$200 million in 2015.

Europe & Americas recorded an underlying loss before taxation of \$148 million in 2016 compared to a profit of \$316 million in 2015 due to higher loan impairment provisions and lower income.

The UK reported an underlying loss before taxation of \$115 million in 2016 compared with a profit of \$157 million in 2015. The US reported an underlying loss before taxation of \$76 million in 2016 compared with a profit of \$17 million in 2015.

The difference between underlying and statutory profit before taxation is explained by restructuring charges of \$113 million in 2016 and \$516 million in 2015. Commentary hereafter is on an underlying basis unless otherwise stated.

**Income**

Income in the region fell 11 per cent year-on-year to \$1,664 million as a result of actions taken to improve our risk profile, lower client activity, loss of income from the transfer of loans to the liquidation portfolio and lower Asset and Liability Management income due to the role the region plays in managing the Group's liquidity requirements. This was partially offset by credit and funding valuation adjustment gains in Financial Markets.

Income in the UK declined 11 per cent year-on-year to \$791 million due to the loss of income on loans transferred to the liquidation portfolio. Income was also impacted by lower Asset and Liability Management income, while Trade Finance and Lending income declined due to weaker market conditions and actions taken to improve our risk profile. This was partially offset by credit and funding valuation adjustment gains and increased client activity in Foreign Exchange and Credit.

Income in the US fell 17 per cent year-on-year to \$661 million due to decreased client hedging activity in Rates, a decline in Trade Finance and Lending income due to actions taken to improve our risk profile and from lower Asset and Liability Management income. This was partially offset by increased income from Cash Management and Corporate Finance.

**Expenses**

Expenses fell 6 per cent year-on-year to \$1,302 million due to reduced regulatory remediation costs, efficiency savings and local currency depreciation.

**Impairment**

Loan impairment increased to \$511 million from \$192 million in 2015, driven by a small number of exposures in the diamond and jewellery sector and increased portfolio impairments in Corporate & Institutional Banking.

**Balance sheet**

Loans and advances to customers increased by 16 per cent compared with 2015, driven by reverse repos backed by high quality collateral as we expanded this business in response to client demand. Excluding the growth in this business, loans and advances to customers declined due to actions taken to improve the risk profile of our business and from the exit of exposures from the liquidation portfolio. Risk-weighted assets fell by 23 per cent due to the same factors.

Customer accounts increased 26 per cent compared with 2015 due to growth in Financial Market repos and corporate term deposits, improving the quality of our funding base.

	Total		
	2016 \$million	2015 \$million	Better (worse)
<b>Underlying performance</b>			
<b>Operating income</b>	<b>1,664</b>	1,877	(11)%
Operating expenses	(1,302)	(1,387)	6%
Loan impairment	(511)	(192)	nm <sup>1</sup>
Other impairment	1	18	(94)%
Profit from associates and joint ventures	–	–	nm <sup>1</sup>
<b>Underlying profit/(loss) before taxation</b>	<b>(148)</b>	316	nm <sup>1</sup>
<b>Statutory loss before taxation</b>	<b>(261)</b>	(200)	(31)%
Net interest margin	0.5%	0.6%	(9)bps
Loans and advances to customers	44,062	37,829	16%
Customer accounts	90,273	71,864	26%
Risk-weighted assets	43,487	56,815	(23)%

1. Not meaningful

➤ A reconciliation of underlying profit to statutory profit is on page 44

# Central & other items

## Region overview

Items included in Central & other items for client segments and regions analysis differ, depending on whether they are managed directly by client segments, regions or centrally. The graphic below provides further details on what is included within Central & other items.

Central & other items in the regional analysis includes corporate centre costs, treasury activities, certain strategic investments and the UK bank levy. Central & other items for regions also includes globally run businesses and activities that are managed by the client segments but not by regional management. These include private equity investments within our Principal Finance business and Portfolio Management.

## Financial performance summary

On a statutory basis, we recorded a loss of \$1,321 million in 2016 compared with a loss of \$1,715 million in 2015.

Underlying loss before taxation of \$1,159 million in 2016 compared with \$835 million in 2015 driven by a decline in income and an increase in impairment.

The difference between underlying and statutory profit before taxation is primarily explained by the following items:

- Restructuring charges of \$80 million in 2016 compared with \$150 million in 2015
- Loss on valuation methodology changes of nil in 2016 and \$863 million in 2015 in relation to one-off changes to align with market practice
- An own credit adjustment gain of \$495 million reported in the income statement in 2015. In 2016 an own credit adjustment loss of \$372 million was reported within equity. For further details on this change in treatment please refer to note 1.

Underlying performance	Total		
	2016 \$million	2015 \$million	Better/ (worse)
<b>Operating income</b>	<b>160</b>	374	(57)%
Operating expenses	(879)	(917)	4%
Loan impairment	(122)	(95)	(28)%
Other impairment	(322)	(202)	(59)%
Profit from associates and joint ventures	4	5	–
<b>Underlying loss before taxation</b>	<b>(1,159)</b>	(835)	(39)%
Restructuring	(80)	(150)	47%
Valuation methodology changes	–	(863)	nm <sup>1</sup>
Own credit adjustment	–	495	nm <sup>1</sup>
Goodwill impairment	(166)	(362)	54%
Gains arising on repurchase of subordinated liabilities	84	–	nm <sup>1</sup>
<b>Statutory loss before taxation</b>	<b>(1,321)</b>	(1,715)	23%
Risk-weighted assets	(229)	(3,256)	93%

1. Not meaningful

- Goodwill impairment of \$166 million in 2016 and \$362 million in 2015. The 2016 impairment relates to our business in Thailand while the 2015 impairment related to our business in Taiwan
- Gains arising on repurchase of subordinated liabilities of \$84 million in 2016 compared with nil in 2015, as wider credit spreads enabled the Group to buy back Standard Chartered's issued debt from the market at a discount

Commentary hereafter is on an underlying basis unless otherwise stated.

## Income

Income declined 57 per cent year-on-year due to fair valuations of private equity investments and lower realised gains on exits. This was partly offset by the non-repeat of a foreign exchange-related loss on the prior year rights issue.

## Expenses

Operating expenses decreased 4 per cent with lower UK bank levy and a reduction in costs relating to structural cost hedges partly offset by the non-recurrence of a one-off credit booked in 2015.

The UK bank levy declined to \$383 million in 2016 compared to \$440 million in 2015 predominantly as a result of reduced rates and an increase in assets qualifying for relief.

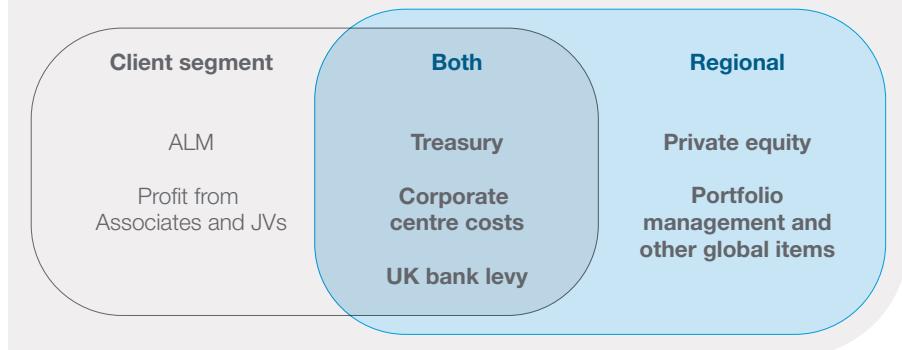
## Impairment

Other impairment increased 59 per cent year-on-year due to valuation impairment of private equity investments following changes in the trading outlook for the companies we invested in.

## Balance sheet

The movement in risk-weighted assets in the period was due to lower Portfolio Management risk-weighted asset savings.

## ITEMS INCLUDED IN CENTRAL & OTHER



Our Strategic report from pages 2 to 53 has been reviewed and approved by the Board

Bill Winters  
Group Chief Executive

24 February 2017

DIRECTORS'  
REPORT

CHAIRMAN'S  
LETTER

BOARD OF  
DIRECTORS

MANAGEMENT  
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DIRECTORS'  
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A photograph of a man with dark hair and a slight smile, wearing a light green polo shirt. He is standing in a greenhouse, surrounded by numerous tomato plants with green leaves and small red tomatoes. His hands are visible as he reaches up towards the plants. The background shows more rows of plants and some structural elements of the greenhouse.

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# Chairman's letter

# The highest standards of corporate governance are critical to the effective delivery of our strategy



**José Viñals**  
Group Chairman

## Dear Shareholder

I am delighted to have joined Standard Chartered as your Chairman at this time in the Group's history. As I mentioned on page 4, I joined Standard Chartered because it is an extraordinary organisation with a rich history and enormous potential, serving a remarkably diverse range of clients across the most dynamic markets in the world.

Since I joined the Board in October 2016 I have spent a great deal of my time travelling around our markets, meeting our clients and regulators, speaking with our staff, shareholders and other stakeholders to build a deep understanding of the Group, its opportunities and potential as well as witnessing our unique culture and ethos in action. What I have seen is that we have clients who are committed to us and talented and energised staff who are passionate about the Group, confirming my view that this is truly a unique bank.

I would like to thank my predecessor, Sir John Peace, for his commitment and contribution to the Group for almost a decade. Sir John has provided stability and continuity through a period of significant change for the Group, the industry and the wider global economy. Sir John provided a thorough handover ahead of stepping down and my comprehensive induction programme will continue through 2017, details of which are set out on pages 68 to 69.

Having spent the vast majority of my career as a Central Banker and more recently at the International Monetary Fund I am acutely aware of the risks facing the global financial system and the competitive and regulatory landscape within which Standard Chartered operates.

I am very aware of the important role that Standard Chartered plays within the communities in which we operate and the importance of maintaining the confidence of our shareholders and the Group's wider stakeholders. As Chairman I am committed to engaging with our shareholders, regulators, clients, communities and other stakeholders to ensure their views are heard.

I firmly believe that maintaining the highest standards of corporate governance, robust conduct and a culture of transparency and trust across the Group is critical to the effective delivery of our strategy.

A key part of my role as Chairman is to lead the Board, ensuring it is performing its role effectively and has robust succession plans in place. Coinciding with my appointment as Chairman, Naguib Kheraj was appointed Deputy Chairman, making use of his highly relevant skills and experience.

Ahead of my appointment as Chairman, a review of the Board's effectiveness was carried out in 2016, details of which can be found on page 71.

The findings from this review have provided me with useful background and context and the actions from the review will be taken forward.

In 2017 we have commissioned an externally facilitated Board and Committee effectiveness review and I will report on its findings and any subsequent actions in next year's report.

This governance report sets out the approach the Group takes to governance and describes the structures and processes in place to ensure robust oversight and effective Board decision making.

**José Viñals**  
Group Chairman

## BOARD OF DIRECTORS

# Board of Directors

	Committees	Committee Chair shown in green	<span style="color: #003366;">■</span> Audit Committee <span style="color: #339933;">▲</span> Board Risk Committee <span style="color: #006699;">◆</span> Brand, Values and Conduct Committee <span style="color: #666666;">◆</span> Governance and Nomination Committee <span style="color: #990000;">*</span> Board Financial Crime Risk Committee <span style="color: #006699;">+</span> Remuneration Committee
<b>José Viñals (62)</b> <i>Group Chairman</i>			
	<b>Appointed:</b> October 2016 and Group Chairman in December 2016  <b>Experience:</b> José has substantive experience in the international regulatory arena and has exceptional understanding of the economic and political dynamics of our markets and of global trade, and a deep and broad network of decision-makers in the jurisdictions in our footprint.  <b>Career:</b> José began his career as an economist and as a member of the faculty at Stanford University, before spending 25 years at the Central Bank of Spain, where he rose to be the Deputy Governor. José has held many other board and advisory positions including Chair of Spain's Deposit Guarantee Fund, Chair of the International Relations Committee at the European Central Bank, member of the Economic and Financial Committee of the European Union, and Chair of the Working Group on Institutional Investors at the Bank for International Settlements. José joined the International Monetary Fund (IMF) in 2009 until he stepped down in September 2016 to join Standard Chartered PLC. He was the Financial Counsellor and the Director of the Monetary and Capital Markets Department and was responsible for the oversight and direction of the IMF's monetary and financial sector work. He was the IMF's chief spokesman on financial matters, including global financial stability. During his tenure at the IMF, José was a member of the Plenary and Steering Committee of the Financial Stability Board, playing a key role in the reform of international financial regulation.	<b>External appointments:</b> None.	
<b>Bill Winters, CBE (55)</b> <i>Group Chief Executive</i>			<b>Committees:</b> <span style="color: #006699;">◆</span>
	<b>Appointed:</b> June 2015  <b>Experience:</b> Bill is a career banker with significant frontline global banking experience and a proven track record of leadership and financial success. He has extensive experience of working in emerging markets and a proven record in spotting and nurturing talent.  <b>Career:</b> Bill began his career with JP Morgan, where he went on to become one of its top five most senior executives and later co-chief executive officer at the investment bank from 2004 until he stepped down in 2009. Bill was invited to be a committee member of the Independent Commission on Banking, established in 2010, to recommend ways to improve competition and financial stability in banking. Subsequently, he served as an advisor to the Parliamentary Commission on Banking Standards and was asked by the Court of the Bank of England to complete an independent review of the bank's liquidity operations. In 2011 Bill founded Renshaw Bay, an alternative asset management firm, where he was chairman and CEO. He stepped down on appointment to the Standard Chartered PLC Board. Bill was previously a non-executive director of Pension Insurance Corporation plc and RIT Capital Partners plc. He received a CBE in 2013.	<b>External appointments:</b> Bill is an independent non-executive director of Novartis International AG.	
<b>Andy Halford (57)</b> <i>Group Chief Financial Officer</i>			<b>Bill Winters also sits on the Management Team</b>
	<b>Appointed:</b> July 2014  <b>Experience:</b> Andy has a strong finance background and deep experience of managing complex international businesses across dynamic and changing markets.  <b>Career:</b> Andy was finance director at East Midlands Electricity plc prior to joining Vodafone in 1999 as financial director for Vodafone Limited, the UK operating company. Andy was later appointed financial director for Vodafone's Northern Europe, Middle East and Africa region, and later the chief financial officer of Verizon Wireless in the US. He was a member of the board of representatives of the Verizon Wireless Partnership. Andy was appointed chief financial officer of Vodafone Group plc in 2005, a position he held for nine years. As Group Chief Financial Officer at Standard Chartered, Andy is responsible for Finance, Corporate Treasury, Group Corporate Development, Group Investor Relations, Property and Global Sourcing functions.	<b>External appointments:</b> Andy is a non-executive director at Marks and Spencer Group plc and a member of the Business Forum on Tax and Competitiveness.	
<b>Naguib Kheraj (52)</b> <i>Deputy Chairman and Senior Independent Director</i>			<b>Andy Halford also sits on the Management Team</b>
	<b>Appointed:</b> January 2014, Senior Independent Director in June 2015 and Deputy Chairman in December 2016.  <b>Experience:</b> Naguib has significant banking and finance experience.  <b>Career:</b> Naguib began his career at Salomon Brothers in 1986 and went on to hold senior positions at Robert Fleming, Barclays, JP Morgan Cazenove and Lazard. Over the course of 12 years at Barclays, Naguib served as group finance director and vice-chairman and in various business leadership positions in wealth management, institutional asset management and investment banking. Naguib was also a Barclays' nominated non-executive director of Absa Group in South Africa and of First Caribbean International Bank. He also served as chief executive officer of JP Morgan Cazenove. Naguib is a former non-executive director of NHS England and served as a senior advisor to Her Majesty's Revenue and Customs and to the Financial Services Authority in the UK.	<b>External appointments:</b> Naguib is a non-executive director of Rothesay Life, a specialist pensions insurer, and member of the investment committee of the Wellcome Trust. Naguib 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 its network.	
			<b>Committees:</b> <span style="color: #003366;">■</span> <span style="color: #339933;">▲</span> <span style="color: #006699;">◆</span> <span style="color: #666666;">◆</span> <span style="color: #990000;">*</span>

**David Conner (68)**  
Independent Non-Executive Director



**Appointed:** January 2016  
**Experience:** David has significant global and corporate, investment and retail banking experience, strong risk management credentials and an in-depth knowledge of Asian markets.

**Career:** David spent his career in the financial services industry, living and working across Asia for 37 years, for both Citibank and OCBC Bank. He joined Citibank in 1976 as a management trainee and

went on to hold a number of Asia-based senior management roles, including chief executive officer of Citibank India and managing director and marketing manager at Citibank Japan, before leaving Citibank in 2002. David joined OCBC Bank in Singapore as chief executive officer and director in 2002. He implemented a strategy of growth and led the bank through a period of significant turbulence. David stepped down as chief executive officer in 2012 but

remained as a non-executive director on the board of OCBC Bank, before leaving the group in 2014.

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

**Committees:** ▲ ■ ◆ \*

David is a member of the Combined US Operations Risk Committee of Standard Chartered Bank

**Christine Hodgson (52)**  
Independent Non-Executive Director



**Appointed:** September 2013  
**Experience:** Christine has strong business leadership, finance, accounting and technology experience.

**Career:** Christine held a number of senior positions at Coopers & Lybrand and was corporate development director of Ronson plc before joining Capgemini in 1997,

where she held a variety of roles including chief financial officer for Capgemini UK plc and chief executive officer of technology services for North West Europe. Christine was previously a trustee of MacIntyre Care before stepping down in September 2015.

**External appointments:** Christine is chair of Capgemini UK plc, a non-executive director at

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

**Committees:** + ■ ◆ ◆ \*

**Jasmine Whitbread (53)**  
Independent Non-Executive Director



**Appointed:** April 2015

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

**Career:** Jasmine began her career in international marketing in the technology sector and joined Thomson Financial in 1994, becoming managing director of the Electronic Settlements Group. After completing the Stanford

Executive Program, Jasmine set up one of Oxfam's first regional offices, managing nine country operations in West Africa, later becoming international director responsible for Oxfam's programmes worldwide. Jasmine joined Save the Children in 2005, where she was responsible for revitalising one of the UK's most established charities. In 2010, she was appointed as Save the Children's first international chief executive officer, where she led the merger of 14 separate organisations

into one management line of 15,000 people across seven regions and 60 countries, while aligning the federation behind a single mission and strategy. Jasmine stepped down from Save the Children in December 2015.

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

**Committees:** ♦ + ◆ \*

**Gay Huey Evans, OBE (62)**  
Independent Non-Executive Director



**Appointed:** April 2015

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

**Career:** Gay spent over 30 years working within the financial services industry, the international capital markets and with the financial regulator. Gay spent seven years with the Financial Services Authority from 1998 to 2005, where she

was director of markets division, capital markets sector leader, with responsibility for establishing a market-facing division for the supervision of market infrastructure, oversight of market conduct and developing markets policy. From 2005 to 2008, Gay held a number of roles at Citibank, including head of governance, Citi Alternative Investments, EMEA, before joining Barclays Capital where she was vice chair of investment banking and investment management. She was

previously a non-executive director at Aviva plc and the London Stock Exchange Group plc. She received an OBE for services to financial services and diversity in 2016.

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

**Committees:** \* ▲

**Om Bhatt (65)**  
Independent Non-Executive Director



**Appointed:** January 2013

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

**Career:** Om had a career spanning 38 years with the State Bank of India (SBI), India's largest commercial bank, where he held a number of roles beginning with the lead bank

department, which pioneered financial inclusion. He led the project team that pioneered SBI's technology initiative in the 1990s, undertook assignments at SBI's Washington and London offices and held general management roles between 2004 and 2006, becoming managing director of SBI in 2006, culminating in his appointment as chairman of the State Bank Group until he stepped down in 2011. Om was chairman of the Indian

Banks' Association and was previously an independent non-executive director of Oil and Natural Gas Corporation.

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

**Committees:** ▲ ◆

**Committees**

Committee Chair  
shown in green

- Audit Committee
- ▲ Board Risk Committee
- ◆ Brand, Values and Conduct Committee

- Governance and Nomination Committee
- \* Board Financial Crime Risk Committee
- + Remuneration Committee

**Dr Kurt Campbell (59)**  
Independent Non-Executive Director



**Appointed:** June 2013  
**Experience:** Kurt has a wealth of experience of the US political environment and significant experience of some of our key markets, notably across Asia. Kurt has served in several capacities in the US Government, including deputy assistant secretary of defence for Asia and Pacific Affairs and director on the National Security Council Staff in the White House.

**Career:** Kurt was 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 policy. Kurt was a central figure in advancing the US-China relationship, building stronger ties to Asian allies and in the opening up of Myanmar. Previously, Kurt

was the chief executive officer and co-founder of the Center for a New American Security and associate professor at Harvard's John F Kennedy School of Government.

**External appointments:** Kurt is chairman and chief executive officer of The Asian Group LLC, a strategic advisory and investment group specialising in the Asia Pacific region.

**Committees:** ♦

**Dr Louis Cheung (53)**  
Independent Non-Executive Director



**Appointed:** January 2013  
**Experience:** Louis has a wide breadth of knowledge and experience of financial services, particularly in a Greater China context.

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

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

**Committees:** +

**Dr Byron Grote (68)**  
Independent Non-Executive Director



**Appointed:** July 2014  
**Experience:** Byron has broad and deep commercial, financial and international experience.  
**Career:** From 1988 to 2000, Byron worked across BP in a variety of commercial, operational and executive roles. He was appointed as chief executive of BP Chemicals and a managing director of BP plc in 2000 and had regional group-level accountability for BP's activities in

Asia from 2001 to 2006. Byron was chief financial officer of BP plc from 2002 until 2011, subsequently serving as BP's executive vice president, corporate business activities, from 2012 to 2013 with responsibility for the group's integrated supply and trading activities, alternative energy, shipping and technology. Byron was a non-executive director at Unilever plc and Unilever NV until he stepped down in 2015.

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

**Committees:** ■ +

**Dr Han Seung-soo, KBE (80)**  
Independent Non-Executive Director



**Appointed:** January 2010  
**Experience:** Dr Han is a distinguished economist and has a strong geo-political background, with valuable knowledge of Asia and its economies.  
**Career:** Dr Han is a former Prime Minister of the Republic of Korea. He has a distinguished political, diplomatic and administrative career, serving as deputy prime minister and minister of finance, foreign affairs and industry and trade before serving as prime minister from 2008

to 2009. He also served as Korean ambassador to the US, chief of staff to the president, president of the 56th Session of the United Nations (UN) General Assembly, special envoy of the UN Secretary-General on Climate Change and chairman of the 2009 Organisation for Economic Cooperation and Development Ministerial Council Meeting.

**External appointments:** Dr Han sits on a number of advisory boards and is currently the UN Secretary-General's special envoy for Disaster Risk Reduction and Water, special

advisor to the High Level Panel on Water co-convened by the UN and World Bank, chair of the High-Level Experts/Leaders Panel on Water and Disaster, chair of the Water Advisory Group at the Asian Development Bank and co-chair of the International Finance Forum of China. Dr Han is non-executive director at Seoul Semiconductor Inc. and Doosan Infracore Co Ltd and Senior Advisor with the Kim & Chang law firm in Korea.

**Committees:** ♦

**Committees**      **Committee Chair shown in green**

- Audit Committee
- ▲ Board Risk Committee
- ♦ Brand, Values and Conduct Committee

- ◆ Governance and Nomination Committee
- \* Board Financial Crime Risk Committee
- + Remuneration Committee

**Liz Lloyd, CBE (45)**  
Group Company Secretary



Liz was appointed Group Company Secretary in January 2016. Liz joined Standard Chartered in 2008, initially within Group Compliance, focused on regulatory risk and regulatory relationships, before being appointed as Group Head of Public Affairs, responsible for coordinating the Group's policies and positioning on all political and regulatory matters. In 2013, she was

appointed Chief Executive Officer of Standard Chartered Bank Tanzania, a position she held until October 2015. She was elected vice-chair of the Tanzania Bankers' Association in 2015. She received a CBE in 2008.

## Board diversity

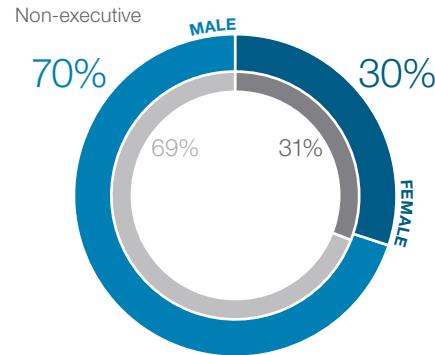
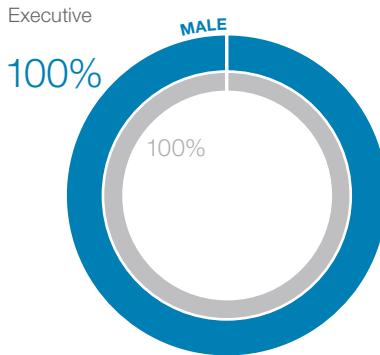
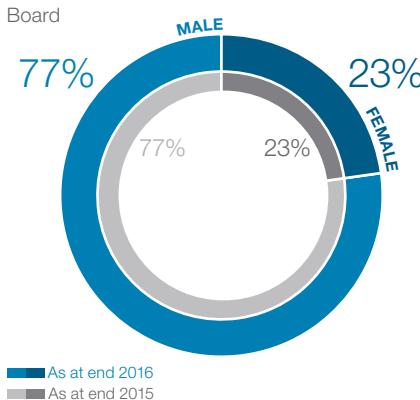
We have a distinctive footprint and a long history of diverse board membership. This mix of skills, knowledge, experience and cultural difference enriches the Board discussion and contributes towards a high performing and effective Board. Good progress continues to be made in the area

of gender diversity, since we set our ambition to increase the proportion of women to 25 per cent by 2017. This commitment was further strengthened during the year with the introduction of the Board Diversity policy. It sets out the Board's broad ambitions and objectives

in this area and remains supportive and engaged in further increasing the representation of women on the Board to 33 per cent.

 [View the Board diversity policy at sc.com/boarddiversitypolicy](#)

### Gender diversity

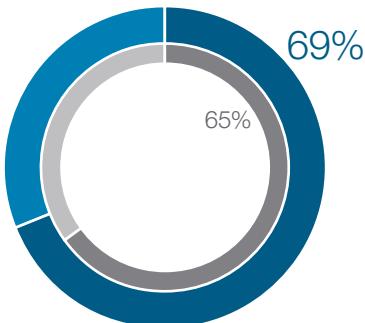


### Experience

Our Board comprises directors with a broad range of skills, experience, backgrounds and perspectives. As at the end of December 2016, nine directors on the Board have lived and/or worked across our key markets of Asia, Africa or the Middle East and over half of the independent non-executive directors have some combination of banking, finance, risk and accounting experience.

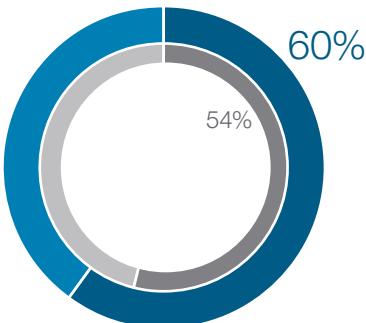
#### International

(lived and/or worked across Asia, Africa, Middle East)



#### Banking/Finance/Risk/Accounting

(experience among independent non-executive directors)

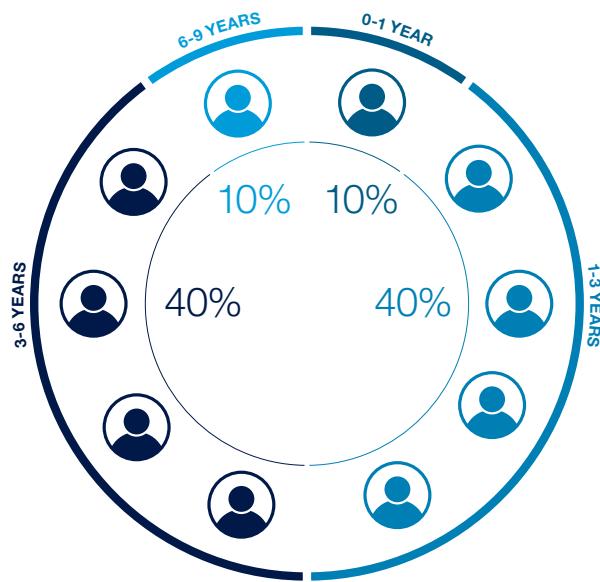


 As at end 2016

 As at end 2015

### Non-executive director tenure

We remain mindful of the need to ensure that the tenure of our non-executive directors is well balanced.



 Further details on the work of the Governance and Nomination Committee can be found on page 86

# Management Team

**Bill Winters, CBE (55)**  
Group Chief Executive



**Andy Halford (57)**  
Group Chief Financial Officer



**Tracy Clarke (50)**  
Regional CEO, Europe & Americas



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

**Career:** Tracy joined Standard Chartered in 1985 and has held a number of roles in Retail, Commercial and Corporate Banking, in addition to Group functions both in the UK and in Hong Kong. More recently, Tracy has played an

instrumental role in driving our compliance and conduct agenda and the Financial Crime Risk Mitigation Programme and has led a broad portfolio including Legal and Compliance, Human Resources, Corporate Affairs and Brand and Marketing.

Tracy was appointed as a Director of Standard Chartered Bank in January

2013 and became Regional CEO Europe & Americas in October 2015.

**External appointments:** Tracy is an independent non-executive director of Sky plc and sits on the board of England Netball. In July 2016 she became a co-opted member of the China-Britain Business Council board.

**Benjamin Hung (52)**  
Regional CEO, Greater China & North Asia



**Appointed:** Ben was appointed Regional CEO, Greater China & North Asia, on 1 October 2015.

**Career:** Ben was previously CEO for the Greater China Region. He joined Standard Chartered in 1992 and has held a number of senior management positions spanning corporate, commercial and retail

banking in the UK and Hong Kong. During 2008 to 2014, he was the CEO of Standard Chartered Bank (Hong Kong) Ltd. Ben was previously a board member of the Hong Kong Airport Authority, the Hong Kong Hospital Authority and a Council Member of the Hong Kong University.

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

**Anna Marrs (43)**  
Regional CEO, ASEAN & South Asia and CEO, Commercial & Private Banking



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

**Career:** Anna joined Standard Chartered as Group Head of Strategy and Corporate Development in January 2012. Prior to this she was a partner at McKinsey & Company's Banking Practice in its Global Banking Practice and is a recognised expert in banking strategy. Prior to McKinsey she ran a financial

information and technology company, having started her career with a hedge fund in New York.

**External appointments:** None

**Sunil Kaushal (51)**  
Regional CEO, Africa & Middle East



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

**Career:** Sunil has 28 years of banking experience in diverse markets and has been with Standard Chartered for

approximately 18 years, holding senior roles across the Wholesale and Consumer Bank. Sunil has rich experience across the Group's footprint, having served as the Head of Corporate Banking in UAE, Head of Originations and Client Coverage in Singapore, Global Head Small and Medium Enterprises and New Ventures in Singapore and Chief

Executive Officer of SCB (Taiwan) Ltd. Before joining Standard Chartered in 1998, Sunil held various banking positions at a number of leading international financial institutions.

**External appointments:** None

**Simon Cooper (49)**  
CEO, Corporate & Institutional Banking



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

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

client segments. Simon joined HSBC in 1989 and held a number of senior roles there, including deputy chairman and chief executive officer, Middle East and North Africa; chief executive officer, Korea; and head of Corporate and Investment Banking, Singapore. He also has significant

experience in the areas of corporate finance, corporate banking and transaction banking.

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

## MANAGEMENT TEAM

### Karen Fawcett (54)

*CEO, Retail Banking  
Group Head, Brand & Marketing*



**Appointed:** Karen was appointed CEO, Retail Banking on 1 October 2015. Karen is responsible for directing the global strategy and transformation of the Retail Banking business. She also assumed global responsibility for the Group's Brand & Marketing in April 2016.

**Career:** Karen joined the Group 16 years ago as Group Head of

Business Strategy. Prior to that she was a partner in financial services at Booz Allen & Hamilton, where she drove multi-year change programmes for leading banks across Asia.

Karen transformed Transaction Banking from 2005 until 2014 and represented the Group externally in transaction banking regulatory and

industry thought leadership. She was also a non-executive director of Standard Chartered Bank Malaysia Bhd for eight years, until October 2013.

**External appointments:** Karen sits on the board of directors of INSEAD business school.

### Mark Smith (55)

*Group Chief Risk Officer*



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

**Career:** Before joining Standard Chartered, Mark was the chief risk officer Europe, Middle East and Africa and global head, Wholesale Credit and Traded Risk for HSBC. He has had a long and successful career at HSBC, having joined Midland Bank as a graduate trainee prior to its acquisition by HSBC.

Other roles at HSBC included chief operating officer, Global Corporate & Institutional Banking and he has worked in London and Hong Kong.

**External appointments:** None

### David Fein (56)

*Group General Counsel*



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

the Group's flagship philanthropic effort dedicated to eliminating avoidable blindness.

**Career:** David has held various senior roles in the US Government, including as US Attorney for the District of Connecticut and as Associate Counsel to the President. He has extensive experience fighting

financial crime and a track record of forming and supporting public-private partnerships.

**External appointments:** None

### Dr Michael Gorri (56)

*Group Chief Information Officer*



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

**Career:** As an industry award winner, Michael joined from Daimler AG where he was most recently vice president and CIO with responsibility for the smooth operation of all Daimler systems and the management of IT projects globally. For the past 14 years, he has held various CIO roles within the Daimler

group and has spent many years working across our footprint.

**External appointments:** None

### Doris Honold (50)

*Group Chief Operating Officer*



**Appointed:** Doris was appointed Group Chief Operating Officer in October 2015, supporting the Group Chief Executive in defining and executing the business strategy, reinforcing exemplary control and governance, ensuring strategic functional alignment and enabling efficient business growth.

**Career:** Doris joined the Group in March 2007, and has served as the Group Head of Market Risk and the Chief Operating Officer for Wholesale Banking. Doris started her career at Dresdner Bank in Frankfurt. She held several market risk leadership roles in Frankfurt, Tokyo and London, before taking

over global responsibility for Dresdner Kleinwort's market risk function.

**External appointments:** None

### Pam Walkden (56)

*Group Head, Human Resources*



**Appointed:** Pam was appointed as Group Head, Human Resources in April 2016.

**Career:** Pam joined the Group in 1991 and has held a number of key roles across the organisation including Group Head of Corporate Affairs, Group Head of Internal

Audit, Group Head of ALM and Group Treasurer, where she was responsible for the management of the Group's balance sheet. In 2014, she became Group Business Head, Regions working closely with the Global Business Heads and Regional CEOs. She then took

on the role of interim Group Chief Risk Officer from July 2015 to February 2016 before assuming the role of Group Head, Human Resources.

**External appointments:** None

#### New Management Team member appointed

As announced on 30 January 2017, Tracey McDermott, CBE, will join the Group and the Management Team as Group Head, Corporate, Public and Regulatory Affairs with effect from 20 March 2017.

# Corporate governance

The Board and committee structure is set out below. We believe that effective governance is achieved through a culture of transparency and openness between management and the Board and across the Group. This report, while detailing the required governance and regulatory assurances and disclosures, also provides an insight into how governance operates at Standard Chartered and how effective governance supports and guides our culture and behaviours.

## BOARD AND COMMITTEE STRUCTURE

### Standard Chartered PLC

The Board is collectively responsible for the long-term success of the Group and for ensuring leadership within a framework of effective controls. The Board sets the strategic direction of the Group, approves the strategy and takes the appropriate action to ensure that the Group is suitably resourced to achieve its strategic aspirations. The Board considers both the impact of its decisions and its responsibilities to all of the Group's stakeholders, including the Group's employees, shareholders, regulators, clients, suppliers, the environment and the communities in which it operates.

### Group Chief Executive

Responsible for the management of all aspects of the Group's businesses, developing the strategy in conjunction with the Chairman and the Board, and leading its implementation.

### Management Team

The Management Team comprises the Group Chief Executive and the Group Chief Financial Officer; four regional CEOs; client segment CEOs; and our global function heads. It has responsibility for executing the strategy. Details of the Group's Management Team can be found on pages 61 to 62.

### Audit Committee

Oversight and review of financial, audit, internal control and non-financial crime issues. More details are on page 74.

### Board Risk Committee

Oversight and review of fundamental risks including credit, market, capital, liquidity, operational, country cross-border, cyber and pension risks. More details are on page 79.

### Brand, Values and Conduct Committee

Oversight of the positioning of the Group's brand, conduct, culture and values, reputational risk, government and regulatory relations, and sustainability issues. More details are on page 83.

### Governance and Nomination Committee

Oversight and review of Board and executive succession, overall Board effectiveness and governance issues. More details are on page 86.

### Board Financial Crime Risk Committee

Oversight and review of all financial crime compliance matters. More details are on page 90.

### Remuneration Committee

Oversight and review of remuneration, share plans and other incentives. More details are on page 93.

## Matters reserved for the decision of the Board and delegated authorities

The Board discharges some of its responsibilities directly and delegates certain other responsibilities to its committees to assist it in carrying out its function of ensuring independent oversight. The Board also delegates authority for the operational management of the Group's business to the Group Chief Executive for further delegation by him in respect of matters that are necessary for the effective day-to-day running and management of the business. The Board holds the Group Chief Executive accountable in discharging his delegated responsibilities.

During the year the Schedule of Matters Reserved for the Board was reviewed against industry best practice and corporate governance provisions and guidance, including the Prudential Regulation Authority (PRA) Supervisory Statement on Board Responsibilities. The Board approved a revised Schedule of Matters Reserved for the Board to ensure that it remains appropriate and enables the Board to create space to focus on those areas it cannot delegate.

The Governance and Nomination Committee, in keeping with the provisions of the UK Corporate Governance Code, is chaired by the Group Chairman. All the Board committees are made up of independent non-executive directors and play an important role in supporting the Board. In addition to comprising five independent non-executive directors, the Board Financial Crime Risk Committee's membership includes four independent external advisor members.

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

**BOARD ROLES AND KEY RESPONSIBILITIES****Chairman****José Viñals**

Responsible for leading the Board, the development of the Group's culture and ensuring its effectiveness in all aspects of its role. Promotes high standards of integrity and governance across the Group and ensures effective communication between the Board, management, shareholders and wider stakeholders.

**Group Chief Executive****Bill Winters**

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.

**Deputy Chairman and Senior Independent Director****Naguib Kheraj**

**Deputy Chairman:** Provides support and guidance to the Chairman as required and, in coordination with the Chairman, acts as an ambassador for the Board and Group in its relationships with governments, regulators, staff, and clients. Deputises for the Chairman at Board, general shareholder, or other meetings when the Chairman is unable to attend.

**Senior Independent Director:** Provides a sounding board for the Chairman and discusses concerns that are unable to be resolved through the normal channels or where such contact would be inappropriate with shareholders and other stakeholders. Chairs the Governance and Nomination Committee when considering succession of the Chairman.

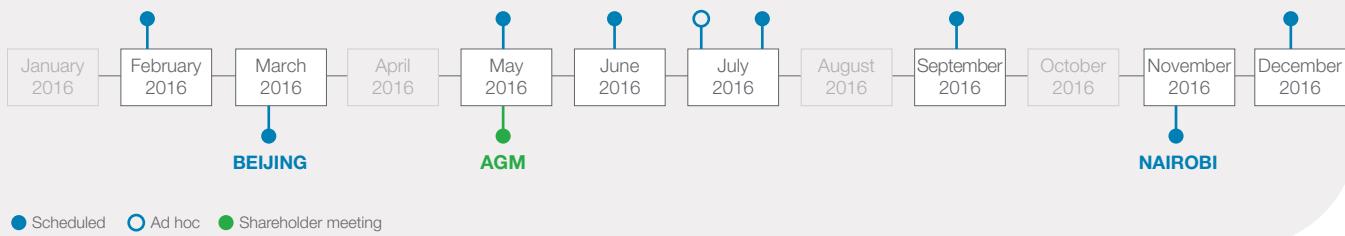
**Independent non-executive directors****(See pages 57 to 59)**

Provide an independent perspective and 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 detailed role descriptions which can be viewed at [sc.com/roledescriptions](http://sc.com/roledescriptions)

**BOARD MEETINGS 2016**

In 2016, the Board held eight scheduled and one ad hoc meeting, including two meetings outside the UK in Beijing and Nairobi.



To enable the Board to use its time most effectively, it maintains a scheduled forward programme of meetings and a rolling agenda. There is sufficient flexibility in the programme for specific items to be added to any particular agenda to ensure that the Board can focus on the key matters at the appropriate time. The Board also schedules a number of informal sessions and interactions, which allows Board members to discuss areas of the business, strategy and the external environment with members of the Management Team and/or external advisors. Generally, members of the Management Team and other senior executives are invited to attend part of the meetings to ensure effective interaction with the Board. During the year, the Chairman (Sir John Peace and subsequently José Viñals) met privately with the Senior Independent

Director and the independent non-executive directors on a number of occasions to assess their views and discuss matters arising.

Performance against delivery of the agreed key financial priorities is reviewed at every meeting with particular reference to the detailed Group management accounts. The Group Chief Executive and Group Chief Financial Officer comment on current trading, business performance, the market, people and regulatory and external developments at each meeting, and present comparative data and customer insight. In addition, the Group Chief Risk Officer periodically attends meetings to update the Board on the key risks.

 Detail of the key activities considered by the Board in 2016 is set out on page 65 to 66. Some of these items were considered at each meeting and others reviewed periodically throughout the year.

**CODE COMPLIANCE**

We applied the provision of the UK Corporate Governance Code 2014 (the Code) during 2016. The directors are pleased to confirm that Standard Chartered PLC (the Company) complied with all of the provisions set out in the Code for the year under review. Although not effective for Standard Chartered until 1 January 2017, the Company is already compliant with the provisions set out in the UK Corporate Governance Code 2016.

The directors also confirm that, throughout the year, the Company has complied with the code provisions set out in the Hong Kong Corporate Governance Code contained in Appendix 14 of the Hong Kong Listing Rules.

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

 Copies of the Code and the Hong Kong Corporate Governance Code can be found at [frc.org.uk](http://frc.org.uk) and [hkex.com.hk](http://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 124 to 130

During 2016, the Board's programme included the following items, some of which were considered at each meeting and others reviewed periodically throughout the year.

## BOARD ACTIVITIES 2016

### Group Strategy

Details of the key activities considered by the Board under each of the three pillars of the Group Strategy (secure the foundation; get lean and focused; and invest and innovate) during 2016 are set out below.

### 1

#### Secure the foundation

- Received an update on the liquidity characteristics of the Group and the framework under which it is managed
- Discussed the Group's competitive and market position relative to global and local peers
- Discussed the Group's corporate structure
- Approved changes to the Group's Risk Appetite as noted in the risk and governance section below
- Reviewed the assessment of the 2017 budget against the risk appetite statement
- Received an update on progress against the Group's Conduct Programme and key priorities for the year

### 2

#### Get lean and focused

- Discussed progress in repositioning the Group's franchise in Indonesia
- Received an update on the progress of the restructuring strategy in Korea
- Reviewed and discussed the technology strategy and the initiatives to improve the delivery of the Group's technology capability
- Discussed the Group's progress in executing the strategic priorities, across all segments and regions
- Deep-dived into the Corporate & Institutional Banking business
- Scrutinised progress against the Group-wide business efficiency programme, including cost commitments and investment priorities
- Assessed progress against the Retail Banking transformation agenda and actions to overhaul Commercial Banking

### 3

#### Invest and innovate

- Discussed and scrutinised the strategic priorities in China and received an update on the macroeconomic environment in China
- Assessed the key trends in new financial technologies and solutions and their impact on the Group and the banking sector
- Scrutinised progress in growing the Private Bank and Wealth Management business and strengthening their processes and controls
- Received an overview of performance and context of the Group's franchise in ASEAN and South Asia and assessed the progress of the strategy in India and Singapore
- Received an overview of the Africa and Middle East region with a particular focus on Africa and the execution of the Africa strategy

 For a detailed overview of Our strategy see pages 14 to 17

### Budget and performance oversight

- Reviewed and scrutinised the strategic and operational performance of the business across client segments, Product Groups and regions
- Monitored and assessed the strength of the Group's capital and liquidity positions
- Considered the key factors in determining payment of a final dividend in 2015 and an interim dividend in 2016 and recommended no dividend was paid
- Discussed the updated 2016 budget against the agreed risk appetite thresholds
- Monitored progress against the strategic priorities and reviewed and approved the five-year corporate plan as a basis for preparation of the 2017 budget
- Approved the Group's 2017 budget

### External environment

- Received internal and external briefings and input across a range of topics, including geopolitical risks, developments in the regulatory environment, the macroeconomic landscape, cyber security and brand and culture
- Assessed the potential implications of Brexit on the Group
- Attended a Seeing is Believing (SIB) event in Kenya to gain an insight into projects funded by the SIB innovation fund

### Shareholder and stakeholder relationships

- Engaged with investors throughout the year and responded to retail shareholders' questions at the Annual General Meeting
- Engaged with key clients, customers and regulators as part of the Board's overseas visits (including participation in a number of community activities and projects)
- Engaged with the Prudential Regulation Authority (PRA) on the findings of the 2016 Periodic Summary Meeting Letter
- Engaged with the Financial Conduct Authority on the findings and assessment of the Group following the completion of the 2016 Firm Evaluation Letter
- Discussed periodic updates from Investor Relations on the share price, performance metrics, register activity, and investor and analyst sentiment
- Discussed the views of institutional shareholders

### Risk and governance

- Received regular risk reports from the Group Chief Risk Officer
- Evaluated and approved proposed changes to the Group's Risk Appetite, its supporting metrics and thresholds
- Discussed the Group's enterprise-wide approach to managing cyber risk and approved a new cyber security governance model, moving the Chief Information Security Officer function into the Risk and Compliance function
- Reviewed the Group's response to the PRA cyber resilience questionnaire 2016 ahead of submission
- Received assurance from Board Risk Committee regarding 2016 Bank of England stress test submission and results
- Agreed the appropriate alignment of the Group's conduct pillars with the relevant Board committees to improve committee oversight of conduct
- Discussed specific conduct matters and potential outcomes and impacts
- Received an update on progress in ensuring the Group's compliance with current and future requirements of the Senior Managers Regime
- Assessed the outcome of the 2016 Board effectiveness review and approved the 2016 Action Plan

**BOARD ACTIVITIES 2016** continued**People, culture and values**

- Considered the composition of the Board and its committees in the context of our Board succession plan
- Received regular progress updates on the Chairman's succession plan
- Approved the appointment of José Viñals as Chairman, Naguib Kheraj as Deputy Chairman and Gay Huey Evans as Chair of the Board Financial Crime Risk Committee
- Approved a stand-alone incremental fee for the Deputy Chairman role
- Reviewed the Group's People Strategy and its key priorities
- Discussed the results of the My Voice employee opinion survey, including participation rates and management actions
- Assessed the findings outlined in the Banking Standards Board's 2015 Assessment Report and the Board's response to the 2016 assessment
- Discussed the Group's culture, core values and the importance of a robust conduct culture throughout the Group
- Endorsed the refresh of the Group's Code of Conduct which each director recommitted to

 The full schedule of matters reserved for the Board, together with the Board committees' terms of reference, can be viewed at [sc.com/termsofreference](http://sc.com/termsofreference)

**BOARD AND AGM ATTENDANCE**

Name of director	AGM	Scheduled	Ad hoc	Attendance
<b>Chairman</b>				
J Viñals (appointed Chairman Designate 3 October 2016 and Chairman 1 December 2016)	N/A	2/2	N/A	100%
<b>Deputy Chairman</b>				
N Kheraj (appointed Deputy Chairman on 1 December 2016)	1/1	8/8	1/1	100%
<b>Group Chief Executive and Executive Director</b>				
W T Winters	1/1	8/8	1/1	100%
A N Halford	1/1	8/8	1/1	100%
<b>Independent Non-Executive Directors</b>				
O P Bhatt	1/1	8/8	1/1	100%
Dr K M Campbell	1/1	7/8 <sup>1</sup>	1/1	89%
Dr L Cheung	1/1	8/8	1/1	100%
D P Conner (appointed 1 January 2016)	1/1	8/8	1/1	100%
Dr B E Grote	1/1	8/8	1/1	100%
Dr Han Seung-soo, KBE	1/1	8/8	1/1	100%
C M Hodgson	1/1	8/8	1/1	100%
G Huey Evans, OBE	1/1	7/8 <sup>2</sup>	1/1	89%
J M Whitbread	1/1	8/8	1/1	100%
<b>Directors who stepped down during 2016</b>				
Sir John Peace (stepped down 1 December 2016)	1/1	7/7	1/1	100%
A M G Rees (stepped down 30 April 2016)	N/A	2/2	N/A	100%
S J Lowth (stepped down 31 July 2016)	1/1	4/5 <sup>3</sup>	0/1 <sup>3</sup>	67%
L Thunell (stepped down 31 January 2016)	N/A	1/1	N/A	100%

1. Kurt Campbell was unable to attend one scheduled Board meeting due to a prior commitment.

2. Gay Huey Evans was unable to attend one scheduled Board meeting due to a prior commitment.

3. Simon Lowth was unable to attend one scheduled Board meeting due to illness and the ad hoc Board meeting due to a prior commitment.

In 2016, the Group held one general meeting, our Annual General Meeting, on 4 May 2016, which was attended by all of the directors. All directors were proposed for annual (re)election and all were successfully (re)elected.

## Board composition

In July 2016, we announced the successful conclusion to the extensive external search for our new Chairman, with José Viñals, who joined the Board as Chairman Designate on 3 October 2016, succeeding Sir John Peace as Group Chairman on 1 December 2016. José's appointment followed a period of significant change to the composition of the Board in recent years.

José Viñals joined Standard Chartered from the International Monetary Fund where he was the Financial Counsellor and Director of the Monetary and Capital Markets Department. He brings deep economic, political and regulatory experience of the markets in which we operate and is widely acknowledged as an expert on the world financial and regulatory landscape.

**For more detail on the Board's succession planning and full details of the Chairman's search process see page 87 to 88**

In parallel to José's appointment we announced that Naguib Kheraj would become Deputy Chairman with effect from 1 December 2016, providing José additional support and capacity in representing the Group. Naguib's extensive banking and commercial experience as an executive, and in non-executive governance roles across multiple sectors, ensures he is well suited to the role. He also has significant knowledge of many of the Group's markets.

Other changes to the Board during 2016 included the appointment of David Conner as an independent non-executive director on 1 January 2016. He succeeded Lars Thunell as Chair of the Board Risk Committee following his stepping down from the Board on 31 January 2016. David further strengthens the Board's banking and risk credentials and provides extensive experience of banking operations across Asia. Mike Rees, the Deputy CEO, stepped down from the Board on 30 April 2016, leaving the Group Chief

Executive and the Chief Financial Officer as the two executive directors on the Board. Simon Lowth stepped down from the Board on 31 July 2016, having served six years as an independent non-executive director, to focus his time on his appointment as Group Finance Director at BT Group plc.

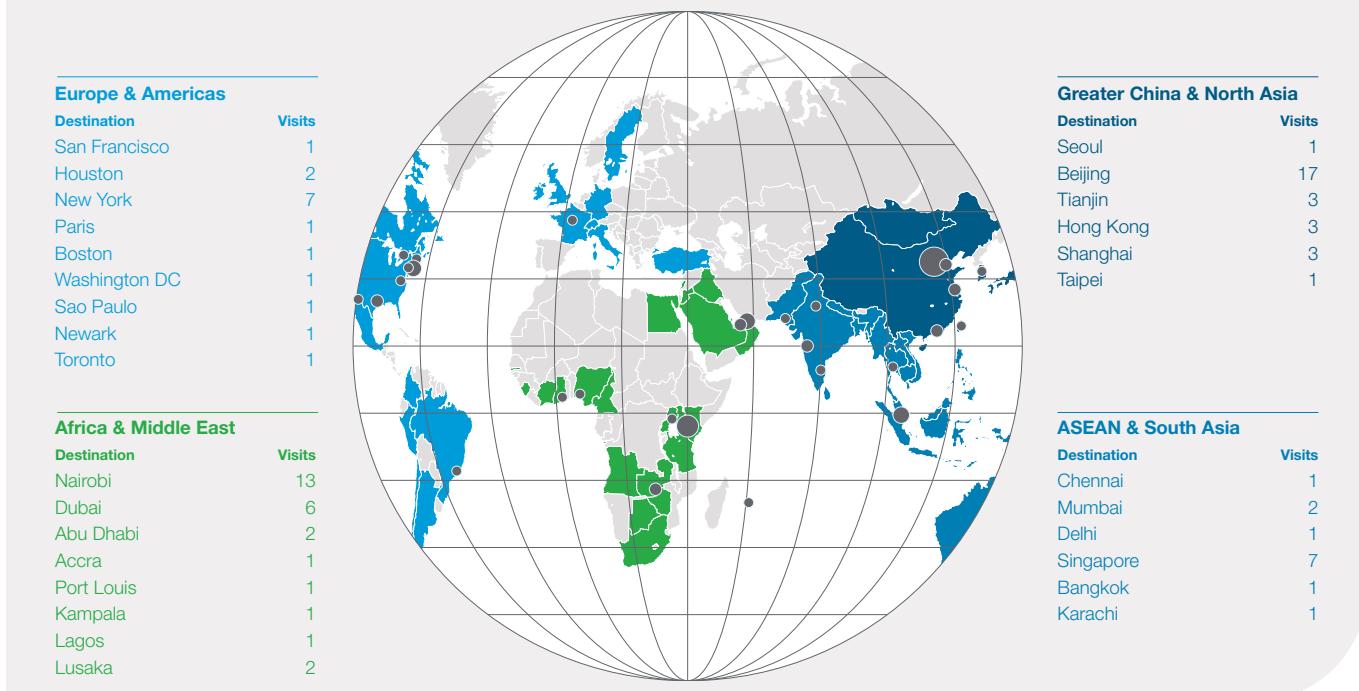
During 2016, the Board took the decision to strengthen its expertise and understanding of cyber risks, with the appointment of Sir Iain Lobban as an independent external advisor to the Board and its committees on cyber security and cyber threat management. Sir Iain's appointment took effect on 1 January 2017 and will enable the Board to draw on his substantial knowledge, skills and in-depth experience in this space. Sir Iain will continue in parallel as an external advisor member of the Board Financial Crime Risk Committee.

## Visits to our markets

The Board strongly supports an open and challenging, inclusive and collaborative culture. This culture of transparency ensures that independent non-executive directors have wide-ranging access to management and information and enables us to maintain a high level of governance across the Group. The exposure our independent non-executive directors have to the Group is demonstrated through the visits that they make throughout our markets, both to gain an on-the-ground understanding of the opportunities and risks we face and to validate the Group Strategy.

In addition, the overseas Board meeting programmes provide a significant opportunity for the Board to meet with senior management, clients and our employees throughout our network. During 2016, the Chairman, our independent non-executive directors and the external advisor members to the Board Financial Crime Risk Committee made 84 visits across our markets, which included two overseas Board meetings, held in Beijing and Nairobi.

### INDEPENDENT NON-EXECUTIVE DIRECTOR, BOARD FINANCIAL CRIME RISK COMMITTEE EXTERNAL ADVISOR MEMBERS AND CHAIRMAN'S VISITS TO OUR MARKETS IN 2016



## External directorships and other business interests

We support Board members taking external directorships and other outside business interests and recognise the benefits that greater boardroom exposure gives our directors. However, we closely monitor the number of directorships our directors take on to satisfy ourselves that any appointment will not adversely impact their role at Standard Chartered and that all of our Board members are compliant with the PRA requirements. These requirements impose a limit on the number of directorships both executive and independent non-executive directors are permitted to hold. Details of the directors' external directorships can be found in their biographies on pages 57 to 59.

Before committing to an additional appointment, directors confirm the existence of any potential or actual conflicts; that the role will not breach their limit as set out by the PRA; and provide the necessary assurance that the appointment will not adversely impact their ability to continue to fulfil their role as a director of the Group. In addition, the Board's executive directors are permitted to hold only one non-executive directorship. Of our executive directors, Andy Halford is a non-executive director of Marks and Spencer Group plc, listed on the FTSE 100, and Bill Winters is a non-executive director of Novartis International AG, listed on SIX Swiss Exchange.

## Time commitment

We expect our independent non-executive directors to commit sufficient time to discharge their responsibilities. In general, we estimate that each independent non-executive director spent approximately 35 to 50 days on Board-related duties, and considerably more for those who chair or are members of multiple committees.

## Director induction

All new Board directors receive an extensive, formal and tailored induction programme to enable them to function effectively as quickly as possible, while building a deep understanding of our business and markets. Their induction is supplemented with a handbook, which includes information on a broad range of matters relating to the role of a director as well as details of applicable procedures.

Each induction typically consists of a combination of meetings with both executive and independent non-executive directors as well as the Group Company Secretary; briefings from senior managers across the Group; the opportunity to attend key management meetings and to meet with major investors and clients; and visits to key markets across our footprint. The induction programmes are usually completed within the first six to nine months of a director's appointment. They are regularly reviewed and take into account director's feedback to ensure they are continually improved.

David Conner, who joined the Board as an independent non-executive director at the start of the year, completed a comprehensive induction to Standard Chartered, tailored to his extensive experience of banking and covering those areas where he was less familiar. José Viñals began his induction on joining the Board in October 2016 as Chairman Designate. Details of the broad themes and individual topics covered in José's induction are highlighted on page 69.

Directors who joined a Board committee during the year also received thorough committee specific inductions.

## José Viñals' induction

The first two months of José's induction programme were combined with a well-managed handover period with the outgoing Chairman, Sir John Peace. The handover consisted of regular structured meetings on key areas providing José with valuable insight, guidance and support. Sir John also acted as a sounding board for José in the weeks leading up to his appointment as Chairman and José was able to shadow Sir John at the Board and committee meetings held in Nairobi in November 2016.

Naguib Kheraj, who was appointed Deputy Chairman on 1 December 2016, has also provided support and guidance to José throughout his induction and will continue to support him more widely through his chairmanship.

José's formal induction programme was designed to provide a comprehensive insight into all aspects of the Group, tailored to his extensive economic, political and regulatory experience and focused on those aspects which are new to him, including our unique history, culture and values; our key markets; the Group's strategy; the way in which we are structured globally to execute the strategy; current performance; people; accounting; risk management; legal matters; and the regulatory and legislative framework in which the Group operates, including the UK corporate governance regime and the obligations of being a director of a UK listed company.

Since joining the Group in October 2016, José has taken the opportunity to travel extensively around our markets, visiting branches and offices in Singapore, India, Hong Kong, China, Dubai, India, Kenya and the US, building an understanding of how the Group is viewed, its strengths and weaknesses, the execution of the strategy on the ground, the operations, and gaining an insight into the culture, values and ethical standards of the Group.

José's induction has been facilitated through a series of in-depth group and one-to-one briefings sessions in the UK and across our markets, meeting with senior management, clients, shareholders, regulators, staff and other stakeholders. The Group Company Secretary has provided significant support to the Chairman throughout his induction.

## JOSÉ VIÑALS INDUCTION PROGRAMME

<b>Board Overview &amp; Strategy</b>	<ul style="list-style-type: none"> <li>Regular meetings with Sir John Peace throughout the handover period</li> <li>Regular one-to-one meetings with the Chief Executive Officer, the Deputy Chairman/Senior Independent Director, the independent non-executive directors and the Group Company Secretary</li> <li>Briefing on the Group's strategic agenda and core strategic projects from the Global Head, Strategy</li> <li>Held one-to-one meetings with each of the Management Team members</li> <li>Observed a Management Team meeting</li> </ul>
<b>Client Segments &amp; Product Groups</b>	<ul style="list-style-type: none"> <li>Meetings in Singapore with the Chief Executive Officer, Corporate &amp; Institutional Banking; the Group Head, Commercial and Private Banking Clients; the Chief Executive Officer, Retail Banking; the Group Head, Corporate Finance; the Group Head, Financial Markets; the Group Head, Transaction Banking; the Global Head, Private and Wealth Management</li> </ul>
<b>Regional Businesses</b>	<ul style="list-style-type: none"> <li>Met each of the four Regional Chief Executive Officers, in Dubai, Singapore, Hong Kong and London</li> <li>Met with each of the Regional Chief Executive Officers' management teams</li> </ul>
<b>Risk</b>	<ul style="list-style-type: none"> <li>Met with the Group Chief Risk Officer and held meetings with regional Chief Risk Officers</li> <li>Attended a regional risk management meeting in Hong Kong</li> </ul>
<b>Compliance</b>	<ul style="list-style-type: none"> <li>Briefing on overview of compliance with Group Head, Compliance and Group Chief Risk Officer; meeting on Speak up/Whistleblowing with Group Head, Compliance and the Senior Independent Director</li> <li>Meeting with Global Head, Financial Crime Compliance (FCC) and the Heads of Regional FCC</li> <li>Regular briefings with the Global Head, Regulatory Liaison and the Head, Compliance, Global Functions</li> <li>Met with the Heads of Regional Compliance</li> <li>Met the Group's Supervisory teams at the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA)</li> </ul>
<b>Legal</b>	<ul style="list-style-type: none"> <li>Briefing on the legal function and the US Regulatory Environment with Group General Counsel</li> <li>Overview of litigation matters with Head, Legal, Dispute Resolution</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>Regular meetings with the Group Chief Financial Officer</li> <li>Briefing on the Group's balance sheet, capital management and liquidity risk from the Group Treasurer</li> </ul>
<b>Audit</b>	<ul style="list-style-type: none"> <li>Met with Group Head of Internal Audit and with the Group's statutory auditors</li> </ul>
<b>Corporate Governance</b>	<ul style="list-style-type: none"> <li>Briefing from external legal advisors: directors' duties, responsibilities and obligations, and the UK and Hong Kong Listing Regimes</li> <li>Regular meetings and update sessions with the Group Company Secretary</li> <li>Hosted a call with the subsidiary non-executive directors and met a number of them across our markets</li> <li>Met with the Head, Insurable Operational Risk</li> </ul>
<b>People</b>	<ul style="list-style-type: none"> <li>Discussed the Group's People strategy, culture and My Voice staff survey with the Group Head, Human Resources</li> <li>Met the Global Head, Performance, Reward and Conduct and received an external perspective on reward from the Remuneration Committee advisor</li> <li>Held townhall meetings with staff and undertook floorwalks in the UK and as part of visits to our markets</li> <li>Participated in the Group's women forum in Kenya, SKIRTS (Sisterhood, Knowledge, Integrity, Respect, Tenacity &amp; Substance)</li> </ul>
<b>Brand &amp; Marketing</b>	<ul style="list-style-type: none"> <li>Briefing from the Group Head, Brand &amp; Marketing on the Group's brand experience and strategy</li> <li>Undertook branch visits across the Group's markets</li> </ul>
<b>Technology &amp; Operations</b>	<ul style="list-style-type: none"> <li>Briefing from the Group Chief Information Officer and the Group Chief Information Security Officer on the digital and innovation agenda and cybercrime</li> <li>Met with the Group Chief Operating Officer to discuss key priorities and strategy execution</li> </ul>
<b>Corporate Affairs</b>	<ul style="list-style-type: none"> <li>Regular meetings with the Group Head, Corporate Affairs</li> <li>Briefing from the Global Head, Investor Relations on key priorities and the shape of the share register</li> <li>Meetings with the Global Head, Public Affairs and Sustainability, which included environmental, social and governance (ESG) matters and the Group Head, Corporate Development</li> </ul>
<b>External Stakeholders</b>	<ul style="list-style-type: none"> <li>Meetings with regulators in the UK, Singapore, Hong Kong, China, India and the US</li> <li>Met with major shareholders, corporate brokers and investor bodies</li> <li>Met key clients in the UK and attended client meetings on visits across the Group's markets</li> <li>Met with representatives from industry bodies and held discussions with senior policymakers in the UK and across the Group's markets</li> </ul>

### David Conner's induction

David Conner's induction programme included a comprehensive insight into Standard Chartered and was tailored to his significant global and corporate, investment and retail banking experience, as well as his extensive knowledge of risk management and of his

career within senior executive positions at banks across Asia. It also provided support to ensure he received a thorough and broad grounding in the responsibilities and obligations of being a director of a listed company in the UK and the UK legal, regulatory and governance framework.

As part of his induction David made a number of visits to the Group's markets, both independently and as part of the Board's overseas meetings. These visits included meetings and/or briefings from regional and function heads, senior management, auditor partners, clients and regulators, in London, Singapore, New York, Beijing, Nairobi and Dubai.

Having been appointed as Chair of the Board Risk Committee, an early part of David's induction was focused on providing an insight into the Group's risk management profile and appetite. He also received a number of regulatory and legal briefings from our external legal advisors and the Group Company Secretary on the UK directors' duties, the Senior Managers Regime, responsibilities and obligations, as well as attending an external one-day session to provide him with additional context and further training in this area.

David's induction was comprehensive in its overview and took the form of briefings and in-depth sessions in the areas of strategy; client segments and product groups; regional businesses; risk; compliance; legal; finance and taxation; capital and liquidity; audit; people; brand and marketing; technology and operations; corporate activity; corporate governance; Board and committee governance; external stakeholders; meetings with clients, employees, regulators and shareholders.

### Ongoing development plans

Sustaining a highly engaged, effective, well-informed and functional Board requires not only a thorough induction process to ensure

directors understand the business and the issues as quickly as possible, but also a well-managed process of ongoing engagement, training and development. This was an area of additional focus during 2016 for all of the Board directors, as mandatory training and ongoing engagement plans were a key element of their fit and proper assessments under the Senior Managers Regime. During the year, all directors received a combination of mandatory training, briefings, presentations and papers on a range of topics to ensure that each director's contribution to the Board remained well-informed and relevant. This training took the form of refresher training on their statutory duties; an update on regulatory and governance responsibilities and obligations; briefings on geo-political developments, cyber security, an external perspective on brand and culture, and a China economic context session. The table below gives further detail on who received these briefings.

Support is provided to the directors by the Group Company Secretary and the Group Corporate Secretariat team. Directors also have access to independent professional advice at the Group's expense where they judge it necessary to discharge their responsibilities as directors. The delivery of Board and committee papers and other briefing material to directors through iPads continues to provide the Board with a flexible and efficient method of accessing information, particularly given the global nature of our Board.

### DIRECTORS' INDUCTION AND ONGOING DEVELOPMENT IN 2016

	Induction training <sup>1</sup>	Directors' duties and regulatory updates	Visits to our markets and meetings with local management	Geo-political developments	Cyber <sup>2</sup>	External perspective on brand and culture <sup>3</sup>	China economic context <sup>3</sup>
J Viñals (appointed Chairman Designate 3 October 2016 and Chairman 1 December 2016)	✓	✓	✓	— <sup>4</sup>	— <sup>4</sup>	— <sup>4</sup>	— <sup>4</sup>
W T Winters	N/A	✓	✓	✓	✓	✓	✓
A N Halford	N/A	✓	✓	✓	✓	✓	✓
O P Bhatt	N/A	✓	✓	✓	✓	✓	✓
Dr K M Campbell	N/A	✓	✓	✓	✗	✓	✓
Dr L Cheung	N/A	✓	✓	✓	✓	✓	✓
D P Conner (appointed 1 January 2016)	✓	✓	✓	✓	✓	✓	✓
Dr B E Grote	N/A	✓	✓	✓	✓	✓	✓
Dr Han Seung-soo, KBE	N/A	✓	✓	✓	✓	✓	✓
C M Hodgson	N/A	✓	✓	✓	✓	✓	✓
G Huey Evans, OBE	N/A	✓	✓	✓	✓	✓	✓
N Kheraj	N/A	✓	✓	✓	✓	✓	✓
J M Whitbread	N/A	✓	✓	✓	✓	✓	✓
S J Lowth (stepped down 31 July 2016)	N/A	— <sup>4</sup>	✓	✓	— <sup>4</sup>	— <sup>4</sup>	✓
Sir John Peace (stepped down 1 December 2016)	N/A	✓	✓	✓	✓	✓	✓
A M G Rees (stepped down 30 April 2016)	N/A	— <sup>4</sup>	✓	✓	— <sup>4</sup>	— <sup>4</sup>	✓
L Thunell (stepped down 31 January 2016)	N/A	— <sup>4</sup>	— <sup>4</sup>	— <sup>4</sup>	— <sup>4</sup>	— <sup>4</sup>	— <sup>4</sup>

1. Applicable to new directors appointed during 2016

2. There were no papers available for circulation to directors unable to attend

3. These briefings took the form of a combination of presentations, Board dinners and discussions. Where a director was unable to attend a session they received the update by the circulation of papers

4. Not a member of the Board at the time of the briefing/event

## Board effectiveness 2016

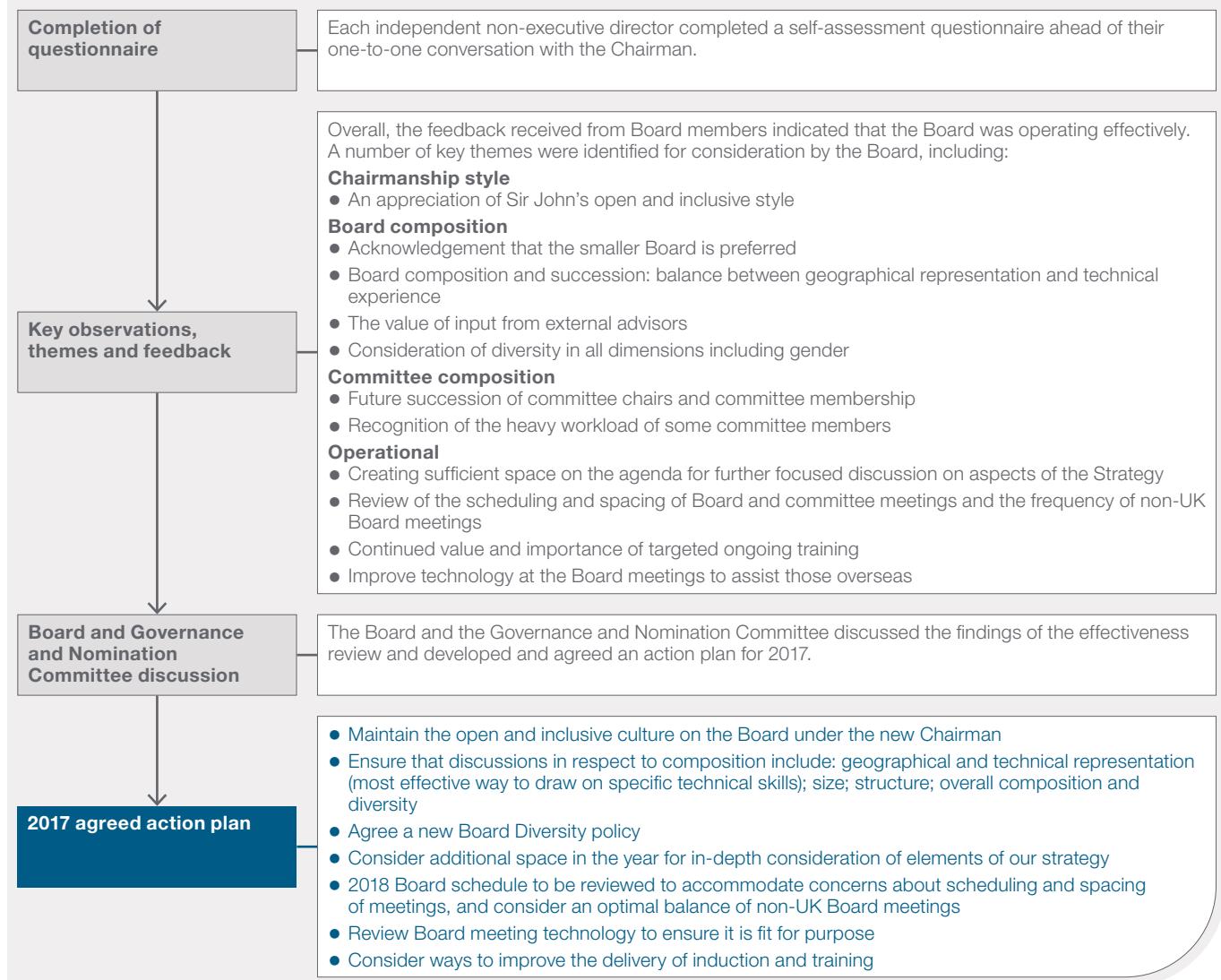
The effective operation of the Board and the collaborative and open relationship between the executive directors and the independent non-executive directors is crucial and well understood at Standard Chartered. With the transition to a new Chairman towards the end of 2016, it was appropriate for the Board effectiveness review to be conducted internally in 2016, facilitated by the Group Company Secretary.

This year's Board effectiveness review took the form of a self-assessment questionnaire, completed by each independent non-executive director and shared with the Chairman ahead of his one-to-one meetings with each of them. The executive directors' comments were received separately through the Group Company Secretary. The meetings took place between September and November 2016 and were attended by the Group Company Secretary. These meetings provided an opportunity for Board

members to offer their insight into the effectiveness of the Board and highlight areas where its effectiveness could be enhanced. A final report incorporating the feedback and observations from the directors, including recommendations for action, was presented to the Board meeting in December 2016 for its consideration. The overall conclusion from this year's Board effectiveness review was that the Board operates effectively. However, it highlighted a number of actions for 2017 to address the key outputs. These, along with further detail on this year's Board effectiveness review process, are set out below.

The observations from this year's review formed part of Sir John Peace's handover to José Viñals, providing him with valuable context as he transitioned into his role as Chairman. It also provided informative background ahead of the externally facilitated Board effectiveness review that is being conducted in 2017, the conclusions of which will be shared in next year's report.

### THE 2016 BOARD EFFECTIVENESS REVIEW PROCESS



## Committee effectiveness

The effectiveness of each of the Board committees was reviewed in parallel with the Board. Each of the committees conducted an internally facilitated effectiveness review. These reviews, facilitated by the Group Corporate Secretariat, consisted of a questionnaire with a combination of specific questions relating to the individual committees as well as the operation of each committee.

Committee members as well as permanent attendees were invited to provide feedback.

This feedback was formally discussed by each of the committees and overall it was considered to be effective, challenging and well-managed. An action plan for each committee has been designed to address the key feedback identified. More detail on the individual committee reviews can be found within their sections in this report.

## Directors' performance

During the autumn of 2016, Sir John Peace, as Chairman, held discussions with each of the directors to review and assess their individual performance. This is used as the basis for recommending the re-election of directors by shareholders.

For each of the independent non-executive directors, discussion 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

## Directors' fitness and propriety

Standard Chartered has a framework in place to ensure that individuals appointed to relevant senior manager positions across the Group have the appropriate fitness and propriety to properly discharge their responsibilities, both on appointment and during the course of their appointment. The Chairman has responsibility for assessing the fitness and propriety of the Company's independent non-executive directors and the Group Chief Executive Officer. Annual fit and proper assessments were carried out in respect of each independent non-executive director and the Group Chief Executive Officer during the course of 2016.

## Chairman's performance

The Senior Independent Director met with the independent non-executive directors, at a private meeting without the Chairman present, to review the Chairman's performance. The feedback was collated and consolidated feedback was given to Sir John Peace ahead of him stepping down from the Board on 1 December 2016.

## Independence and re-election to the Board

The Chairman is committed to ensuring that the Board is comprised of a majority of independent non-executive directors. In determining whether a non-executive director is independent, the Board considers each individual against the criteria set out in the UK Corporate Governance Code, the Hong Kong Listing Rules and also considers their contribution and conduct at Board meetings, including how they exercise judgement and independent thinking. In line with the Code, Dr Han's re-appointment was subject to particular review and scrutiny, given he has served on the Board for more than six years. The Board is satisfied that Dr Han and each of its non-executive directors bring robust, independent oversight.

All of the directors will stand for (re)election at the 2017 Annual General Meeting (AGM) with the support of the Board.

## Engagement with Shareholders

We recognise the importance of trusted and open relationships with our shareholders. These relationships are strengthened by ensuring we openly seek shareholders' views not simply in the lead in to the AGM but throughout the year.

The Chairman and other Board directors have direct contact with shareholders and advisory voting bodies as well as receiving regular updates from Investor Relations on the views of our key shareholders, the position of influential advisory bodies together with reports on market and investor sentiment.

### KEY SHAREHOLDER ENGAGEMENT IN 2016

<b>February 2016</b> Full year results and Annual Report	<b>April 2016</b> Q1 Interim Management Statement	<b>May 2016</b> Annual General Meeting	<b>August 2016</b> Half year results	<b>November 2016</b> Q3 Interim Management Statement
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During the year, we maintained our comprehensive engagement with investors and other key stakeholders, including investor advisory bodies and credit rating agencies. We have focused engagement on our progress with executing the Group's strategic plan set out in November 2015 to stabilise and reposition the Group and the steps taken to improve returns to shareholders. This year, we have undertaken around 500 investor meetings and have met with around 300 separate institutions in key investor hubs across 25 cities in Europe, North America and Asia.

The Group Chief Executive and Group Chief Financial Officer continue to be our primary spokespeople and have engaged extensively with current and potential investors through individual and group meetings at various roadshows and investor conferences throughout the year. In addition, many of the Management Team met with investors at various conferences and group meetings to promote greater awareness and understanding of our client segment, regional, risk and technology strategies.

As part of José's induction as Chairman, he spent a significant amount of time in his first few months engaging with our top investors, who comprised more than 50 per cent of the share register, as well as with several investor advisory bodies to understand their views on the Group, introduce himself and set out his priorities as Chairman.

The Group maintains a diverse, high-quality and predominantly institutional shareholder base. North American investors now comprise around 30 per cent of the share register.

## INSTITUTIONAL SHAREHOLDERS PROGRAMME

The Investor Relations team has primary responsibility for managing day-to-day communications with our institutional investors. The team supports the Chairman, Group Chief Executive, Group Chief Financial Officer, other Board members, and senior management in conducting a comprehensive shareholder programme spread across the year. During the year, the programme of investor events included:

- Formal presentation of full year and half year results followed by post-results investor roadshows across 25 cities in major investor centres across Europe, North America and Asia
- Interim Management Statements issued for the three months ending 31 March 2016 and nine months ending 30 September 2016, followed by a webcast with investors and analysts
- Fourteen industry conferences in Europe, North America and Asia attended by a combination of executive directors, regional/segment CEOs, senior divisional management and the Investor Relations team
- Continued engagement on governance with institutional shareholders and voting advisory bodies. The Group Company Secretary leads this process along with the Senior Independent Director (SID) with input from senior management. Throughout the year, the SID met with a range of investors to keep them apprised of progress on the search for a new Chairman and the Remuneration Committee Chair consulted extensively with a range of shareholders regarding the new Remuneration Policy. 94.3 per cent of shareholders supported the executive remuneration policy at the 2016 AGM
- A governance event hosted in London in April 2016 by Sir John Peace (the then Chairman), together with the SID, Remuneration Committee Chair and Group Company Secretary attended by 14 institutional investors. The event provided an open forum for debate on topical governance issues and, more broadly, assisted us in deepening the relationship with the Group's shareholders
- Various investor meetings hosted by the Group Treasurer, regional and client segment management

 All presentation material and webcast transcripts are made available on the Group's website and can be viewed at [investors.sc.com](#)

## DEBT INVESTOR PROGRAMME

Group Treasury manages 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 2016, management met with debt investors across Europe, the US and Asia and maintained a regular dialogue with the rating agencies. The Group is an active issuer of senior unsecured and non-equity capital issuing \$2 billion of Additional Tier 1, \$1.25 billion of Tier 2 and around \$4.4 billion of senior unsecured debt from Standard Chartered PLC in 2016. It is therefore important to maintain regular contact 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 [investors.sc.com](#)

## RETAIL SHAREHOLDERS' PROGRAMME

The Group Company Secretary oversees communication with our retail shareholders. The AGM in 2016 was held on 4 May 2016, was well-attended and all of the proposed resolutions were passed, with shareholder support in favour of each resolution ranging from 90.5 to 99.9 per cent. It provided an opportunity for the Board to meet with our retail shareholders, listen to their views and respond to their questions. During the year, we also met with the United Kingdom Shareholders' Association and undertook a roadshow with Private Wealth fund managers.

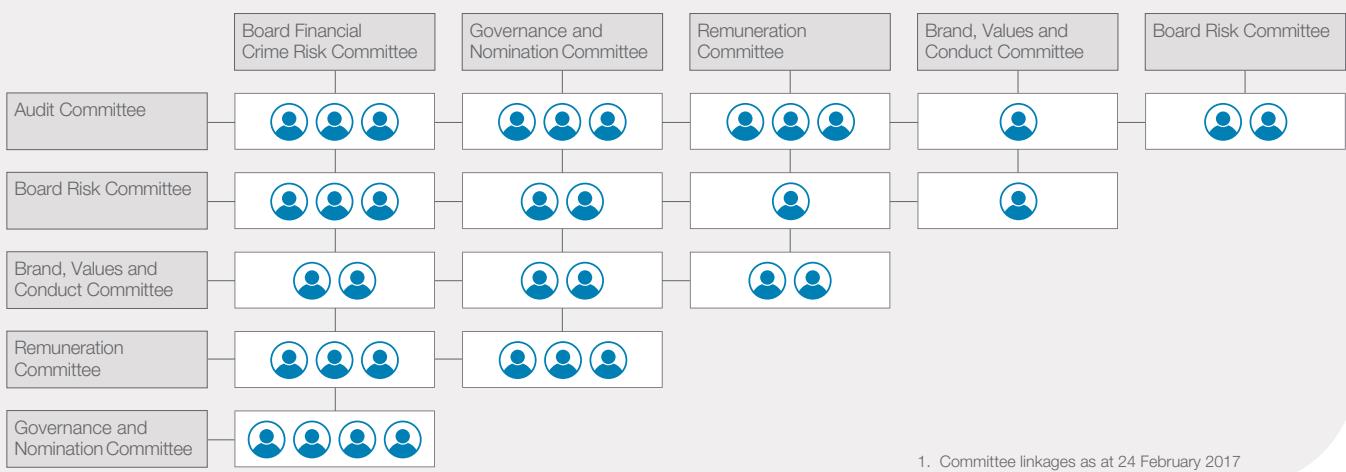
 The results of the voting on each resolution at the 2016 AGM can be viewed at [investors.sc.com](#)

## Board committees

The Board places significant reliance on its committees by delegating a broad range of responsibilities and issues to them. It therefore remains crucial that effective linkages are in place between the committees and the Board as a whole, not least as it is impracticable for all independent non-executive directors to be members of all of the committees. Mechanisms are in place to facilitate these linkages, including ensuring that there are no gaps or unnecessary duplications between the remit of each committee and overlapping membership between Board committees.

Alongside interconnected committee membership, the Board receives minutes or a verbal summary of each of the committee's meetings (with the exception of the Governance and Nomination Committee). The membership of many of the committees was changed during 2016, including the chairs of the Board Financial Crime Risk Committee, the Brand, Values and Conduct Committee, the Board Risk Committee and the Governance and Nomination Committee, allowing for a fresh perspective from existing or newly appointed Board members.

## COMMITTEE MEMBERSHIP LINKAGES



# Audit Committee



**Naguib Kheraj**  
Chair of the Audit Committee

## Dear Shareholder

As Chairman of the Audit Committee, I am pleased to present the Audit Committee's report for the year ended 31 December 2016. In addition to the disclosure requirements relating to audit committees under the UK Corporate Governance Code 2014, the following report sets out the areas of significant and particular focus for the Committee and its activities over the course of the year, as well the review undertaken on the effectiveness of the Group's statutory auditor KPMG LLP (KPMG) and the assurance the Committee has sought and been provided with concerning the resourcing of the Group Finance, Group Internal Audit and Compliance functions.

This report provides an overview of the significant issues the Audit Committee assessed and the Committee's opinion on the Annual Report when viewed as a whole, including how it has assessed the narrative reporting in the front of the report to accurately reflect the financial statements in the back.

Management reporting to the Committee from across the business has provided the opportunity for the Committee to challenge, discuss and seek assurance from management and enabled the Committee to provide an independent perspective.

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 in ensuring that the interests of the Group's shareholders are properly protected in relation to financial reporting and internal control.

**Naguib Kheraj**  
Chair of the Audit Committee

## The Committee's composition and role

The Committee members have detailed and relevant experience and bring an independent mindset to their role. David Conner joined the Committee on 1 January 2016 bringing with him significant global banking experience, strong risk management credentials and an in-depth knowledge of Asian markets.

The Board is satisfied that Christine Hodgson has recent relevant financial experience and that all the other Committee members have board experience and knowledge of financial reporting and international business. Details of their experience can be found on pages 57 to 59. All the Committee members are independent.

The overlapping membership between the 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 other Board committees avoids gaps or unnecessary duplications between the remit of each committee.

In discharging its responsibilities, the Committee has been mindful of the recommendation as set out in the Financial Reporting Council's guidance for Audit Committees 2016. The Committee's role is to review, on behalf of the Board, the Group's internal financial controls. It is also responsible for oversight and advice to the Board on matters relating to financial reporting and has exercised oversight of the work undertaken by Group Compliance, Group Internal Audit and the Group's statutory auditor, KPMG.

## Financial reporting

The primary role of the Committee in relation to financial reporting is to monitor the integrity of the Group's published financial statements and formal announcements relating to the Group's financial performance, reviewing significant financial reporting judgements and accounting issues contained in them.

<b>Committee composition</b>		
	Scheduled meetings	Ad-hoc meetings
N Kheraj (Chair)	6/6	1/1
D P Conner (appointed 1 January 2016)	6/6	1/1
C M Hodgson	5/6 <sup>1</sup>	1/1
Dr B E Grote	6/6	1/1
<b>Directors who stepped down during 2016</b>		
Dr L H Thunell (stepped down 31 January 2016)	0/1 <sup>2</sup>	N/A

**Other attendees at Committee meetings in 2016 included:**

Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group Head of Internal Audit; Group General Counsel; Group Head, Compliance; Group Company Secretary; Group Chief Information Officer; Regional Chief Executive Officer, Africa and Middle East; Group statutory auditors.

As part of, and in addition to, each scheduled Committee meeting, the Committee has private member-only meetings.

- Christine Hodgson was unable to attend one scheduled committee meeting due to prior commitments
- Lars Thunell was unable to attend one scheduled committee meeting due to prior commitments

 **The Committee has written terms of reference that can be viewed at [sc.com/termsofreference](http://sc.com/termsofreference). They include all the material points recommended under the UK Corporate Governance Code**

Group Finance has oversight and is responsible for the consolidation of financial information from country reporting teams for entities within the Group, the application of accounting policies and practices, including key estimates and judgements, and providing adequate accounting and financial records over reporting of published financial statements and formal announcements relating to the Group.

The Group Finance team and country reporting teams perform analytical procedures, ensuring compliance with accounting standards, legal and regulatory matters in relation to financial reporting and interact on a regular basis to evaluate, manage and resolve relevant matters relating to financial reporting, including significant accounting policies and financial reporting judgements and changes in estimates. All financial information submitted by country reporting teams is certified by the in-country Chief Financial Officer.

The Committee is satisfied that the Group's accounting policies and practices are appropriate, including significant accounting estimates and judgements made.

During 2016, the Committee has considered on behalf of the Board, the Q1 and Q3 Interim Management Statements.

In 2016, the Committee paid particular attention to impairment of loans and advances, valuation of financial instruments, and goodwill impairment testing.

#### **Impairment of loans and advances**

Throughout the year the Committee received information on the quantum of impairment, specific names and industries under impairment review. These reports are from management at each reporting period, detailing the composition of the loan book, provisioning levels, cover ratio by client segment and the judgement exercised

around the individual and portfolio impairment provisions. They covered all client and geographic segments and included reviews of:

- Retail Banking, where provisions are assessed more on a collective basis (other than for mortgages). Trend analyses of Portfolio Impairment Provisions against Expected Loss was provided as were analyses of delinquency trends. The Committee 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 per cent
- Corporate & Institutional Banking and Commercial Banking assumptions underpinning possible recovery options and related cash flows
- For certain significant exposures, particularly those exposures in the 'high risk' credit grade and managed by Group Special Asset Management (GSAM), the Committee has been briefed on business plans, management assessment of the recoveries and collateral available
- Trends in 'early alert accounts' were shared and the concentration of exposures in relevant sectors and countries

The Committee also assessed the external macroeconomic conditions, geo-political movements 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, with the Chair of the Audit Committee being a member of the Board Risk Committee and vice versa. This synergy facilitates an assessment of current adequacy of provisions, and affords the Audit Committee a forward-looking view of potential risks and their impacts.

The Committee has discussed impairment with management and the auditors, and considers the provisions held within each of the client segments to be appropriate.

#### **Valuation of financial instruments**

The Committee receives reports and valuation updates at each reporting period, detailing the process undertaken by Valuation Control, a unit independent of the business. The Committee is made aware of the amounts reserved to cater for model and valuation risks, which cover both Level 2 and Level 3 assets; and the significant valuation judgements in respect of Level 3 instruments. Where the measurement of fair value is more judgemental in respect of Level 3 assets, these are valued based on models that use a significant degree of non-market-based unobservable inputs. The Committee was satisfied with the reports and valuation updates provided. Further details on financial instruments are set out in note 13 on pages 227 to 236.

#### **Goodwill impairment testing**

The Group undertakes its annual assessment of goodwill impairment each year and receives a report outlining the basis of the assumptions and forecasts used for determining cash flows, including any change from the prior year, headroom availability and sensitivities of the forecasts to possible changes in assumptions. During the year the Committee is updated on movements in assumptions and sensitivities to ensure that at reporting dates the goodwill is reasonably stated.

The total goodwill carried on balance sheet as at 31 December 2016 is \$3,456 million and, based on the review of forecasts and assumptions by management, the Committee considers that, other than noted below, the headroom available is sufficient to support the carrying value. The Committee agreed with the impairment charges as at 31 December 2016 of \$166 million detailed in note 9 and note 17.

These are also considered to be key areas that KPMG focused its work. The Committee received reports and updates from KPMG and is satisfied the issues have been addressed during the year.

During the year, the Committee was provided with updates on finance projects that have arisen as a result of accounting or regulatory requirements. The major project relates to IFRS 9 *Financial Instruments* (effective from 1 January 2018). In summary, these reports considered:

- Project governance across multidisciplinary areas combining the skills of finance, risk and IT, key risks, and progress against implementation. Reports to ensure compliance in respect of the implementation requirements and evaluate management's progress in implementing and transitioning to the impairment requirements of IFRS 9
- A paper issued by the Global Public Policy Committee (GPC) to bank Audit

Committee Chairs, to report on progress against implementation milestones of IFRS 9 impairment requirements by banks and provide an update on key industry developments in the period.

The Committee discussed the key areas of focus of the finance function in 2016 and is satisfied with the adequacy of resources including organisational change, headcount, Group reporting technical and leadership capability, projects and investment and processes and controls.

The Committee is satisfied that the Group Finance function is adequately resourced to maintain the Group's external reporting obligations and that the qualifications, experience, training and budget are sufficient.

### Aircraft and shipping

The Committee discussed and considered the change in the Group revised estimates for both the useful lives and residual value estimates relating to the aviation and shipping assets (refer to note 18 on page 247) and concluded that the change was appropriate.

### Restructuring provisions

The Committee received and reviewed reports with respect to the restructuring charges. We continued, like 2015, to review the extent to which restructuring provisions were recognised and measured and remained consistent with the 2015 Strategic Review. The Committee reviewed and consider Management's judgements and assumptions and are satisfied there are reasonable, including related disclosures.

### Taxation

The Committee discussed the tax charge with Management and noted the effects of a number of components that result in an overall charge to the income statement. The Committee reviewed and considered Management's judgements and assumptions with respect to tax risks and are satisfied these are reasonable and adequate disclosure in the financial statements has been made.

### Disclosures

The Committee has reviewed the clarity and completeness of the proposed disclosures made within the published financial statements, checked that they are set properly in context, and discussed the proposed disclosures within this year's Annual Report and Accounts arising from:

- Alignment to best practice through the application of the 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
- The themes raised by, and specific comments from, the Financial Reporting Council (FRC) on aspects of UK reporting

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 207. As part of the Committee's year-end discussions, consideration was given to the Going concern and Viability statements, further details of which can be found on pages 124 to 125.

### Fair, balanced and understandable

The Committee has reviewed and monitored the appropriateness and completeness of the published financial statements of the Group. The Committee has paid particular attention to the formal announcements relating to the Group's financial performance, significant accounting policies and significant financial reporting judgements and changes in estimates made by the Group. On behalf of the Board, the Committee 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 position and performance, business model and strategy and the business risks it faces.

The statement is underpinned by the Committee's, and the Board's, belief that 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 Group's financial statements. In making its assessment, the Committee applies its accumulated knowledge and experience from Board meetings, engagement with management over the year and from access to management performance information.

### Group statutory auditor

The Committee is responsible for the appointment of the Group statutory auditor and has overseen the work undertaken by KPMG throughout the year. As Committee Chair and as part of his visits to the Group's markets, Naguib met with the local audit partner in Kenya and Taiwan. In addition, KPMG's local regional partners from Africa, Hong Kong, Korea and the US attended Committee meetings. Such interaction enables the Committee to gain greater insight of the challenges faced in the Group's markets from a statutory audit perspective and provides the local regional partners with the opportunity to provide the Committee with their assessment of the Group's control systems and infrastructure in their markets, the quality of the Group's management from a control perspective and a benchmark of the Group's control environment against local and international peers. Such discussions also provided the Committee with insight into local regulatory developments and the Group's standing with local regulators. The Committee also:

- Discussed the risks covered by the KPMG audit plan and has sought and received assurance that these risks have been properly addressed in the audit strategy and plan, which have been reviewed by the Committee. The Committee has enquired, and is satisfied, that KPMG has allocated sufficient resources to address these risks. The Committee has sought and received assurance that no undue pressure has been asserted on the level of audit fees to ensure that there is no risk to audit work being conducted effectively and independently

- Analysed and discussed the results of the inspection of KPMG by the FRC's Audit Quality Review Team. The discussions gave no cause for concern regarding the FRC's observations

- Performed its annual review of the performance and effectiveness of KPMG. This review includes an assessment of their independence and objectivity. The review was performed jointly by Group Internal Audit and Group Finance and took the form of a structured survey which was sent to Committee members, the chairs of the Group subsidiary audit committees, the Group's Management Team, country chief executive officers, regional/country chief financial officers, members of the Group Finance Leadership Team and country heads of audit. The results of the survey were discussed by the Committee. Overall, it was felt that KPMG is considered to be effective, objective and independent in its role as Group statutory auditor

In accordance with the Auditing Practices Board requirement, the lead audit engagement partner was rotated in 2015, having held the role for five years. The lead audit engagement partner has a background of auditing banks and understands the markets in which the Group operates.

The Company complies with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. A tender for audit services was last conducted in 2013, following which KPMG were appointed as the Group's statutory auditor. Before the audit tender took place, KPMG had been the Group's statutory auditor for over 25 years and has regularly rotated its lead partner. In line with the new EU legislation in respect of statutory audit services, Directive 2006/43/EC (which amends the Statutory Audit Directive) became applicable throughout the EU on 17 June 2016. In accordance with this Directive, it is acknowledged that it is mandatory for the Group to change the Group's statutory auditor for the year ended 31 December 2021.

### Non-audit services

The Committee sets, reviews and monitors the appropriateness of the provision of non-audit services, and applied the Group's policy on the award of non-audit services

to the external auditor, while taking into account the relevant ethical guidance. The policy is designed to ensure the Group mitigates the risk of a conflict of interest that would compromise KPMG's independence or perceived independence from the Group, and sets out the criteria for when the Committee's prior written approval is required. The Committee is satisfied that all the requirements have been met.

In 2016 the Group spent \$3.6 million on non-audit services provided by KPMG. The FRC published its Revised Ethical Standard for Auditors in June 2016 and provided new guidelines on services permitted or prohibited by auditors. In addition to new restrictions, a cap on non-audit services was introduced and will first apply to the Group in the year ending 31 December 2020. Under the cap, total fees from non-audit services provided cannot exceed 70 per cent of the average audit fee from the previous three consecutive financial years. There is no requirement to apply retrospectively in 2020; however, if applied retrospectively the Group would be in compliance with current year fees being less than 25 per cent of the average audit fee from the previous three consecutive financial years.

**Further details on non-audit services provided by KPMG can be found in note 37 on page 272, and the Group's approach to non-audit services can be found on page 130**

## 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. On a regular basis, the Group Internal Audit Report provides the Committee with Group Internal Audit's view of the system of internal controls across all risk types, business and country functions. In addition, the Committee is provided with a summary of items for monitoring by the Committee. This summary highlights the most significant matters being monitored by Group Internal Audit and items of thematic interest which have arisen as part of audits and which warrant the Committee's attention. At the Committee's request the Group Chief Information Officer attended a Committee meeting to discuss the action being taken to address outstanding IT related audit findings.

To complement the Group Internal Audit Report, the Committee is also provided with the Group Internal Audit Information Report, which provides the Committee with additional and more granular information on significant areas. It contains management actions to address items included in the summary, an overview of the audits completed over the course of the year and overdue high-risk issues identified in audits since the last Group Internal Audit Information Report to the Committee.

During 2016, for those most significant matters being monitored by Group Internal

Audit, business and/or regional management has been invited to attend Committee meetings to provide updates on the steps being taken to enhance the control environment and address internal audit findings. As a result of internal audit findings and at the Committee's request, management have attended Committee meetings to present specific deep dives into the control environment in Africa, the reasons for overdue remediation of information technology audit findings and the Group's approach to managing the risk of third-party outsourcing.

In addition to reporting to the Audit Committee, Group Internal Audit provides the Board Risk Committee with a summary of Group Internal Audit's appraisal of controls across key risks subject to the Board Risk Committee's oversight and the Board Financial Crime Risk Committee with updates on Group Internal Audit's work in relation to Financial Crime Risk and its views on the Group's control environment.

As part of KPMG's audit certain controls are tested in relation to financial reporting and financial statement preparation. Typically this involves a detailed walkthrough of the front to back processing of transactions and identifying key controls implemented by the Group to assess that transactions are processed completely and accurately. KPMG also gained an understanding and tested key controls implemented by the Group for judgemental areas including valuation of loans and financial instruments held at fair value. The Committee received a report setting out KPMG's observations of the Group's controls arising from KPMG's audit for the year ended 31 December 2015 and observations made in the current year. The control points raised related principally to reinforcing or enhancing existing procedures and did not suggest any fundamental concerns over the control framework or procedures. The Committee also considered management's responses to the findings together with proposed timelines for addressing the findings.

The Committee has also discussed operational risk. There is an overlap between the work of the Audit Committee and the Board Risk Committee as the Board Risk Committee has considered issues relating to operational risk management. The Committee has considered KPMG's Management Letter and its observations of the Group's controls. The Audit Committee has received an update on the work undertaken by the Group to pursue the recommendations made by KPMG to further embed risk appetite and the operational risk framework, further details of which can be found in the Risk Management Approach on page 147.

The Committee has discussed the work underway within the Group concerning third party supplier and outsourcing risk management.

The Committee received regular reports on the status of the programme to handle the implementation of the EU Market Abuse

Regulations that came into effect in July 2016.

The Committee has also sought and received assurance concerning the Group's compliance with the Volcker Rule (the Rule). The Rule refers to part of the Dodd-Frank Wall Street Reform and Consumer Protection Act and prohibits the Group from (i) engaging in proprietary trading; and (ii) acquiring or retaining (directly or indirectly) as principal, any equity, partnership or other ownership interest in or sponsoring of a Covered Fund. In addition, the Rule requires the Group to establish, maintain and enforce an enhanced compliance program reasonably designed to ensure and monitor compliance with the Rule.

As Standard Chartered Bank's New York branch is a 'qualifying foreign banking organization' regulated under the US Bank Holding Company Act (BHCA) the Committee has received updates regarding the remediation work being undertaken to ensure the Group is fully compliant with the BHCA.

## Speaking Up programme

The Committee has spent time discussing the enhancement of the Group's Speaking Up programme in order to comply with new Whistleblowing Rule introduced by the Group's UK lead regulators the Prudential Regulatory Authority (PRA) and the FCA that came into effect on 7 September 2016. The Group's Speaking Up programme was re-launched on 31 August 2016, linked directly with the Group Code of Conduct annual staff recommitment. A key feature of the re-launch involves leveraging the Group's initiative to promote Speaking Up (#knowtherules) as a critical outcome for good conduct, and creating the right environment.

Speaking Up management information has been regularly provided to the Committee. This includes year-to-date volumes relative to 2015, any identifiable themes arising from Speaking Up reports, the average time to complete an investigation, the number of ongoing investigations and the number of substantiated and non-substantiated cases.

## Non-financial crime compliance, regulatory government investigations and significant cross-border and major disputes

The Committee has been provided with updates on non-financial crime compliance regulatory government investigations (RGIs) facing the Group. RGIs relating to financial crime compliance are reported separately to the Board Financial Crime Risk Committee. The Committee has also received updates on significant cross border orders and major disputes facing the Group.

## Interaction with regulators

On an annual basis the Committee meets with the PRA. The purpose of such meetings is to enable discussion between the Committee and the PRA without

the presence of management on non-prudentially focused matters. As Committee Chair, Naguib also met local regulators in the UAE and Pakistan as part of overseas visits to the Group's markets.

### **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, expertise and skill that are required within both functions, given the current regulatory environment. The Committee is also satisfied with the independence of the Group Internal Audit function. Throughout the year, Naguib has had regular meetings with the Group Head of Internal Audit and the Group Head, Compliance and has also met with the Regional Head, Audit, Europe & Americas and also met with Group Internal Audit teams in Kenya, Uganda, Pakistan, the UAE and the US.

The Committee monitored and assessed the role and effectiveness of the Group Internal Audit function. This included reviewing and monitoring Group Internal Audit's progress against its annual audit plan, and the review and monitoring of post-audit actions. The Committee also conducted its annual review and approval of Group Internal Audit's Charter.

The PRA undertook a review of the Group's Internal Audit function in Q4 2016. The review encompassed analysis of information requested as well as meetings with senior members of staff and the attendance by the PRA at a Committee meeting. The purpose of the review was to assess the design and effectiveness of Group Internal Audit as a third line of defence. The Committee discussed the findings of the PRA's review and will receive progress reports from Group Internal Audit against these over the course of 2017.

With the exception of the year-end focused meeting, at every scheduled meeting the Committee receives a Compliance Report. Over the course of the year, the format of this report to the Committee has been enhanced. In addition to describing the work being undertaken by Compliance and any significant compliance and regulatory risks facing the Group together with the key actions being taken to address or mitigate these risks, the report also includes updates from the business compliance and central compliance teams. In particular, the Committee received updates on the transition of the Banking Reform Act (the Act) programme to a business-as-usual environment following the Act coming into effect on 7 March 2016. The report also provides material updates by the Group's regional compliance teams, in particular, any significant developments with the Group's regulators in Hong Kong, India, Korea, Malaysia, Singapore, China, the US and the UK. As Group Compliance is the risk owner of a number of the top

operational risks identified in the Group's Operational Risk Framework, the Committee has sought and received assurance that Group Compliance has discharged its risk ownership obligations through the maintenance of high-quality compliance standards supported by a dynamic risk management and assessment structure. As Committee Chair, Naguib has met and engaged with the Compliance teams in Kenya, Uganda, Pakistan, the UAE and the US and also separately met the Regional Head Compliance, Americas, and the Taiwan Country Head of Compliance when he travelled to these markets.

The Committee has reviewed the functional agenda and annual plan for Group Compliance.

### **Linkages between the Committee and subsidiary Board audit committees**

While being mindful of the need to not adversely impact the independence of the Group's subsidiary audit committees, there are documented processes in place that define the linkages between, and roles of, the Audit Committee and the audit committees of subsidiary companies. Another way in which the Committee strives to ensure appropriate linkages between the Committee and the Group's subsidiary audit committees is by holding an annual call hosted by Naguib as Committee Chair and attended by the chairs of the subsidiary audit committees. In 2016, the Group Head of Internal Audit, Group Head, Compliance, Deputy Group Chief Financial Officer and lead audit partner of the Group's statutory auditor also participated in the call. 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 subsidiary audit committees and the Committee can be further strengthened and enhanced without comprising independence. As Committee Chair, Naguib also met with the independent non-executive directors of Standard Chartered Bank (Taiwan) and members of its audit committee and with members of the Group's Malaysian subsidiary audit committee when they visited London.

### **Ongoing training and development**

All new Committee members receive an extensive, formal and tailored induction programme that builds upon their experience and covers particular areas of focus of the Committee. Existing Committee members have ongoing training and development programmes which in 2016 included in-depth training sessions on IFRS 9, which replaces IAS 39 *Financial Instruments* on 1 January 2018. The implications of the change are set out in note 1 Accounting policies on pages 207 to 208.

### **Committee effectiveness review**

In keeping with the approach to Committee effectiveness reviews adopted by other Board committees, in 2016 an internally facilitated effectiveness review was conducted. This review, facilitated by the Group Corporate Secretariat, involved each committee member and permanent attendee providing their thoughts on the Committee's effectiveness. The feedback was then formally discussed by the Committee and an action plan designed to address the key observations.

The Committee is viewed as being effective, with observations from the review including the effectiveness of debate and discussions at meetings, the benefit derived from the private sessions between the Committee with Group Internal Audit, Compliance and KPMG, Committee pre-meetings that assist in focusing discussion on key matters and the broad range of topics covered. Management's observations included the good level of challenge received, the positive interaction between the Committee and management, the right level of enquiry by the Committee and excellent engagement from the Committee Chair and the Committee as a whole.

Areas for increased Committee effectiveness going forward included the need to guard against veering into management responsibilities as a result of too much information and detail being provided in the management information to the Committee and further enhancements to the commentary in Group Internal Audit Reports on management actions, thereby providing a better account of the materiality of audit findings in the context of broader control environment, so as to assist Committee members with calibrating the issues raised.

# Board Risk Committee



**David Conner**  
Chair of the Board Risk Committee

## Dear Shareholder

As Chair of the Board Risk Committee, having succeeded Lars Thunell on 1 January 2016, I am pleased to present the Board Risk Committee's report for the year ended 31 December 2016.

The Committee's role is to exercise oversight on behalf of the Board of Group-wide risk, and to provide assurance to the Board that the overall framework for complying with the Risk Management Principles and the Board approved risk appetite statement is operating effectively.

Since becoming Chair of the Committee and as a result of feedback provided by the Committee to management, both the regular consolidated risk information reporting and the material provided for the specific deeper dive discussions has been refined so as to enhance the Committee's understanding.

In discharging its responsibilities, the Committee has sought, and has received, assurance regarding the independence of the Group's Risk function in its role of maintaining the Group's risk management framework, upholding the overall integrity of the Group's risk/return decisions and exercising direct risk-control ownership for credit, market, country cross-border, and operational risks.

The following pages provide insight into the workings of the Committee and its activities in the year. An overview of the Group's approach to risk management is set out on pages 139 to 149 and the Group's risk profile is set out on pages 150 to 181.

**David Conner**  
Chair of the Board Risk Committee

## The Committee's role

The Committee's composition is comprised of independent non-executive directors and reflects the Group's belief that it should comprise members with a deep and broad experience of banking and of the risk factors affecting it. Further details of the Committee members' experience can be found on pages 57 to 59.

To guard against gaps or unnecessary duplication between Board committees, throughout 2016, there was overlapping membership between the Committee and the Audit, Remuneration, Brand, Values and Conduct and Board Financial Crime Risk Committees.

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 and regulatory compliance; the Board Financial Crime Risk Committee has oversight responsibilities in relation to financial crime compliance matters; and the Brand, Values and Conduct Committee has oversight of the mechanisms by which reputational risk is managed. This interaction assists the Committee in ensuring that it is well informed on discussions held, and the close collaboration of the Committee Chairs helps to ensure that there are no gaps and any potential for unnecessary duplication is avoided.

Acting within an authority delegated by the Board, the Committee has responsibility for oversight and review of prudential risks, including but not limited to credit, country cross-border, market, pension, capital, liquidity and funding and operational risks. It reviews the Group's overall Risk Appetite Statement and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controlling the adequacy of information it is provided with,

**Committee composition**

	Scheduled meetings	Ad-hoc meetings
D P Conner (Chair) (appointed on 1 January 2016)	6/6	2/2
O P Bhatt	6/6	2/2
G Huey Evans, OBE	5/6 <sup>1</sup>	2/2
N Kheraj	6/6	2/2

**Other attendees at Committee meetings in 2016 included:**

Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group Head of Internal Audit; Group Company Secretary; Group Treasurer; Group statutory auditors

As part of, and in addition to, each scheduled Committee meeting, the Committee has private members-only meetings.

<sup>1</sup> Gay Huey Evans was unable to attend one scheduled meeting due to prior commitments

 **The Committee has written terms of reference that can be viewed at [sc.com/termsofreference](http://sc.com/termsofreference)**

considering the implications of material regulatory change proposals, and ensuring effective due diligence on material acquisitions and disposals. The Committee also reviews reports on key cyber risks, threats, events, project updates and the Board's 'top risk' profile updates as identified by the Information and Cyber Security Management Group.

The Committee has the authority to request and receive relevant information consistent with the requirements of BCBS239 that will allow the Committee to fulfil its governance mandate relating to the risks to which the Group is exposed, and alert senior management when risk reports do not meet its requirements.

In carrying out its responsibilities, the Committee is closely supported by the Group Chief Risk Officer, Group Chief Financial Officer, Group Head of Internal Audit and Group Treasurer.

### Risk information provided to the Committee

The Committee receives regular reports on risk management, including portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, market risk and operational risk and is authorised to investigate or seek any information relating to an activity within its terms of reference. The Committee also has deeper discussions on a rolling basis on different sections of a consolidated risk information report that is provided at each scheduled Committee meeting.

The Committee tracks a wide range of risk metrics through a risk information report. This report is provided at each scheduled Committee meeting and provides an overview of the Group's risk profile against the Group's Risk Appetite Statement. For example, overviews of credit risk in the Group's Corporate & Institutional, Commercial, Private Banking and Retail Clients portfolio.

A report from the Group Chief Risk Officer is also presented at every scheduled meeting. The qualitative commentary in this report has been enhanced over the course of the year. Such reports cover the macroeconomic environment, geo-political outlook, material exposures and ongoing risks. 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, and rating agency updates.

The Committee receives regulatory updates with regard to capital, liquidity and risk. Such updates provide a summary of the key prudential regulatory developments affecting the Group's capital, risk-weighted assets and liquidity measures. Such information enables the Committee to discuss with management the major risks faced by the Group across its businesses.

In 2016, the Committee has had deeper discussions on the following topics:

- 2016 Bank of England Stress Test – scenario, process governance and results
- 2016 Reverse Stress Test – results and insights gained
- Cyber security and the Group's cyber security strategy
- Transaction Banking (cash management and trade)
- Commercial Banking – loan impairment review
- Shipping Portfolio overview
- Operational Risk – Retail Banking, Private Banking, Wealth Management
- Survival horizon risk drivers
- Principal finance – review of key processes and controls
- Recovery and resolution plans
- Unsatisfactory operational risk events

- Management of country risk

Twice a year, the Committee receives a report from the Group Head of Internal Audit. These reports provide the Committee with a summary of Group Internal Audit's appraisal of controls across key risks subject to the Committee's oversight, together with the key risk issues identified by Group Internal Audit's work and management actions put in place to address the findings.

A separate report to the Audit Committee provides Group Internal Audit's view of the system of internal controls across all risk types, business and country functions.

The Committee focused on the following matters at its meetings in 2016:

### Risk management framework and principles

As noted above, 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.

Risk Management Principles are top-level statements of principle that inform the Group's overall approach to risk management and the Group's risk culture.

 **Further details regarding the risk management framework and principles can be found on page 139 of the Risk review and Capital review**

Every year, the Committee pays careful attention to the formulation of the Group's Risk Appetite Statement, in order to assure itself that it is effective in setting appropriate boundaries in respect of all main risk types. The Group's Risk Appetite 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 appetite 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 stress tests which consider alignment with the Group's Risk Appetite Statement. On an annual basis the Committee considers and recommends the Risk Appetite Statement to the Board.

In 2016, the Group's risk appetite definitions were updated, further details of which can be found on page 141 of the Risk review and Capital review. The Group recognises three sets of constraints which determine the risks that it is willing to take in pursuit of the Group's strategy and the development of a sustainable business:

- Risk capacity – this 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 appetite – this is defined by the Group and approved by the Board. It is the maximum amount and type of risk that the Group is willing to assume in pursuit of its strategy.
- Risk tolerances – are outer constraints defined by the Group for each risk type via metrics and thresholds. Risk tolerance is set within risk appetite and is a buffer, determined by management, within the Board approved risk appetite

Risk appetite covers credit, country cross-border, market, liquidity and funding, operational, reputational, pension and strategic risk, further details of which are covered on pages 141 and 142, as well as in the Capital review on page 188.

The Board-approved Risk Appetite Statement, is underpinned by a set of financial and operational control metrics. These metrics directly constrain the aggregate risk exposures that can be taken across the Group.

The Committee has considered the Group's risk appetite metrics which increased in number in 2016 to include greater breadth and greater granularity for credit, capital, market and operational risks. Through our Risk Management Framework the Group manages enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within the Group's risk appetite.

In 2016, the Committee discussed the changes to the risk management framework that had been approved by the Group Risk Committee. The changes reflected the revisions to the Risk Appetite Statement, last approved by the Board in 2015, and the introduction of a simplified Group committee structure following reorganisation of the Group. In reviewing the Risk Management Framework, the Committee sought and received assurance from the Group Chief Risk Officer on its effective implementation.

 **Further details regarding the Group's Risk Appetite Statement can be found on pages 21 to 23 of the Strategic report and page 134 of the Risk review and Capital review**

## Capital and liquidity

The Committee considers and discusses the Group's capital and liquidity position and the regulatory environment and expectations. The Committee has considered the Group's Individual Liquidity Adequacy Assessment Process which considers the Group's liquidity position, its framework and whether sufficient liquidity resources are being maintained to meet liabilities as they fall due. The Committee reviews the liquidity risk stress testing

framework and assumptions together with the liquidity risk appetite statement. With regard to capital, the Committee reviews the Group's Internal Capital Adequacy Assessment and the Bank of England Stress Test results in detail in order to satisfy itself that the Group's approach to capital planning is comprehensive, rigorous and consistent with both the current regulatory requirements and the likely anticipated outlook.

 **Further details concerning capital can be found on page 182 and liquidity can be found in the Risk review and Capital review on page 134**

## Stress testing

The Committee tracks a wide range of risk metrics that 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 market conditions.

The Committee maintains oversight of the Group's overall stress testing programme, reviewing the design, key assumptions and the outcomes of principal tests. The Committee reviewed the results of the Bank of England stress test which the Group, along with the largest UK banks, was required to undertake.

 **Further details of stress testing can be found on page 142 of the Risk review and Capital review**

## Operational risk

The Group's operational risk appetite approach aims to control operational losses (finance and reputational) so that they do not cause material damage to the Group's franchise.

The Committee has received summaries of the Group's operational risk profile, measures relating to operational risk appetite thresholds, and updates on risks facing the Group and action being taken or to be taken to mitigate them, including restrictions on business activities.

 **More details concerning the Group's approach to operational risk can be found on page 180**

## Risk management disclosures

The Committee has reviewed the risk disclosures in the Annual Report and Accounts and the Half Year Report 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 disclosures contained in the *Enhancing the Risk Disclosures of Banks* report issued by the Enhanced Disclosure Task Force in October 2012. In conjunction with the Audit Committee, the Committee also reviewed the Basel II Pillar 3 annual disclosure.

## Risk function resourcing

The Committee sought and received assurance that the risk function is adequately resourced to perform its function effectively. The discussion included changes to the function made in 2016 following the appointment of Mark Smith as the Group Chief Risk Officer and the adequacy of the people resources, learning and talent management and the areas of focus for the function in 2017.

## Committee reporting to the Board

Throughout the year, the Board has received regular updates from the Committee Chair on the Committee's activities and areas of focus (including the discussions held by the Committee in relation to the half and full year results) together with minutes of Committee meetings. There has also been formal risk reporting to the Board in 2016 from the Group Chief Risk Officer on risk issues.

## Interaction with management

On a regular basis, the Committee Chair met individually with the Group Chief Risk Officer. These meetings allow open discussion of any matters relating to issues arising from the Committee's formal discussions.

## 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.

## Induction, ongoing training and development

In preparation for becoming Committee Chair, David Conner received a thorough induction covering the Group's risk control environment.

All new Committee members receive an extensive, formal and tailored induction programme that builds upon their experience and covers particular areas of focus of the Committee. Existing Committee members have ongoing training and development programmes which in 2016, included training on market and credit traded risk.

## Committee effectiveness reviews

In keeping with the approach to Committee effectiveness reviews adopted by other Board committees, in 2016 an internally facilitated effectiveness review was conducted. This review, facilitated by the Group Corporate Secretariat, involved each Committee member and permanent attendee providing their thoughts on the Committee's effectiveness in response to specific questions. The feedback was then formally discussed by the Committee and

an action plan designed to address the key observations.

Overall, the Committee is viewed as being effective, with management commenting that Committee members ask insightful and probing questions in a constructive way, providing an effective level of challenge. Committee member observations included acknowledgement that recent improvements in the conciseness and 360-degree overview of risk provided by management in reports to the Committee was a step forward. Papers for meetings were of good quality and not too voluminous, with the report from the Group Chief Risk Officer providing an opportunity to raise broader issues beyond the agenda. Areas for potential enhancement included a need for greater challenge to the business heads and generally more engagement with people running the Group's business, in addition to those leading the Group's support functions.

# Brand, Values and Conduct Committee



**Jasmine Whitbread**  
Chair of the Brand, Values and Conduct Committee

## Dear Shareholder

As Chair of the Brand, Values and Conduct Committee, I am pleased to present the Committee's report for the year ended 31 December 2016. This report provides an overview of the activities undertaken by the Committee throughout the year.

On becoming Committee Chair, I held discussions with Committee members and permanent attendees on the Committee's ways of working. As a result, the Committee's agenda has been realigned so as to ensure the Committee's work adds value to the business.

The focus of the Committee this year has been on aiding the Group Chairman, Group Chief Executive and the Management Team to develop the Group's brand and culture, in line with the Group's strategy.

As well as reviewing management's plans, the Committee benefited from input and insights from leading external experts on brand and implementing cultural change. As part of the overseas Board visit to China in March 2016, the Committee held an informal session with the local management team, to discuss the Group's culture, brand and reputation in China, which provided useful context. Given the insights received from these informal

external perspectives and discussions, we intend to continue this practice in 2017.

Linked to the focus on culture, the Committee reviewed the progress being made against the Group's Conduct agenda, and received assurance on how this is being constantly reinforced and communicated throughout the organisation.

The Committee's focus on the Group's brand, culture, values and conduct will remain of paramount importance in 2017.

**Jasmine Whitbread**  
Chair of the Brand, Values and Conduct Committee

## Committee composition and role

The membership of the Committee is comprised of independent non-executive directors who have diverse backgrounds, significant experience and knowledge of geo-political relations, brand and sustainability matters, and international and government relations. Om Bhatt, a member of the Board Risk Committee, was welcomed to the Committee on 1 December 2016. Details of the independent non-executive directors can be found in their biographies on pages 57 to 59.

The Committee provides oversight of the Group's brand, culture, values and conduct, as well as processes by which the Group identifies and manages reputational risk, government and regulatory relations and sustainability issues.

## Brand and culture review

Towards the end of 2015, a review of the Group's Here for good brand promise was undertaken, including the launch, execution and impact of this commitment. One of the insights gained was that while Here for good had resonated well with employees, it had become overly linked to community engagement, rather than the Group's core activity of serving clients. The Committee endorsed the importance of working on brand and culture in tandem, in order to ensure consistency, and was supportive of the Brand and Culture Review, as an integrated programme of work.

The Committee noted that the work around the brand took an 'outside-in' lens to consider how the Group's clients can be served in a differentiated way. The review involved interviews with a significant number of the Group's clients.

It was acknowledged that the work on culture took an 'inside-out' view, in order to gain a deeper understanding of the Group's culture and assess the way in which it operates. This approach was reliant on input from employees at all levels of the organisation.

**Committee composition**

	Scheduled meetings
J M Whitbread (Chair)	4/4
O P Bhatt (appointed on 1 December 2016)	1/1
Dr K Campbell	3/4 <sup>1</sup>
Dr Han Seung-soo, KBE	4/4
C M Hodgson	4/4

**Other attendees at Committee meetings in 2016 included:**

Group Chairman; Group Chief Executive; Group Head, Human Resources; Group Company Secretary; and Group Head, Corporate Affairs.

<sup>1</sup> Dr Campbell was unable to attend one scheduled meeting due to a prior commitment

 **The Committee has written terms of reference that can be viewed at [sc.com/termsofreference](http://sc.com/termsofreference)**

As the work on brand and culture has progressed, the Committee has encouraged the use of metrics in order to track progress. These metrics on culture will feature as part of the Committee's oversight and discussions going forward.

In addition to formal Committee meetings, a number of informal discussions have been held on brand and culture. An informal topic focused session was held with the China management team to discuss culture, brand and reputation locally.

Two informal discussions were held with external experts in brand and implementing cultural change. These provided the Committee with relevant best practice and lessons learnt from other large global organisations.

**Conduct**

The Committee reviewed conduct with a focus on Retail Banking, which included an overview of Net Promoter Score (a tool used to gauge a client's loyalty to the Group), complaints management and Treating Customers Fairly requirements.

The Committee also reviewed a progress report on the Group's Conduct agenda. This included an overview of how conduct management is being embedded through the Group's three lines of defence (the first line including the business segments, functions and countries; the second line being Risk and Compliance; and the third line being Group Internal Audit). The Committee received an update on the Conduct Management Policy, articulating the Group's approach to managing conduct-related risks and reviewed the Group's multi-pronged approach to conduct training. The Committee was supportive of the Group's use of case studies to facilitate a deeper understanding of conduct for all employees.

The Committee discussed and received assurance on how communication of the Group's Conduct agenda is being constantly reinforced. Furthermore,

an overview of the conduct awareness and education campaign entitled #knowtherules (launched to ensure that employees are clear on their conduct obligations) was also provided.

**Employee engagement**

The Committee is fully supportive of the Group's focus on creating a fair, safe and inclusive place to work that encourages creativity, collaboration and continuous improvement.

The Committee reviewed the global results of the 2016 My Voice Employee Engagement Survey (My Voice), which provided valuable insights into employee sentiment.

In reviewing the global results, the Committee agreed that they were encouraging. It was noted that overall employee connection to the Group remained strong. The Committee also noted the areas which needed improvement, including internal process and efficiency. Further details on My Voice can be found on page 128.

The Committee reviewed the Group's approach to Diversity and Inclusion, in particular, the work streams underway as a result of the Group signing up to the HM Treasury Women in Finance Charter and the Gender Pay Gap.

The Committee discussed the benefits of the Group's over 40 country based Employee Networks and three Global Networks (Women; Disability; Lesbian, Gay, Bisexual, and Transgender and Allies). The Committee was pleased to note that Standard Chartered Bank in Korea had been awarded the Financial Services Commission Chairman's Grand Prize Award, as the leading institution in driving gender equality.

**Reputational risk management**

The Committee reviewed the processes by which the Group identifies and manages reputational risk in an effective and transparent manner, consistent with

the Board-approved Group Risk Appetite Statement. The Committee reviewed reports on the material thematic reputational risks facing the Group, provided from the perspectives of both internal and external stakeholders. The reputational risk management report sets out the Group function responsible for supporting the business in managing the issue; the mitigating actions being undertaken; and an indication of where trends have improved or worsened since the previous update to the Committee. This year, the Committee focused on how reputational risk management could be enhanced and this discussion will continue into 2017.

At the Committee's request, a discussion was held on the Group's Public Relations (PR) strategy. The aim of this discussion was to receive assurance from management that the Group has a robust and pro-active PR strategy in place. The Committee reviewed the Group's initiatives underway evidencing the Group's differentiated offering and value to clients. As an example, the Committee received an update on a renminbi campaign, that had attracted around 80,000 views to the Group's BeyondBorders blog (a communication channel to provide value to clients and share expert opinion). The Committee agreed that the development of thought leadership pieces, such as this, linked well to the Group's core activity of serving clients.

**Sustainability**

The Committee reviewed a number of matters under the Group's Sustainability agenda including the draft Position Statement covering Climate Change, which was subsequently published in March 2016, and the Group's community expenditure for the full year 2015.

The Committee noted that the Group remains differentiated with high-quality skills based employee volunteering (EV) time comprising 40 per cent of community expenditure in 2015. The Committee discussed the broader benefits and value EV has in building employee engagement and commitment to the Group. Further details on EV can be found on page 11.

The Committee received a progress report on the Group's approach to sustainability and community engagement in 2016, including the Group's Sustainability Aspirations and revised Human Rights Position Statement.

**Government and regulatory relationships**

The Committee reviewed the Group's approach to all its main government and regulatory relationships across our key markets, focusing on the quality of these relationships and the engagement in place. The Committee acknowledged that, given the Group's diverse geographic footprint,

there are typically a number of supervisory matters or investigations ongoing at any time. It noted that each major issue is given appropriate management attention and is reported to the relevant governance committee within the Group, as well as the Audit Committee. In light of the criticality of such relationships, the Committee sought and received assurance that the resource in place is both adequate and of the right calibre. The Committee agreed on the importance of ensuring that the management of government and regulatory relationships continues to receive appropriate focus, resource and senior management attention.

### **Induction, ongoing training and development**

Since joining the Committee on 1 December 2016, Om Bhatt is in the process of receiving a thorough induction in relation to the Committee's responsibilities and the specific matters the Committee has been focusing on. Further details of ongoing training and development plans for those independent non-executive directors who are members of the Committee are detailed on page 70.

### **Committee effectiveness**

In keeping with the approach to Committee effectiveness reviews adopted by other Board Committees, in 2016 an internally facilitated effectiveness review was conducted. This review, facilitated by the Group Corporate Secretariat, involved each Committee member and permanent attendee providing their thoughts on the Committee's effectiveness in response to specific questions. The feedback was then formally discussed by the Committee and an action plan designed to address the key observations.

Overall feedback received indicated that the Committee is operating effectively. It was acknowledged that Committee papers were more focused and that the informal discussions had provided useful external insights and perspectives. Areas for enhanced effectiveness included suggested topics for incorporation into the 2017 rolling agenda, and that consideration be given as to how informal discussions incorporating external perspectives and contribution from the Group's local management teams might continue in 2017.

# Governance and Nomination Committee



**José Viñals**  
Chair of the Governance and Nomination Committee

## Dear Shareholder

This is my first report to you as Chair of the Committee, having been appointed on 1 December 2016. While there were no meetings of the Committee in December, as part of my induction I did have the opportunity to attend the November meeting in Kenya as an observer, and received a comprehensive handover from Sir John Peace.

I would like to thank Sir John for his leadership of the Committee since 2009 during which time many changes were made to the size, structure and composition of the Board and its committees.

I set out details of the changes made to the Board and its committees during the year, including my own appointment, earlier in this report. The Committee's overriding focus throughout 2016 was the search and subsequent recommendation of a successor to Sir John. The Committee led by Naguib Kheraj as Senior Independent Director oversaw the process which culminated in my appointment as Chairman in December 2016. A summary of the detailed work undertaken by the Committee in this area is highlighted in this report, alongside detail of the other activities over which the Committee had oversight.

Looking forward, there are a number of priorities for the Committee's focus during 2017, both from a nomination and succession, as well as a governance perspective. These include seeking an independent insight into the effectiveness of the Board and its committees. Establishing and maintaining robust succession plans for the Board in the short-, medium- and longer-term remains a key priority for the Committee and one which I will report progress on in future reports. Connected to the composition and succession of the Board is the need to ensure that the Board is well diversified and reflects our markets and society more generally. The recent work of the Committee which resulted in the approval and publication of a new Board diversity policy is a welcome start to this commitment. The Committee will also continue to oversee succession planning for the Management Team.

I look forward to working with the Committee members on these and other initiatives.

**José Viñals**  
Chair of the Governance and Nomination Committee

## The Committee's composition and role

The membership of the Committee is comprised of the Chairman and independent non-executive directors. It was refreshed during the year following wider changes made to the Board at the end of 2015. Lars Thunell stepped down from the Committee on leaving the Board on 31 January 2016 and Jasmine Whitbread and David Conner joined in January and April 2016 respectively. José Viñals replaced Sir John Peace as Chairman of the Committee on 1 December 2016 in conjunction with his appointment as Group Chairman.

### Biographical details of the Committee's members can be found on pages 57 to 59

The Committee is responsible for reviewing the structure, size and composition of the Board and its committees. In doing so it takes into account the current and future balance of skills, knowledge, experience and diversity. The Committee makes recommendations to the Board with regard to any adjustments that are necessary and prepares a description of the role and capabilities required for a particular appointment.

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 oversees the process by which the Board, its committees and individual directors assess their effectiveness. It keeps the diversity of the Board under review and monitors progress towards achieving its objectives in this area, and considers any potential situational conflicts of interest declared by our Board members. The Committee is also responsible for the consideration of the impact of material changes to corporate governance regulation and legislation affecting the Group.

The Committee reviewed its terms of reference during the year taking into account individual responsibilities under

<b>Committee Composition</b>		
	Scheduled meetings	Ad-hoc meetings
J Viñals (appointed 1 December 2016)	N/A <sup>1</sup>	N/A
C M Hodgson	2/2	3/3
D Conner (appointed 1 April 2016)	2/2	1/2 <sup>2</sup>
N Kheraj	2/2	3/3
J M Whitbread (appointed 1 January 2016)	2/2	3/3
<b>Directors who stepped down during 2016</b>		
Dr L H Thunell (stepped down on 31 January 2016)	N/A	N/A
Sir John Peace (stepped down 1 December 2016)	2/2	1/3 <sup>3</sup>
<b>Other attendees at the Governance and Nomination Committee meetings in 2016 included:</b> Group Chief Executive; Group Company Secretary; Group General Counsel; Group Head, Human Resources.		

1. José Viñals attended one scheduled meeting as Group Chairman Designate, ahead of his appointment to the Committee.
2. David Conner was recused from one ad hoc meeting due to a potential conflict
3. Sir John did not chair any meetings when the Committee considered his succession. He was recused from two ad-hoc meetings, which were chaired by Naguib Kheraj as Senior Independent Director

the Senior Managers Regime best practice recommendations and the role the Committee plays in respect to corporate governance

 **The Committee has written terms of reference that can be viewed at sc.com/termsofreference**

## Committee activities

### Succession planning

Board succession planning continued to be an important area of discussion for the Committee in 2016. For the succession of independent non-executive directors, the Committee considers a combination of the required skills, knowledge and experience alongside the future composition, size and structure of the Board. In addition to overseeing the Chairman's succession process, which resulted in the appointment of José Viñals, the Committee had wide ranging discussions on potential succession and composition scenarios for the Board, which included defining specifications for future appointments.

Succession planning for the Management Team was also overseen by the Committee, which included oversight of the emergency cover for management positions across the business in accordance with the Senior Managers Regime. Plans for emergency cover for key Board and committee chair roles were also discussed by the Committee, ensuring that appropriate individuals have been identified with the necessary skills and attributes to cover these roles on an interim basis should the need arise.

### Board diversity

Ensuring that diversity in its broadest sense remains a central feature of the Board is an important overarching factor for the

Committee. Details of the diverse nature of the Board can be found on page 60. A highly effective Board is about chemistry and behaviours, underpinned by robust processes. Maintaining a diverse Board made up of individuals with a range of backgrounds, knowledge, skills and experience is paramount. This diversity provides a rich mix of perspectives which contribute and enhance the Board's overall effectiveness.

To assist the Board in driving further progress in this area, including the representation of women on the Board, the Committee recommended to the Board a new Board diversity policy, which was published in December 2016. The policy has been drawn up, cognisant of the Hampton-Alexander Review recommendations in respect to gender diversity and will be kept under review by the Committee.

The policy includes measurable objectives which the Committee will monitor and report against annually:

- Increasing the representation of women on the Board and having 25 per cent female representation on the Board by 2017. We remain supportive and engaged in increasing this proportion further to 33 per cent
- Ensuring that the Board is comprised of a good balance of skills, experience, knowledge, perspective and varied backgrounds
- Only engaging search firms who are signed up to the Voluntary Code of Conduct for Executive Search firms
- Reporting annually on the executive pipeline below the Board and the Board's diversity, including progress being made on reaching the Board's gender target.

 **A copy of the full Board diversity policy is available to view at sc.com/boarddiversitypolicy**

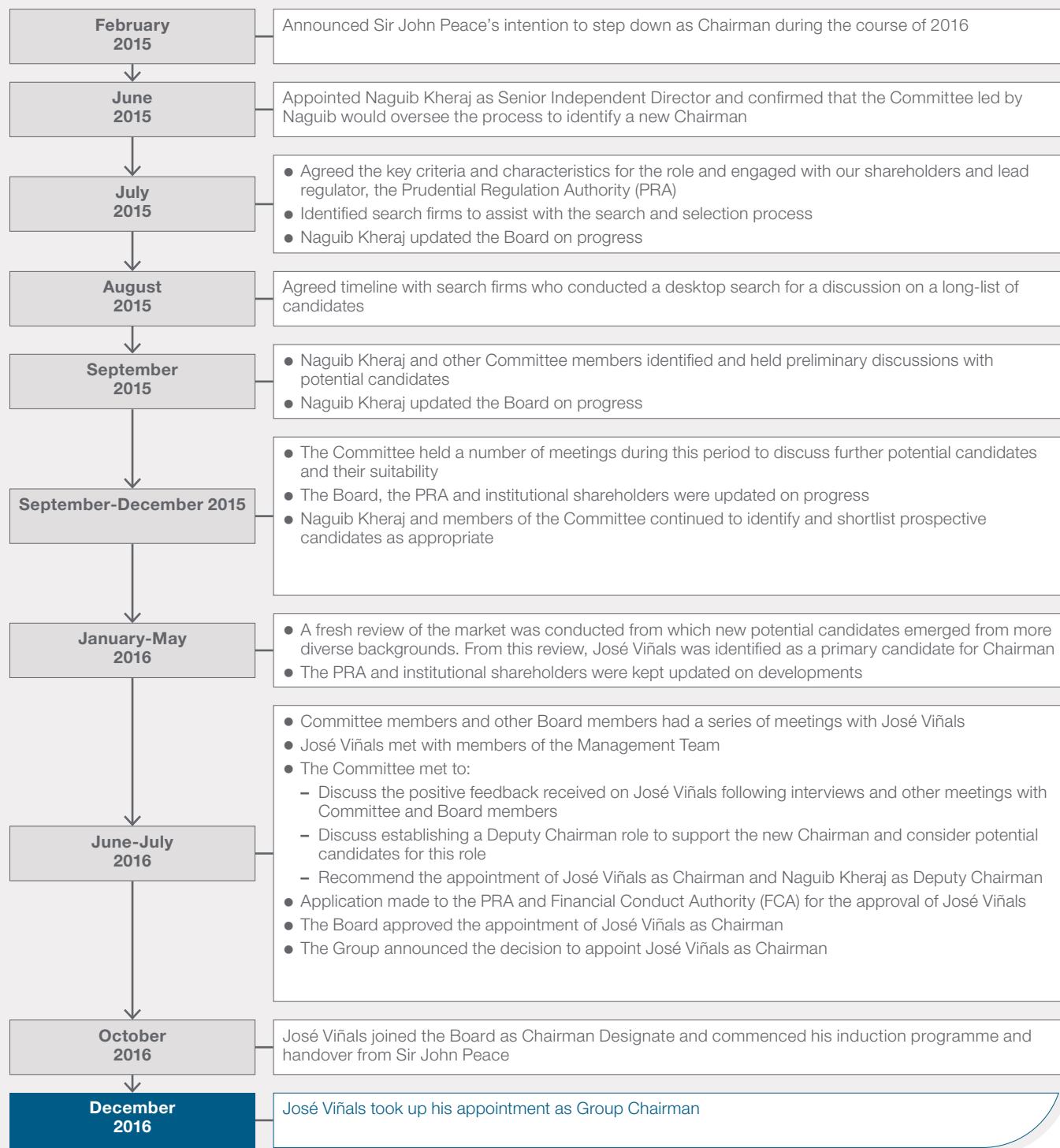
### Chairman's succession

The Committee, led by Naguib Kheraj as Senior Independent Director, oversaw the process to identify and recommend for appointment a new Chairman to succeed Sir John Peace. The search began in June 2015 following Naguib's appointment as Senior Independent Director. Naguib chaired all meetings of the Committee when it considered matters relating to the Chairman's succession and Sir John Peace recused himself from these discussions. The Committee was assisted in its search by three firms: Russell Reynolds Associates; Lygon Group; and Heidrick & Struggles JCA Group, all of whom are signatories to the voluntary code of conduct for executive search firms. Heidrick & Struggles JCA Group is a supplier of senior resourcing to the Group; Lygon Group had a contract, which expired during the year, for the supply of an independent non-executive director and Russell Reynolds Associates have no other connection with the Group.

With the assistance of the search firms the Committee undertook a comprehensive and wide-ranging international search. A number of potential candidates emerged through the process, and the Committee spent significant time discussing the key attributes, skills and experience required of the successful candidate as well as the capacity and energy to take on a near full-time role and travel extensively around the Group's markets. Members of the Committee and a number of other independent non-executive directors participated in interviews with short listed potential candidates. In addition to updates at meetings, the Committee received regular verbal and written briefings throughout the search process. The Senior Independent Director also met with a range of shareholders to keep them appraised of progress relating to the Chairman's succession.

José Viñals emerged as a strong candidate in the first half of 2016. Committee members and the wider Board met with José on a number of occasions through June and July, sharing their thoughts and insights into his credentials with the Committee; their support for José was unanimous. In recommending the appointment of José as Chairman, the Committee considered the benefit of appointing a Deputy Chairman to provide support and assistance. In considering candidates, the Committee agreed that Naguib Kheraj's skills and experience were highly relevant and compatible with José's. Naguib was not party to any of the Committee's discussions in respect to the decision to appoint him as Deputy Chairman.

## CHAIRMAN'S SUCCESSION TIMELINE



## **Subsidiary governance**

As part of its governance remit the Committee has oversight of the Group's approach to corporate governance across its subsidiaries. During the year the Committee reviewed both the escalation of key risks and the linkages between the Group Board and its committees and the banking subsidiary boards. It considered the formal and informal enhancements being made to strengthen the current linkages and improve the flows of information, including encouraging further contact between subsidiary boards and the Group's independent non-executive directors.

In addition the Committee received assurance that the composition and operation of the local subsidiary boards were in line with local and Group corporate governance standards.

As at 31 December 2016, the Group had 26 banking subsidiaries and 68 independent non-executive directors (excluding our Group Board independent non-executive directors). As the Group Board directors travel across our footprint, they play a critical role in actively engaging with the banking subsidiary independent non-executive directors. During 2016, José Viñals, Bill Winters and Naguib Kheraj hosted calls with the subsidiary independent non-executive directors. Bill at the beginning of the year and José towards the end of 2016 focused on the strategic priorities and direction of the Group, its performance and the important role of the subsidiary boards. Naguib provided context on the work of the Audit Committee and the key areas of focus for 2016.

## **Annual re-election of directors**

The review of the performance of each of the directors seeking annual re-election at this year's Annual General Meeting was carried out in 2016 by the then Chairman, Sir John Peace. More detail on the process is set out on page 72.

## **Situational conflicts**

As part of the Committee's remit, it reappraises the authorisations previously provided to directors for those situations in which they had, or potentially could have in the future, a direct or indirect interest that conflicts with the interests of the Group.

## **Board effectiveness review**

The 2016 Board and committee effectiveness reviews were conducted ahead of José Viñals' appointment as Chairman.

The Committee reviewed the outcome and actions from the 2016 Board and committee effectiveness reviews, ahead of the findings being presented to the Board and an action plan being agreed. Details of the Board effectiveness review process and the 2017

action plan can be found on page 71. The findings provided useful context to José on joining as Chairman.

In line with the UK Corporate Governance Code provisions, the Board and its committee evaluations will be externally facilitated in 2017. The review will consider the structure and effectiveness of the Board and its committees, to ensure they are appropriately constituted and organised to oversee a large, complex institution.

## **Committee effectiveness review**

In keeping with the approach to committee effectiveness reviews adopted by the other Board committees, in 2016 an internally facilitated effectiveness review was conducted. This review, facilitated by the Group Corporate Secretariat, involved each Committee member and permanent attendees providing their thoughts on the Committee's effectiveness in response to specific questions. The feedback was then formally discussed by the Committee and an action plan designed to address the key observations.

Overall feedback received indicated that the Committee is operating effectively. Actions for the Committee in 2017 included ensuring that longer-term succession planning is discussed in greater depth across the year and incorporated into the 2017 rolling agenda; a commitment to ensuring that an externally facilitated review of the Board and its committees is undertaken; and giving consideration to the Committee's Terms of Reference, particularly around the role it plays in respect to corporate governance and the principles of its membership.

# Board Financial Crime Risk Committee



**Gay Huey Evans, OBE**  
Chair of the Board Financial Crime Risk Committee

## Dear Shareholder

This is my first report as Chair of the Board Financial Crime Risk Committee, having succeeded Simon Lowth on 1 August 2016. Sincere thanks are due to Simon for his leadership as Chair of the Committee since its inception in 2015.

This report provides an overview of the key areas of focus for the Committee and the Committee's activities over the course of 2016.

To assist the Committee in discharging its responsibilities, in addition to updates provided by management on the Group's Financial Crime Risk Mitigation Programme, management presented deep dives from across all of the Group's four client segments (Private Banking, Retail Banking, Corporate & Institutional Banking and Commercial Banking) on financial crime risk and the steps being taken to mitigate these. These deep dives assisted the Committee in understanding the progress being made in achieving the Group's financial crime compliance objectives.

Such reporting by management has provided the Committee with an opportunity to challenge, discuss and debate with management.

Over the next 12 months, the Committee will continue to exercise oversight of the delivery of the Group's Financial Crime Risk Mitigation Programme and the improvement of new controls designed to enhance the Group's financial crime compliance capabilities.

**Gay Huey Evans**

Chair of the Board Financial Crime Risk Committee

## Committee composition

The Committee's membership is comprised of five independent non-executive directors and four independent external advisor members who are neither directors nor employees of the Group but who have skills relevant to the Committee and whose expert input is valuable. These four external advisor members have been appointed to support the Committee. They provide a valuable external perspective and have extensive experience in counter-terrorism, cyber security and international security.

More details on the independent non-executive directors can be found in their biographies on pages 57 to 59.

The biographies of the independent external advisor members can be found on our website using the following link [sc.com/externaladvisorbios](http://sc.com/externaladvisorbios)

## Committee activities

The Committee, on behalf of the Board, provides oversight of the effectiveness of the Group's policies, procedures, systems, controls and assurance arrangements designed to identify, assess, manage, monitor, prevent and/or detect money laundering, non-compliance with sanctions, bribery, corruption, and tax fraud and tax evasion.

So as to assist the Committee in discharging these responsibilities, regular reports and updates are provided to the Committee by the Global Head Financial Crime Compliance, the Group General Counsel, and the Group Head of Internal Audit. The Global Head of Financial Crime Compliance makes regular reports to the Committee in his capacity as the Group's Money Laundering Reporting Officer (MLRO). This has included the Group Money Laundering Reporting Officer's Report and the Global Risk Assessment. The Group General Counsel provides periodic reports to the Committee on any significant regulatory or government investigations which have taken place relating to financial crime compliance.

<b>Committee composition</b>		
	Scheduled meetings	Ad-hoc Meetings
G Huey Evans, OBE (Chair) (appointed to the Committee on 1 March 2016 and as Committee Chair on 1 August 2016)	4/4	2/2
D P Conner (appointed on 1 January 2016)	4/4	2/2
C M Hodgson	4/4	1/2 <sup>1</sup>
N Kheraj	4/4	1/2 <sup>1</sup>
J M Whitbread (appointed on 1 August 2016)	2/2	1/1
<b>Directors who stepped down during 2016</b>		
S J Lowth (Chair) (stepped down on 31 July 2016)	2/2	1/1
Dr L H Thunell (stepped down on 31 January 2016)	N/A	N/A
<b>External advisor members</b>		
L Campos	4/4	2/2
B H Khoo	4/4	2/2
Sir Iain Lobban	4/4	1/2 <sup>1</sup>
F Townsend	3/4 <sup>2</sup>	2/2
<b>Other attendees at Committee meetings in 2016 included:</b>		
Group Chairman; Group Chief Executive; Group Chief Risk Officer; Group Company Secretary; Group General Counsel; Global Head, Financial Crime Compliance and Group Head, Compliance		
As part of, and in addition to, each scheduled Committee meeting, the Committee has private members-only meetings.		

1. Unable to attend an ad hoc meeting called at short notice due to prior commitments
2. Unable to attend one scheduled Committee meeting due to ill health

 **The Committee has written terms of reference that can be viewed at** [sc.com/termsofreference](http://sc.com/termsofreference)

Regular reports from the Group Head of Internal Audit provide the Committee with updates on Group Internal Audit's (GIA) work in relation to financial crime risks and GIA's views on the Group's control environment.

The Committee has provided ongoing Board-level oversight of:

- The Group's Financial Crime Risk Mitigation Programme which is a Group-wide initiative to identify and embed best practices in the field of financial crime compliance
- The US Supervisory Remediation Programme (US SRP) which provides strategic oversight to the activities related to the US obligations and related improvement actions under the Group's 2012 and 2014 settlement agreements with the US Authorities<sup>1</sup> and the broader programme of enhancements being introduced across the Group in relation to financial crime compliance – including those relating specifically to customer

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)

due diligence processes, transaction monitoring and other core controls.

In connection with the New York Department of Financial Services (NYDFS) 2012 Consent Order, an independent monitor (the Monitor) was appointed. As part of the final settlement reached with the NYDFS on 19 August 2014, the Monitor's appointment was extended for a further two years. In 2016, the Monitor attended one of the Committee's meetings as an observer and the Committee has received and discussed the observations made in the Monitor's fourth compliance review report received towards the end of 2016.

Although the Committee has made some positive observations concerning progress made, there remains additional work that is required to be done in implementing significant changes to processes and technology. This agreement between management and the Committee in terms of the work still left to do indicates the Group's commitment and capability to deliver a sustainable control environment.

The Committee has discussed emerging financial crime compliance risks and sought and received assurance from management on how the Group intends to address such risks. As part of the 2016 financial crime

compliance global risk assessment, the Committee has received updates from management from a number of the Group's markets including Germany, India, Malaysia, the UAE and Zimbabwe, and the Committee will continue to receive additional country updates in 2017.

Over the course of the year, the Committee has undertaken a number of deep dives across all of the Group's four client segments. These deep dives have enabled the Committee to gain further insight and to discuss the action being taken across the Group's businesses to address the highest inherent financial crime risks identified within the business portfolios and the key deliverables to achieve and sustain a reduction in residual financial crime risk.

The Committee has considered, discussed and recommended to the Board the Group's risk appetite statements in relation to financial crime risk.

The Committee has received an update on the status of the Group's compliance with the following four intergovernmental client tax information regimes:

- The US Foreign Account Tax Compliance Act (FATCA) provisions
- The Common Reporting Standards (the associated impact of which on the Group is determined in large by the nature of the operations in a particular jurisdiction. (The current impact jurisdictions for the Group are Germany, Guernsey, India, Jersey, South Africa, South Korea and the UK)
- The intergovernmental agreements between the UK and the Crown Dependencies and Overseas Territories (CDOT)
- Reporting obligations to the Canada Revenue Agency

The Group FATCA Programme (which was established in 2011 in preparation for the legislation which came into effect in July 2014 to cover overall project management and to ensure the Group's readiness to meet regulatory expectations arising from FATCA) has transitioned into a business-as-usual environment.

To ensure ongoing compliance, the Group has built a control framework across Group Compliance and Group Tax, comprising the Client Tax Information Compliance team and Customer Tax Information Reporting team. For second line assurance, as outlined in the Group's Operational Risk Framework, the risk owners are Compliance (for due diligence and monitoring changes in circumstance) and Tax (for withholding and reporting).

The Committee has also looked at the adequacy of resourcing of the Group teams responsible for sanctions and anti-money laundering systems and controls, and the strength of leadership of the Financial Crime Compliance team.

Both Gay Huey Evans as the Chair of the Committee and her predecessor, Simon Lowth, have had regular meetings with the Group General Counsel, and the Global Head, Financial Crime Compliance to discuss financial crime risk outside the scheduled Committee meetings in 2016.

Throughout the year, the Board has received regular updates from the Committee Chair on the Committee's activities and areas of focus.

The Committee has welcomed the effective materials produced by the Group through the Whole Story campaign, which emphasises that combating financial crime is at the heart of a good banking business, can prevent harmful human consequences and is integral to the culture of the Group.

The Committee provides oversight of the Group's efforts towards developing a more suitable and effective model for fighting financial crime. For example, the Committee supports the Group's membership and participation in the UK's Joint Money Laundering Intelligence taskforce, a partnership between the UK government, law enforcement agencies and banks, which uses a collaborative approach to identifying and reporting money laundering.

#### **Induction, ongoing training and development**

As part of the process of Gay Huey Evans becoming Committee Chair, a thorough handover with the former Chair, Simon Lowth, took place. Gay's induction as Committee Chair built upon the already existing induction programme following her appointment as a member of the Committee on 1 March 2016.

Since joining the Committee on 1 January 2016 and 1 August 2016 respectively, David Conner and Jasmine Whitbread have commenced an induction programme relevant to the work undertaken by the Committee. As part of Jasmine's induction and prior to joining the Committee, she attended a Committee meeting as an observer.

Ongoing engagement programmes have been provided to the Committee's independent non-executive members and advisor members. Such programmes have included a two-day learning event covering the Group's correspondent banking academies, anti-bribery and corruption, anti-money laundering and the Group's anti-human trafficking initiative. The Committee received updates from the Committee's external advisor members on the activities that they have each undertaken in their role as Committee members.

In March 2016, the Committee met in Beijing as part of the overseas Board programme and each of the external advisor members visited some of the Group's key markets outside the UK

in 2016. During those visits, they met with senior executives and members of the local financial crime compliance teams, and the regional and country chief executive officers.

The external advisor members also attended a cyber project working group meeting to provide expertise for a paper to be presented to the Board on the Group's overall operating model for managing cyber risk. External guest speakers also presented to both the external advisor members and the independent non-executive director Committee members.

#### **Committee linkages**

Where there is a perceived overlap of responsibilities between the Committee and other Board committees, such as the Board Risk Committee, the Audit Committee or the Brand, Values and Conduct Committee, the respective Committee Chairs have the discretion to agree which Committee is the most appropriate to address that responsibility. There is clear mapping of such overlapping items to ensure each Committee focuses on its area of responsibility. The linkages between Committees are further enhanced through cross-membership.

#### **Committee effectiveness review**

The Committee undertook an internally facilitated effectiveness review in the second half of 2016.

This review, facilitated by the Group Corporate Secretariat, involved each committee member and permanent attendees providing their thoughts on the Committee's effectiveness in response to specific questions. The feedback was then formally discussed by the Committee and an action plan designed to address the key observations.

While the overall feedback was that the Committee was effective and included positive feedback concerning the inclusion of country deep dives (that enable members to hear directly from country management on financial crime compliance remediation efforts) and the meeting structure (including the updates from the MLRO and Group General Counsel), there were suggestions on ways the Committee could improve. These suggestions have been factored into an agreed action plan for 2017.

Areas for enhanced effectiveness included giving consideration to the Committee hearing more from more third party external perspectives not only from the advisers on the Committee, but also from other third party experts, including regulators. The Committee members also requested that, going forward as remediation work is closed there should be more discussion on how to identify, understand and combat financial crime going forward.

# Directors' remuneration report

## Incentivising the delivery of the strategy and value creation



**“**  
*Our 2016 decisions reflect the progress made in executing the strategy and the continued focus on incentivising long-term performance*

**Christine Hodgson**

*Chair of the Remuneration Committee*

### HIGHLIGHTS

- Financial and strategic performance in 2016 delivered a Group scorecard outcome of 45 per cent of the maximum. This resulted in directors' annual incentives of 18 per cent of fixed remuneration
- 2016 Group discretionary incentives of \$1,039 million
- Changes made to employee remuneration arrangements to simplify, align to performance scorecards, and improve competitiveness of pay for our most junior employees

### 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.

### Context

Although the economic environment has remained challenging, we have made good progress in the execution of the strategy, announced in November 2015. 2016 has seen some improvement in financial performance but returns are still not where they need to be.

**► Details of how we are performing against our strategic objectives are set out in the Key performance indicators section on pages 18 to 20**

The Committee considered other factors as part of the wider context when determining 2016 remuneration outcomes. These included:

- The continued importance of rewarding and incentivising employees to execute the strategy
- Taking a global approach to remuneration, as we are an international employer with 96 per cent of employees based outside Europe & Americas
- Wage inflation pressures in many of the emerging markets in which the Group operates

### Directors' remuneration in 2016

In May 2016 shareholders approved a new directors' remuneration policy which is aligned to the Group's strategy. The Committee appreciates the strong endorsement from investors for the policy. Feedback received on the policy will be considered when the policy is next renewed.

Under the policy, executive directors were eligible in 2016 for a maximum annual incentive of 40 per cent of fixed remuneration. The Committee determined that Bill Winters and Andy Halford should receive annual incentives of 45 per cent of



the maximum based on an assessment of the Group scorecard. This results in an annual incentive of 18 per cent of fixed remuneration.

Long-term incentive plan (LTIP) awards will be granted in March 2017 to Bill and Andy, delivered in shares (with a face value of 160 per cent of fixed remuneration at the time of award). These awards will be subject to the satisfaction of long-term performance measures, which are assessed after three years. These performance measures are comprised of return on equity (RoE) with a Common Equity Tier 1 (CET1) underpin, relative total shareholder return (TSR) and other measures which are aligned with the strategy. If performance measures are achieved, the shares will vest over the period 2020 to 2024.

All LTIP awards granted to former executive directors in March 2014 will lapse in full in March 2017. The performance measures have not been met.

In response to investor feedback we have disclosed directors' remuneration in sterling where possible in this year's report. This will provide increased clarity and transparency as this is the currency in which remuneration is set and paid.

#### **Group performance and remuneration for 2016**

The Committee determined that discretionary incentives for 2016 should be \$1,039 million. This includes annual incentives, long-term incentives and incentives paid to eligible leavers, and represents an increase of 5 per cent on 2015. The Committee decided the incentives were required in order to reward and incentivise those employees who remain with the Group to continue to deliver the strategy. Since 2012, incentives are down by 27 per cent.

In 2016, the Committee reviewed the remuneration policy for all employees, including a review of the remuneration principles (set out on page 112). Changes have been made to improve the

competitiveness of pay for our most junior employees. A new scorecard approach was adopted across the Group and used to determine the allocation of incentives. Scorecards across all businesses were measured on performance in respect of financial and strategic measures.

The Committee concluded that it would be appropriate that the majority of the senior management's incentives for 2016 performance were awarded in the form of LTIP awards. These long-term awards incentivise the continued execution of the strategy, and the value of the LTIP awards will be determined by Group performance over the period 2017 to 2019.

#### **Directors' remuneration in 2017**

In 2017 there will be no change to fixed remuneration. The transition to the variable remuneration model approved by shareholders in 2016 will be completed, with a maximum of 80 per cent of fixed remuneration delivered in annual incentives and a maximum of 120 per cent of fixed remuneration delivered in an LTIP.

The 2017 annual incentive scorecard comprises a balanced combination of financial and strategic measures.

This Directors' remuneration report has been prepared by the Committee and approved by the Board.

**Christine Hodgson**  
Chair of the Remuneration Committee

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# Directors' remuneration summary

## Executive directors' variable remuneration in 2016

In 2016 the annual incentive award was a maximum of 40 per cent of fixed remuneration. The Group scorecard outcome was 45 per cent of the maximum (see page 100) and results in an annual incentive of 18 per cent of fixed remuneration. Executive directors will also receive an LTIP award of 160 per cent of fixed remuneration, subject to a relative TSR target, an RoE target (with CET1 underpin), and a combination of strategic measures focused on the delivery of the strategy.

	W T Winters	A N Halford
	2016	2015
Annual incentive (£000)	<b>497</b>	0
Annual incentive as a percentage of fixed remuneration	<b>18%</b>	0%
2017-19 LTIP award (face value of shares subject to performance conditions) (£000)	<b>4,416</b>	5,520
2017-19 LTIP award as a percentage of fixed remuneration	<b>160%</b>	200%

## Executive directors' remuneration structure in 2017

In 2017 the annual incentive award will be a maximum of 80 per cent of fixed remuneration, with targets described on page 109. Executive directors will also be eligible to receive an LTIP award of 120 per cent of fixed remuneration in March 2018, with performance measured from 2018 to 2020. A portion of the annual incentive may be deferred in order to meet regulatory requirements. This completes the transition to the variable remuneration model approved by shareholders in May 2016.

	2017	2018	2019	2020	2021	2022	2023	2024	2025	Implementation for 2017
Salary	■									<ul style="list-style-type: none"> <li>● Bill Winters – £1,150,000 (unchanged from 2016)</li> <li>● Andy Halford – £850,000 (unchanged from 2016)</li> </ul>
Fixed pay allowance (FPA)	■									<ul style="list-style-type: none"> <li>● Bill Winters – £1,150,000 (unchanged from 2016)</li> <li>● Andy Halford – £519,000 (no longer expressed in US dollars, but value unchanged)</li> <li>● Allocated in shares during 2017 and released from 2018 over five years</li> </ul>
Pension	■									<ul style="list-style-type: none"> <li>● Bill Winters – £460,000 (unchanged from 2016)</li> <li>● Andy Halford – £340,000 (unchanged from 2016)</li> </ul>
Annual incentive	■									<ul style="list-style-type: none"> <li>● Maximum of 80 per cent of fixed remuneration</li> <li>● At least half of award delivered in shares</li> <li>● Delivered in March 2018 following year end. Part of the annual incentive may be deferred to ensure that, in combination with the LTIP award, regulatory requirements for deferral are met</li> <li>● 2017 Group scorecard has 50 per cent financial measures (comprised of total income, operating profit, customer deposits and RoE plus CET1 underpin) and 50 per cent strategic measures. Personal performance is also considered</li> </ul>
LTIP	■									<ul style="list-style-type: none"> <li>● Maximum of 120 per cent of fixed remuneration</li> <li>● Award deferred for a total of seven years, with performance measured over 2018 to 2020, vesting between 2021 and 2025</li> <li>● Performance measures for LTIP awards to be granted in March 2018 will be disclosed in next year's annual report</li> </ul>

## Summary of directors' remuneration policy

At the 2016 AGM an updated directors' remuneration policy was approved by shareholders. The key features are:

- Incentivises executive directors to execute the strategy and create value for stakeholders
- Overall variable remuneration opportunity remains unchanged at 200 per cent of fixed remuneration
- Performance assessed on both a short- and long-term basis
- Increases long-term focus (at least 60 per cent of variable remuneration subject to long-term performance measures)
- Ensures the policy is in line with changing regulatory requirements
- Provides transparency to key decisions made by the Committee, including how annual incentives are determined (using an annual scorecard) and the vesting of LTIP awards (based on three-year performance measures)
- LTIP delivered in shares creates sustained performance linkage through share price alignment and performance conditions
- The operation of the Group's ex-post risk adjustment of remuneration policy (including malus and clawback) enables reclaim of award in a range of circumstances, including risk management and conduct issues, for up to 10 years

# 2016 report on remuneration

## The Remuneration Committee

Committee composition	
	Scheduled meetings
C M Hodgson (Chair)	6/6
Dr L Cheung	6/6
Dr B E Grote	6/6
N Kheraj	6/6
J M Whitbread	6/6

**Other attendees for relevant parts of Committee meetings include:**

Chairman; Group Chief Executive; Group Head, Human Resources; Global Head, Performance, Reward and Conduct; Group Company Secretary; Group Chief Financial Officer; Group Chief Risk Officer; Group General Counsel.

## Committee role and focus

The Committee has oversight of all reward policies for Standard Chartered employees. It is responsible for setting the principles and governance framework for all remuneration decisions.

In particular, the Committee:

- Determines and agrees with the Board the framework and policy for the remuneration of the Group Chairman, Group Chief Executive, the executive directors and other designated senior executives
- Approves any proposal to award a high remuneration package to new recruits
- Oversees the remuneration of material risk takers
- Ensures that the remuneration policy is appropriate and consistent with effective risk management
- Approves the Group discretionary incentives each year

## Advice to the Committee

The Committee recognises and manages any conflicts of interest when receiving views from executive directors or senior management on executive remuneration proposals and no individual is involved in deciding his or her own remuneration.

The Committee was assisted in its considerations by PricewaterhouseCoopers LLP (PwC), who were appointed by the Committee as its remuneration advisor in November 2013 following a review of potential advisors. It is the Committee's practice to undertake a detailed review of potential advisors every three to four years. PwC's appointment was most recently extended by the Committee in January 2016 until July 2017 after a review of the quality of advice received.

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. In light of PwC's role as advisor to the Group, the Committee considered this position and determined that there was no conflict or potential conflict arising. The Committee is satisfied that the advice the Committee receives is objective and independent. The total fee paid to PwC (on an agreed per diem fee basis) was £142,070, which includes advice to the Committee relating to executive directors' remuneration.

Management's advice to the Committee was also supported by:

- Advice on the design and operation of the Group's share plans, issues relating to executive directors' contracts and independent non-executive directors' (INEDs) letters of appointment, and remuneration policy advice from Clifford Chance LLP
- The provision of market data from Willis Towers Watson

The Group Chief Financial Officer and Group Chief Risk Officer provided the Committee with regular updates on finance and risk matters respectively.

 **The Committee has written terms of reference that can be viewed at [sc.com/termsofreference](http://sc.com/termsofreference)**

## The Committee's key activities during 2016

Date	Fixed and variable remuneration	Governance, risk and other matters
<b>January</b>	<ul style="list-style-type: none"> <li>Consider and approve aggregate Group 2015 discretionary incentives</li> <li>Review and approve variable remuneration awards for executive directors, other senior management and material risk takers (MRTs)</li> <li>Approve 2016 fixed remuneration for executive directors and other senior management</li> <li>Discuss future structure of executive directors' remuneration</li> <li>Review i) achievement of measures for LTIP awards vesting in March and ii) appropriateness of the measures and targets for grants in 2016</li> </ul>	<ul style="list-style-type: none"> <li>Update on risk and control matters and performance adjustments</li> <li>Review and finalise the 2015 Directors' remuneration report</li> <li>Approve retirement arrangements for Mike Rees</li> </ul>
<b>February</b>	<ul style="list-style-type: none"> <li>Review 2016 targets under the annual incentive scorecard</li> </ul>	<ul style="list-style-type: none"> <li>Update on risk and control matters and performance adjustments</li> </ul>
<b>July</b>	<ul style="list-style-type: none"> <li>Consider shareholder feedback and AGM outcomes and any impact on future structure of executive directors' remuneration</li> <li>Discuss Group's approach to all employee incentives</li> </ul>	<ul style="list-style-type: none"> <li>Consider feedback from regulators in respect of 2015 remuneration cycle</li> <li>Discuss regulatory remuneration requirements</li> <li>Approve revisions to Group policies</li> <li>Approve remuneration arrangements for José Viñals and retirement arrangements for Sir John Peace</li> </ul>
<b>October</b>	<ul style="list-style-type: none"> <li>Discuss Group's approach to all employee incentives including funding and how incentives are delivered</li> <li>Review approach to risk adjustment for Group discretionary incentives</li> </ul>	<ul style="list-style-type: none"> <li>Update on risk and control matters and performance adjustment</li> <li>Discuss regulatory remuneration requirements</li> <li>Approve submission of the Group's Remuneration Policy Statement to the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA)</li> <li>Assess Remuneration Committee effectiveness</li> </ul>
<b>November</b>	<ul style="list-style-type: none"> <li>Consider approach to the Group-wide 2016 performance, pay and potential review</li> <li>Consider Group 2016 discretionary incentives and structures for delivery</li> <li>Review risk adjustment for Group variable remuneration and approach for individual awards</li> <li>Review initial fixed and variable remuneration proposals for executive directors and other senior management</li> </ul>	<ul style="list-style-type: none"> <li>Update on risk and control matters</li> <li>Approve revisions to Group policies, including malus and clawback</li> </ul>

At each scheduled meeting, the Committee also discussed the emerging regulatory and shareholder trends and reviewed analytics relating to offers, fixed and variable remuneration and performance measures. In September, the Committee also held an informal meeting to identify and think about longer term remuneration trends, the political and external environment and how remuneration might be positioned to support the execution of the Group's strategy.

The Committee also dealt with certain less material matters on an ad hoc basis through email circulation.

### Shareholder voting and shareholder engagement

The table below shows the votes cast<sup>1</sup> at the Annual General Meeting (AGM) in May 2016 on remuneration-related matters.

	For	Against	Withheld
Advisory vote on the 2015 remuneration report	550,948,734 (90.51%)	57,773,986 (9.49%)	10,070,818
Binding vote in May 2016 on the remuneration policy (applies for three years)	576,756,146 (94.32%)	34,733,965 (5.68%)	7,128,428

1. Number of votes is equal to number of shares held

The 2015 remuneration report was well supported, with shareholders providing positive feedback on the increased transparency on scorecard determination. Investors also welcomed the increased proportion of variable remuneration subject to long-term performance conditions (a minimum of 60 per cent). Positive feedback was provided on the inclusion of non-financial strategic measures as part of both the 2016 annual incentive scorecard and 2016-18 LTIP. Shareholders also welcomed the focus on conduct, particularly with regard to eligibility for variable remuneration. There was some feedback on the design of the remuneration policy, such as the continued use of fixed pay allowances, and the Committee will consider this feedback when the directors' remuneration policy is next reviewed. There was also feedback on the operation of the pension allowance for executive directors, including its inclusion in fixed remuneration for the purposes of calculating the maximum variable remuneration opportunity. In order to address this feedback, prior to the appointment of any new executive director there will be a review of the pension allowance. The level of pension allowance for existing executive directors will be reviewed when the directors' remuneration policy is next renewed.

#### **Summary of the themes identified in the 2016 Committee effectiveness review and actions taken/to be taken**

Committee members provided ongoing 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 views on the Committee's effectiveness. A summary of the themes and actions is set out below:

- Continue to hold individual briefing sessions with each Committee member ahead of Committee meetings to assist members in focusing on the main issues for discussion

- Provide greater insight into regional/business specific remuneration issues to enhance understanding of the competitive remuneration environment and effectiveness of the current remuneration policy. Consideration will be given to the most effective way to give the Committee greater interaction with management, potentially through informal discussion sessions or additional reporting to the Committee
- The Committee noted there had been a marked improvement in achieving a balance between providing the Committee with a summary of the main issues for consideration and the details to support such Committee discussions e.g. shorter papers with separate reference materials made available electronically. Consideration will therefore continue to be given to the nature and evolution of the information to be provided to the Committee including enhanced provision of comparative market insights and data for benchmarking purposes

#### **Priorities for the Committee in 2017**

Specific priorities for the Committee in 2017, in addition to its usual scheduled activities, will be:

- Continue to monitor political and regulatory developments including i) the UK governmental proposals on corporate governance and executive remuneration and ii) the outcomes from the PRA and FCA's latest consultation on its remuneration guidelines. As appropriate, review remuneration policy (both executive directors' and all employee) and, in addition, any arrangements for material risk takers (MRTs). Review proposals to develop a 'Fair Pay Charter'
- Monitor market trends to ensure the Group's remuneration remains competitive, balanced with the necessity of robustly managing overall costs and improving productivity
- Continue to assess the alignment of Group incentives and the delivery of the strategy

#### **Single total figure of remuneration for the executive directors (audited)**

This table sets out salary, fixed pay allowances (FPA), benefits (including pensions) and one-off amounts (such as buy-out awards) received in 2016 and annual incentives receivable in respect of 2016. All figures are in £000s.

	<b>W T Winters<sup>1</sup></b>		<b>A N Halford</b>		<b>A M G Rees<sup>2</sup></b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Salary	<b>1,150</b>	767	<b>850</b>	850	<b>325</b>	975
Fixed pay allowances	<b>1,150</b>	767	<b>519</b>	458	<b>741</b>	654
Pension	<b>460</b>	307	<b>340</b>	340	<b>108</b>	1,187
Benefits	<b>135</b>	58	<b>111</b>	104	<b>47</b>	126
Annual incentive award	<b>497</b>	0	<b>308</b>	0	<b>0</b>	0
Vesting of LTIP awards	<b>-</b>	-	<b>-</b>	-	<b>0</b>	0
<b>Subtotal</b>	<b>3,392</b>	1,899	<b>2,128</b>	1,752	<b>1,221</b>	2,942
Buy-out award (in shares)	<b>-</b>	6,500	<b>-</b>	-	<b>-</b>	-
<b>Total</b>	<b>3,392</b>	8,399	<b>2,128</b>	1,752	<b>1,221</b>	2,942

1. Bill Winters joined the Group on 1 May 2015 and was appointed to the Board on 10 June 2015. The figures above include his remuneration from 1 May 2015

2. Mike Rees' remuneration is up to 30 April 2016, the date on which he stepped down from the Board. His remuneration since stepping down from the Board is included in the former executive directors' remuneration section on page 103, with the exception of the FPA. The FPA in respect of the full year was awarded at the beginning of 2016 and is included in the table above

## Additional information on the elements of remuneration in the single total figure table (audited)

- Fixed pay allowances are paid in shares, subject to a retention period and released over five years. The number of shares allocated is determined by the monetary value of the allowance and the prevailing market price of the Group's shares on the date of allocation. FPAs are not variable remuneration; therefore, performance measures are not applicable
- Executive directors receive benefits, such as private medical cover, life assurance, permanent health insurance, an allowance both 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. Executive directors occasionally use a Group car service for travelling and their spouses may travel to attend Board or other similar events. If a tax liability arises on these, the Group pays this. The 2016 benefits figures shown are in respect of the 2015/16 tax year. This is consistent with the reporting of similar benefits in previous years
- Bill Winters and Andy Halford received pension contributions and cash allowances which, combined, equated to 40 per cent of salary. Mike Rees was contractually entitled to participate in a defined benefit (DB) pension plan, with a headline entitlement of one-thirtieth of salary for each year of service. He received no further accrual after 13 February 2016, when he reached the normal retirement age of 60. His DB entitlement as at 13 February 2016 was £563,672
- Directors' annual incentives in respect of 2016 are delivered up-front with 50 per cent paid in shares subject to a minimum six-month retention period. The scorecard used to determine directors' annual incentives is set out on page 100. Any award will be subject to ex-post risk adjustment (such as malus and clawback) for up to ten years
- The long-term incentive plan awards granted in March 2014 were due to vest in March 2017, based on performance over the years 2014 to 2016. Performance measures were not met (see page 102) and so the awards lapsed

## Executive directors' variable remuneration awarded in respect of 2016 (audited)

### Approach to determining individual variable remuneration awards

At its meetings in November 2016 and January 2017, the Committee considered Group performance, the performance of each executive director 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 annual incentive awards:

#### 1. Consider eligibility

The Committee considered each executive directors' values, behaviour and conduct during 2016. Each director had exhibited an appropriate level of eligibility and was deemed to have met the gateway requirement to be eligible for an incentive.

#### 2. Evaluate performance against the Group's priorities

At the end of 2016, the Committee reviewed both financial performance and achievement against the Group's strategic priorities, as outlined at the start of the year in the 2016 annual incentive scorecard, published in last year's remuneration report.

The Group's performance in 2016 compares favourably to last year, in market and economic conditions that continue to be challenging. While financial returns are not where they need to be, the Committee noted that the Group had made significant progress in executing its strategy to stabilise and reposition the Group.

The Committee noted that underlying profit before tax (PBT) was up 31 per cent on a year-on-year basis and statutory PBT

compared favourably to the loss of \$1.5 billion in 2015. The Group remains well capitalised with a Common Equity Tier 1 (CET1) ratio of 13.6 per cent, however the Committee recognised that more work needs to be done to improve returns.

### 3. Assess personal performance and finalise awards

The Committee then reviewed the individual performance of each executive director and the performance in areas of personal responsibility. The Committee can make an adjustment to the formulaic scorecard outcome in respect of personal performance. Consistent with the Group's treatment of all employees, the Committee can make a positive adjustment to the annual incentive if the executive directors' performance is considered strong (and vice versa).

The Committee noted that Bill Winters, in his first full year with the Group, demonstrated extraordinary leadership skills and continued to be a strong performer, overseeing good progress in the execution of the strategy announced last November, despite the challenging trading environment. Bill had been actively involved in the restructuring of the Group's portfolio by leading the liquidation of certain client positions. His leadership had resulted in a refocus and restructuring of businesses (both region and client segment) and functions. He had also established an effective and cohesive management team which contained a number of strong new hires. The Committee also noted that Bill had increased the focus on the Group's clients and demonstrated leadership in terms of conduct, as well as bringing a new focus to the approach to the Group's culture and setting a clear message in terms of how he expects employees to behave.

The Committee agreed that following last year's strategy review, Andy Halford made a strong personal contribution to ensure the Group executed on its new strategy during 2016. Among the strategic 2016 highlights were i) a stronger balance sheet (CET1 of 13.6 per cent remains at the top end of the Group's target range), ii) a restructured portfolio with the liquidation and exiting of non strategic risk-weighted assets and iii) delivery of gross cost savings in excess of \$1 billion, which enabled the Group to increase the pace of investment through the year. The Committee also noted that he demonstrated exceptional focus which had led to a number of improvements and efficiencies. Throughout the year Andy exemplified the values and conduct that the Board expects from its most senior leaders.

Although the Committee noted strong personal performance for both Bill and Andy, it decided not to adjust the scorecard outcome. The following table summarises the outcome of the Committee's decisions on annual incentive awards for the 2016 performance year.

	W T Winters	A N Halford
Scorecard outcome	45%	45%
Annual incentive award as a percentage of fixed remuneration <sup>1</sup> (maximum 40% of fixed remuneration) (2015: 0%)	18% (2015: 0%)	18% (2015: 0%)
Annual incentive (£000)	497	308

1. Fixed remuneration is defined as salary, FPA and pension, in line with regulatory requirements

Under the terms of his leaving agreement, Mike Rees was eligible to be considered for an annual incentive award, pro-rated for the period he was on the Board. However, the Committee concluded that it was not appropriate to award any annual incentive to Mike given the businesses for which he had management oversight prior to the restructure had continued to underperform in 2016.

## The Committee's assessment of 2016 scorecard performance

Performance measures	Weighting	Target <sup>5</sup>	Assessment of achievement	Scorecard outcome
<b>Financial measures</b>				
Total income <sup>1</sup>	10%	Threshold: \$13,300 million Mid-point of target range: \$14,000 million Maximum award: \$14,700 million	\$13,808 million	5%
Operating profit <sup>2</sup>	15%	Threshold: \$600 million Mid-point of target range: \$1,100 million Maximum award: \$1,600 million	\$1,093 million	8%
RoE <sup>3,6</sup> plus CET1 <sup>4,6</sup> underpin of 12%	25%	Threshold: 0.4% Mid-point of target range: 0.8% Maximum award: 1.2%	RoE of 0.3% CET1 of 13.6%	0%
<b>Other strategic measures<sup>6</sup></b>				
Secure the foundations	20%	<ul style="list-style-type: none"> <li>● Improve quality of loan book as evidenced by a decrease in the non-performing loan (NPL) flow rate</li> <li>● Progress in liquidating and exiting identified \$25 billion non-strategic assets</li> <li>● Successfully execute Group's financial crime risk and other conduct-related mitigation and remediation programmes</li> </ul>	<ul style="list-style-type: none"> <li>● Improvement in quality of loan book. Whilst ongoing portfolio gross NPLs increased year on year, they fell in the second half. NPL inflows also slowed in the second half of 2016</li> <li>● Significant progress. Exited more than 80% of RWA in the liquidation portfolio. Disposed non-strategic assets</li> <li>● Good progress was made on financial crime and other conduct-related mitigation programmes</li> </ul>	15%
Get lean and focused	15%	<ul style="list-style-type: none"> <li>● Achieve cost-efficiency target</li> <li>● Restructure in Corporate &amp; Institutional Banking and overhaul Commercial Banking as evidenced by a reduction in the percentage of RWA generating below threshold returns</li> <li>● Accelerate Retail Banking transformation</li> </ul>	<ul style="list-style-type: none"> <li>● Gross cost efficiencies of \$1.2 billion, in excess of \$1 billion target</li> <li>● Behind target in reducing the percentage of RWA generated below threshold returns</li> <li>● Retail Banking transformation well under way. Expenses fell by 3% benefiting from cost efficiency initiatives offset by increased digitisation investment</li> </ul>	11%
Invest and innovate	15%	<ul style="list-style-type: none"> <li>● Grow Private Banking and Wealth Management assets under management (AUM)</li> <li>● Up-tier Retail Banking by growing the number of Priority clients</li> <li>● Increase digital penetration as evidenced by increased adoption of Retail Banking and Corporate &amp; Institutional Banking clients</li> </ul>	<ul style="list-style-type: none"> <li>● Private Bank AUM declined 4%. Growth in Hong Kong was offset by regulatory changes and actions taken to improve risk profile in other markets</li> <li>● Increased share of Priority income to 39% of Retail Banking income, supported by the addition of over 90,000 new-to-bank clients</li> <li>● Target performance achieved on digital penetration in Retail Banking and Corporate &amp; Institutional Banking. Online and mobile adoption of 40% and 15% respectively in Retail Banking</li> </ul>	6%
<b>Total</b>	<b>100%</b>			<b>45%</b>

1. Total income was based on underlying operating income, excluding any fair value changes relating to gains/losses on disposals, restructuring gains and losses recorded in Income and exceptional transactions that are significant or material in the context of the Group's normal business for the period

2. Operating profit was based on underlying operating profit which excludes fair value changes relating to material one-off gains/losses such as disposals, other acquisitions and corporate-related activity, restructuring charges, which are not representative of underlying business performance and exceptional transactions that are significant or material in the context of the Group's normal business for the period

3. RoE was based on profit attributed to ordinary shareholders, adjusted, on a tax-effected basis, for profits or losses of a capital nature, restructuring charges, amounts consequent to investment transactions driven by strategic intent and infrequent/exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period

4. CET1 was based on regulatory definitions and modelling assumptions as at 1 January 2016

5. If the performance of the financial measure is within a target range, then the scorecard evaluation is 50 per cent for the respective measure. A maximum/minimum performance threshold was set for each financial performance measure. The Committee used its judgement to determine scorecard outcomes within this range (with higher than 50 per cent outcome for performance above target and lower than 50 per cent outcome for below target performance). There is a zero outcome if performance is less than the minimum set per target and 100 per cent outcome if performance is more than the maximum of target

6. Unaudited

In reviewing and finalising the annual incentive scorecard outcome, the Committee was able to consider a wide range of factors including, but not limited to, broader corporate governance, risk, control and governance-related matters.

## Long-term incentive plan awards to be granted in March 2017

LTIP awards for the 2016 performance year will be granted to Bill Winters and Andy Halford in 2017 with a face value of 160 per cent of fixed remuneration (£4.4 million and £2.7 million respectively). These awards will vest in five annual tranches beginning after the third anniversary of the grant, subject to meeting the performance measures set out below at the end of 2019.

The equal weighting of the measures provides a balanced set of metrics, giving an appropriate focus on execution of the strategy, investor interests and prudent risk-taking. The target levels for LTIP awards are designed to be challenging but realistic. The Committee's starting point for determining performance measures and target levels was to review the financial plan and the Group's strategic priorities. It also balanced the Group's current financial position and the market environment and outlook with ensuring

the executive directors are incentivised in a challenging yet realistic manner.

The criteria used to select the comparator group for the calculation of the relative TSR performance measure are companies with generally comparable business activities, size or geographic spread to Standard Chartered or companies Standard Chartered competes against for investor funds and talent. In aggregate, the comparator group is intended to be representative of Standard Chartered's geographic presence and business operations. The constituents of the comparator group shall continue to be reviewed annually, prior to each new LTIP grant.

TSR is measured in sterling for each company and the TSR data averaged over a month at the start and end of the three-year measurement period starting from the date of grant.

## Performance measures for 2017-19 executive director long-term incentive plan

### Gateway requirement to be met in order for awards to vest

Appropriate level of individual values and conduct exhibited

Performance measure	Weighting	Amount vesting (as % of total award)	Threshold performance target	Maximum performance target
1. RoE <sup>1,2</sup> in 2019 plus CET1 <sup>3</sup> underpin of the higher of 12% or the minimum regulatory requirement	One third	Maximum – 33.3% Threshold – 8.3% Below threshold – 0%	5%	8%
2. Relative TSR <sup>4</sup> against peer group	One third	Maximum – 33.3% Threshold – 8.3% Below threshold – 0%	Median	Upper quartile
3. Strategic measures	One third	Maximum – 33.3% Minimum – 0% Performance against each component of the scorecard will be assessed by the Committee using proof points to determine the percentage of the award that may vest		<ul style="list-style-type: none"> <li>● Successfully execute the Group's financial crime risk, remediation, and unified conduct and culture programmes</li> <li>● Liquidate and exit identified non-strategic assets</li> <li>● Grow Private Banking Net New Money and 'New to Wealth' clients in Retail Banking</li> <li>● Maintain leadership position on the internationalisation of renminbi</li> <li>● Retail Banking: achieve over 40% of income from Priority clients</li> <li>● Deliver market share gains across Africa region</li> <li>● Improve client satisfaction rating</li> <li>● Cost discipline: deliver gross efficiency target</li> <li>● Retail Banking: progress towards achieving a cost income ratio of c.55% by 2020</li> <li>● Drive innovation through new products, solutions and services for clients</li> <li>● Grow percentage of Retail Banking clients with online/mobile adoption</li> <li>● Improve Net Promoter Score within Group's employees</li> <li>● Strengthen leadership succession and improve diversity as a percentage of the management population</li> </ul>
a) Strengthen foundations in risk and control including financial crime remediation				
b) Focus on clients and growth, and drive cross-bank collaboration				
c) Improve efficiency, productivity, and service quality				
d) Embed innovation, digitisation, and analytics				
e) Invest in people, strengthen culture and conduct				

- RoE will be based on profit attributed to ordinary shareholders, adjusted, on a tax-effected basis, for profits or losses of a capital nature, restructuring charges, amounts consequent to investment transactions driven by strategic intent and infrequent/exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period. RoE would normally exclude regulatory fines but, for remuneration purposes, this would be subject to review by the Committee
- If RoE is between the threshold and the maximum, vesting is calculated on a straight-line basis between these two points
- CET1 is based on regulatory definitions and modelling assumptions as at 31 December 2016. The CET1 underpin will be dynamically set at a higher of 12 per cent and the minimum regulatory level as at 31 December 2019 (taking into account any transition rules or material changes in regulatory rules). In addition, the Committee has the discretion to take into account at the end of the performance period any changes in regulatory capital and risk-weighted asset requirements that might have been announced and implemented after the start of the performance period
- The percentage of the award that vests subject to relative TSR depends on where the Group is ranked against its comparators' TSR performance. Minimum vesting is achieved if the Group's performance is equivalent to the median ranked company, with full vesting if the Group's performance is at least equal to the upper quartile ranked company (i.e. the average of the fifth- and sixth-ranked company). Between these points, the Group's TSR is compared to that of the comparators positioned immediately above and below it and straight-line vesting applies for TSR performance between these set positions

**Historical long-term incentive plan awards**

The performance outcome for the 2014-16 LTIP and the current position on vesting for all unvested LTIP and underpin share awards outstanding from 2015 and 2016 based on current performance and share price is set out in the table below.

**Assessment of the 2014-16 LTIP award: zero vesting**

<b>Measure</b>	<b>Weighting</b>	<b>Performance for minimum vesting (30%)</b>	<b>Performance for maximum vesting (100%)</b>	<b>2014-16 LTIP outcome</b>
Relative TSR performance against comparator group	One-third	Median	Equal to or above fifth	Positioned below the median ranked firm therefore 0% vested
Earnings per share growth	One-third	15%	30%	Negative EPS growth therefore 0% vested
Return on risk-weighted assets (three-year average)	One-third	1.5%	1.7%	0.4% therefore 0% vested

**Current position on the 2015-17 LTIP award: projected zero vesting**

<b>Measure</b>	<b>Weighting</b>	<b>Performance for minimum vesting (25%)</b>	<b>Performance for maximum vesting (100%)</b>	<b>2015-17 LTIP current assessment</b>
Relative TSR performance against comparator group	One-third	Median	Equal to or above fifth	0% vesting based on TSR performance as at 31 December 2016
Earnings per share growth	One-third	15%	35%	0% vesting
Return on risk-weighted assets (three-year average)	One-third	1.2%	1.4%	0% vesting

**Current position on the 2016-18 LTIP award: projected partial vesting**

<b>Measure</b>	<b>Weighting</b>	<b>Performance for minimum vesting (25%)</b>	<b>Performance for maximum vesting (100%)</b>	<b>2016-18 LTIP current assessment</b>
RoE <sup>1</sup> in 2018 plus CET1 underpin of 12%	One-third	7%	10%	RoE currently below threshold
Relative TSR performance against comparator group	One-third	Median	Upper quartile	45% vesting based on TSR performance as at 31 December 2016
Strategic measures	One-third	Target ranges set for strategic measures linked to the business strategy		Currently tracking for "on target" performance

1. RoE will be based on profit attributed to ordinary shareholders, adjusted, on a tax-effected basis, for profits or losses of a capital nature, amounts consequent to investment transactions driven by strategic intent and infrequent/exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period. This includes material one-off changes to valuation methodologies to align with market practice and restructuring charges. RoE would normally exclude regulatory fines but, for remuneration purposes, this would be subject to review by the Committee.

The comparator group for the TSR measure in the 2016-18 and 2017-19 LTIP awards is set out below:

ANZ	Barclays	HSBC	Oversea Chinese Banking Corporation	United Overseas Bank
Banco Santander	Citigroup	ICBC	Société Générale	
Bank of America	Credit Suisse	ICICI	Standard Bank	
Bank of China	DBS Group	JPMorgan Chase	State Bank of India	
Bank of East Asia	Deutsche Bank	KB Financial Group	UBS	

## Former executive directors' remuneration

### Payments for loss of office (audited)

Mike Rees retired from the Board on 30 April 2016. The remuneration he received when he was an executive director is set out in the single total figure table. Specific details on the remuneration arrangements on leaving for Mike were included in the announcement to the London Stock Exchange of 7 January 2016. Mike Rees received payments in the period from the date he ceased to be an executive director, in accordance with his contract of employment, as set out below:

	A M G Rees
Date ceased to be an executive director	30 April 2016
Period payments made until	31 December 2016
Salary received	£650,000
Fixed pay allowance <sup>1</sup>	£0
Benefits <sup>2</sup>	£44,600
Pension	£0
Total	£694,600

1. This was awarded at the beginning of 2016 and is included in the single figure table on page 98
2. In line with market practice, the Group paid for appropriate professional legal fees incurred by Mike Rees in respect of finalising his retirement arrangements, which amounted to £7,500. These amounts are included in the benefits figures above

## Executive directors' share interests including share awards

### Scheme interests awarded, exercised and lapsed during the year (audited)

The following table shows the changes in share interests. Employees, including executive directors, are not permitted to engage in any personal hedging strategies with regards to their Standard Chartered PLC shares, including hedging against the share price of Standard Chartered PLC shares.

	Changes in interests during 2016							
	As at 1 January	Awarded <sup>1</sup>	Dividends awarded	Exercised <sup>2</sup>	Lapsed	As at 31 December	Performance period end	Vesting date
<b>W T Winters</b>								
Restricted shares (buy-out)	314,822	–	–	–	–	314,822	–	22 Sep 2017
	314,822	–	–	–	–	314,822	–	22 Sep 2018
	314,916	–	–	–	–	314,916	–	22 Sep 2019
LTIP 2016-18	–	496,390	–	–	–	496,390	31 Dec 2018	4 May 2019
	–	124,097	–	–	–	124,097	31 Dec 2018	4 May 2020
	–	124,097	–	–	–	124,097	31 Dec 2018	4 May 2021
	–	124,097	–	–	–	124,097	31 Dec 2018	4 May 2022
	–	124,100	–	–	–	124,100	31 Dec 2018	4 May 2023

In addition, the Committee exercised its discretion in accordance with the rules of the share plans, under which Mike held unvested awards, and determined that he should be treated as an eligible leaver and, as such, be allowed to retain any unvested share awards. Awards continue to vest over the original vesting periods and remain subject to the application of malus and clawback and the satisfaction of the performance measures. This discretion was exercised by the Committee consistent with the treatment for others retiring from the Group. The discretion has been exercised and reported in line with the requirements of The Stock Exchange of Hong Kong Limited.

### Payments to former executive directors (audited)

Jaspal Bindra stepped down from the Board during 2015. He received payments for the period from the date he ceased to be an executive director until 25 February 2016, in accordance with his contract of employment and 12-month notice period. From 1 January 2016 to 25 February 2016 Jaspal received salary of \$129,932, benefits of \$14,868 and a pension allowance of \$63,367, in addition to a statutory long service payment of \$33,948, consistent with Hong Kong law.

In addition, Jaspal Bindra, Peter Sands and V Shankar were awarded shares under the 2014-16 LTIP in March 2014, whose vesting was dependent on performance measures over the three years ending 31 December 2016, which were not met. These awards will not vest.

**DIRECTORS' REMUNERATION REPORT**

**Changes in interests during 2016**

	<b>As at 1 January</b>	<b>Awarded<sup>1</sup></b>	<b>Dividends awarded</b>	<b>Exercised<sup>2</sup></b>	<b>Lapsed</b>	<b>As at 31 December</b>	<b>Performance period end</b>	<b>Vesting date</b>
<b>A N Halford</b>								
LTIP 2014-16	135,054	–	–	–	–	135,054	31 Dec 2016	18 Jun 2017
LTIP 2015-17	28,529	–	–	–	–	28,529	31 Dec 2017	19 Mar 2018
LTIP 2016-18	–	296,417	–	–	–	296,417	31 Dec 2018	4 May 2019
	–	74,104	–	–	–	74,104	31 Dec 2018	4 May 2020
	–	74,104	–	–	–	74,104	31 Dec 2018	4 May 2021
	–	74,104	–	–	–	74,104	31 Dec 2018	4 May 2022
	–	74,105	–	–	–	74,105	31 Dec 2018	4 May 2023
Deferred shares 2014	12,932	–	136	13,068	–	0	–	19 Mar 2016
	12,932	–	–	–	–	12,932	–	19 Mar 2017
	12,936	–	–	–	–	12,936	–	19 Mar 2018
Underpin shares 2015-17	14,264	–	–	–	–	14,264	31 Dec 2017	19 Mar 2018
	14,264	–	–	–	–	14,264	31 Dec 2019	19 Mar 2020
Sharesave	1,612	–	–	–	–	1,612	–	–
<b>A M G Rees</b>								
LTIP 2011-13	59,042	–	–	59,042	–	0	31 Dec 2013	6 May 2014
LTIP 2012-14	20,250	–	–	20,250	–	0	31 Dec 2014	13 Mar 2015
LTIP 2013-15	158,110	–	–	–	158,110	0	31 Dec 2015	11 Mar 2016
LTIP 2014-16	203,714	–	–	–	–	203,714	31 Dec 2016	13 Mar 2017
Deferred shares 2011	97,669	–	–	97,669	–	0	–	13 Mar 2015
Deferred shares 2012	73,640	–	–	73,640	–	0	–	11 Mar 2015
	73,500	–	772	74,272	–	0	–	11 Mar 2016
Deferred shares 2013	69,608	–	–	69,608	–	0	–	13 Mar 2015
	69,608	–	732	70,340	–	0	–	13 Mar 2016
	69,634	–	729	–	–	70,363	–	13 Mar 2017

- For the LTIP 2016-18 awards granted to Bill Winters and Andy Halford on 4 May 2016, the share price at grant was £5.56 and the face values were as follows: Bill Winters: £5.5 million; Andy Halford: £3.3 million. Performance measures apply to LTIP 2016-18. The share price at grant was calculated as the higher of the five-day average closing price and the closing price on the day before the grant date
- On 21 March 2016, Andy Halford exercised deferred share awards over a total of 13,068 shares. The share price on the date of exercise was £4.89, and the gains on exercise were £63,903. On 11 March 2016, Mike Rees exercised share awards over 394,481 shares and on 21 March 2016 over 70,340 shares. The share price on the dates of exercise was £4.64 and £4.89 respectively, with gains on exercise of £1,830,392 and £343,963 respectively. The five-day average closing prices before the dates of exercise were £4.73 and £4.71 respectively
- Dividend equivalent shares are awarded on vesting
- All figures are as at 31 December 2016 or on the retirement of an executive director (i.e. 30 April 2016 for Mike Rees). There were no changes to any executive director's scheme interests in ordinary shares between 31 December 2016 and 23 February 2017

## Shareholdings and share interests (audited)

Executive directors are required to maintain a shareholding as determined by the Committee. Executive directors must build up their shareholding over a reasonable timeframe from the date of appointment as an executive director (or, if later, from the date of any change to the terms of the shareholding requirement). Shares that count towards the requirement are beneficially owned shares including any vested share awards subject only to a retention period.

The following table summarises the executive directors' shareholdings and share interests<sup>1</sup>.

	Shareholdings				Share awards		
	Shares held beneficially <sup>2,3</sup>	Shareholding as a percentage of salary <sup>4</sup>	Actual shareholding requirement in number of shares	Alignment to requirement	Vested but unexercised share awards	Unvested share awards not subject to performance measures	Unvested share awards subject to performance measures
W T Winters <sup>5</sup>	430,370	248%	250,000	On track	–	944,560	992,781
A N Halford	341,794	267%	150,000	Met	–	27,480	784,945
<b>Former directors</b>							
A M G Rees <sup>6</sup>	668,634	N/A	N/A	N/A	–	70,363	203,714

1. All figures are as at 31 December 2016 or on the retirement of an executive director, unless stated otherwise. There were no changes to any executive directors' interests in ordinary shares between 31 December 2016 and 23 February 2017. No director had either (i) an interest in Standard Chartered PLC's preference shares or loan stocks of any subsidiary or associated undertaking of the Group or (ii) any corporate interests in Standard Chartered PLC's ordinary shares
2. The beneficial interests of directors and connected persons in the ordinary shares of the Company are set out above. The executive directors do not have any non-beneficial interests in the Company's shares. None of the executive directors used ordinary shares as collateral for any loans
3. Some shares have been awarded to deliver the executive directors' fixed pay allowance. Any FPA shares held by each executive director do not count towards their shareholding requirement until such shares are released. The levels of unreleased FPA shares as of 31 December 2016 are: Bill Winters: 183,125; and Andy Halford: 83,254
4. Shareholding as a percentage of salary is calculated using the closing share price on 31 December 2016 (£6.636)
5. Bill Winters joined the Board on 10 June 2015 and will meet his shareholding requirements within a reasonable period of time
6. Mike Rees stepped down from the Board on 30 April 2016. Figures shown are as at 30 April 2016

## Shareholder dilution

All awards vesting under the Group's share plans are satisfied by the transfer of existing shares or, where appropriate, the issuance of new shares. The Group's share plans contain monitored limits that govern both the aggregate amount of awards that may be granted and the amount of shares that may be issued to satisfy any subsequent exercise of awards. These limits are in line with those stated in the Investment Association's Principles of Remuneration and the terms of our listing on The Stock Exchange of Hong Kong Limited.

The shareholding requirement is currently expressed as a number of shares and is set as:

- 250,000 shares for the Group Chief Executive
- 150,000 shares for the Group Chief Financial Officer

In addition to the shareholding requirement, executive directors hold a considerable number of shares as part of the FPA shares which are held and released over five years. Unreleased FPA shares are not counted for the purposes of the above shareholding requirement.

## Service contracts for executive directors

Copies of the executive directors' service contracts are available for inspection at the Group's registered office. These contracts have rolling 12-month notice periods and the dates of the executive directors' service contracts are shown below. Executive directors are permitted to hold non-executive directorship positions in other organisations (but no more than one position with a FTSE 100 company). Where such appointments are agreed with the Board, the executive directors may retain any fees payable for their services. 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 Standard Chartered employment contract <sup>1</sup>	Details of any non-executive directorship	Fees retained for any non-executive directorship (local currency)
W T Winters	8 April 2016	Novartis International AG	CHF 250,000
A N Halford	10 February 2016	Marks and Spencer Group plc	GBP 85,000
<b>Former directors</b>			
A M G Rees	7 January 2010	–	–

1. Date the latest employment contract was entered into, not date of taking up employment with the Group

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.

 **Details of the trusts' shareholdings are set out in note 27 to the financial statements on page 255**

## 2016 Group total variable remuneration

### Determining 2016 discretionary incentives

In determining 2016 incentives, the Committee considered the following factors:

- 2016 performance measured using the balanced scorecard
- That the historical remuneration levels of the Group have generally been below competitive levels in the markets in which it operates and that this position has deteriorated further over the past few years. This has in part resulted in a high level of voluntary attrition
- The need to reposition remuneration in the Group to contribute to improving shareholder returns, whilst enabling the Group to ensure that good performers are paid competitively
- Any material risk events that may have impacted the Group in 2016

In determining the Group's total incentives, the Committee has used its judgement to establish the right balance between the financial performance of the Group and its ability to attract and retain talent that will drive the Group's strategy. In 2016, the Committee took into account Group, business and regional scorecards which were aligned to the Group's strategy. The Committee also took into account a range of risk-adjusted metrics and advice from both the Group Chief Financial Officer and Group Chief Risk Officer on Group performance.

On this basis, the Committee determined that the Group incentives for 2016 should be \$1,039 million. This represents an increase of 5 per cent on 2015. The Committee concluded that any lower amount would present a material risk to the ability of the Group to make appropriate and competitive awards. At the start of 2016, changes were implemented in how discretionary incentives

### Incentives trend 2012 to 2016



operated across the Group. The changes increase transparency and strengthen the link between achievements, demonstration of values and the level of incentive. Individual incentives are linked to the Group scorecard, the individual's business area scorecard and individual performance. The total annual incentives of the Group have reduced over the past five years by 27 per cent.

The total incentives figure for 2016 includes i) the 2017-19 LTIP awards, the value of which will be determined by Group performance over the period 2017 to 2019 and ii) incentive awards made to individuals who left the Group during 2016 as part of restructuring, who were in service for at least nine months of the year.

### Allocation of the Group's earnings between stakeholders

When considering Group variable remuneration the Committee considers shareholders' concerns about relative expenditure on pay and makes the determination on the allocation of earnings to expenditure on pay carefully. The Committee concluded that the Group has approached this allocation in a disciplined way over the past five years. The table below shows the distribution of earnings between stakeholders.

	Actual					Allocation				
	2016 \$million	2015 \$million	2014 \$million	2013 \$million	2012 \$million	2016 %	2015 %	2014 %	2013 %	2012 %
Staff costs <sup>1</sup>	<b>6,303</b>	7,119	6,788	6,570	6,492	<b>87</b>	71	63	61	62
Corporate taxation including levy	<b>983</b>	1,113	1,896	2,099	2,040	<b>13</b>	11	18	20	20
Paid to shareholders in dividends	<b>0</b>	1,778	2,095	2,062	1,866	<b>0</b>	18	19	19	18

1. Staff costs include redundancy and other restructuring expenses. See page 213 for more detail

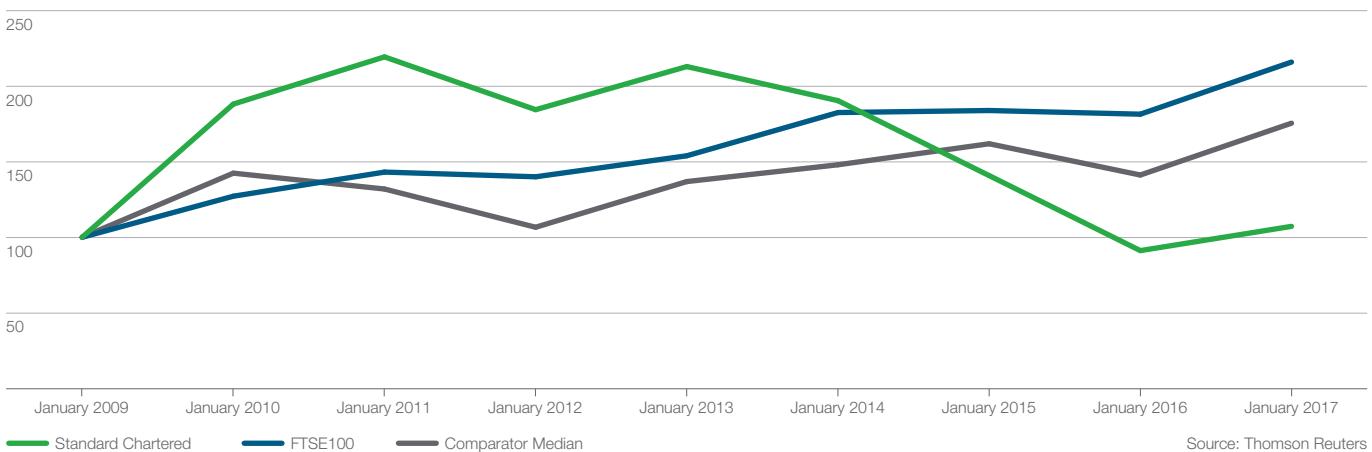
The Committee has included the amount of corporate tax, including the bank levy, because it is a significant payment and illustrates the Group's contribution through the tax system.

## Group performance versus the Group Chief Executive's remuneration

### Summary of performance

The graph below shows the Group's TSR performance on a cumulative basis over the past eight years alongside that of the FTSE 100 and peer banks, and the table below shows the historic levels of remuneration of the Group Chief Executive. The FTSE 100 provides a broad comparison group against which shareholders may measure their relative returns.

### Percentage growth of TSR since the end of 2008



	2009	2010	2011	2012	2013	2014	2015	2016
<b>Single figure of total remuneration £000</b>								
P A Sands (CEO until 10 June 2015)	7,135	7,970	7,779	6,951	4,378	3,093	1,290	-
W T Winters	-	-	-	-	-	-	8,399	3,392
<b>Annual incentive as a percentage of maximum opportunity</b>								
P A Sands	64%	70%	70%	63%	50%	0%	0%	-
W T Winters	-	-	-	-	-	-	0%	45%
<b>Vesting of LTIP awards as a percentage of maximum</b>								
P A Sands	81%	90%	90%	77%	33%	10%	0%	0%
W T Winters	-	-	-	-	-	-	-	-

### The percentage change in remuneration of the Group Chief Executive and all employees

The table below shows the percentage change in remuneration between the 2015 and 2016 performance years for the Group Chief Executive and the wider employee population.

Remuneration element	CEO <sup>1,2</sup> % change	All employees <sup>3,4</sup> % change
Salaries	0%	(5%)
Taxable benefits	36%	2%
Annual incentive	N/A	5%

- No annual incentive was paid to the Group Chief Executive in respect of 2015 performance
- The Group Chief Executive joined the Group on 1 May 2015, and his 2015 salary and taxable benefits in respect of 2015 have been annualised. His 2015 taxable benefits figure does not include certain benefits received during 2015 but which are shown on year end tax returns as being taxable as part of the 2015/16 tax year. There has been no change in eligibility between 2015 and 2016 for core benefits, such as car, medical cover, life assurance etc.
- 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
- For the 'all employees' group, the salary and incentives data for the global employee population who are eligible to receive discretionary annual incentives has been used, as those employees have an element of incentive awards

**How the remuneration policy will be implemented for executive directors in 2017**

The table below summarises the remuneration policy for executive directors and how that policy will be implemented in 2017.

Element	Implementation in 2017
<b>Salary</b>	Executive director salaries will be unchanged from 2016: <ul style="list-style-type: none"> <li>● Bill Winters: £1,150,000</li> <li>● Andy Halford: £850,000</li> </ul>
<b>Fixed pay allowances</b>	Bill Winters: £1,150,000, unchanged from 2016. Andy Halford: £519,000. Effective 2017, Andy's FPA is expressed in GBP rather than USD in order to align all elements of executive directors' remuneration into a single currency. The amount was converted into GBP using the 2016 average exchange rate.
<b>Pension</b>	Unchanged from 2016: 40 per cent of salary. If any new executive director is appointed prior to the adoption of a new directors' remuneration policy, there will be a review of the pension allowance.
<b>Benefits</b>	Will be provided in accordance with the remuneration policy.
<b>Annual incentive</b>	For awards in respect of 2017, the maximum annual incentive opportunity will be 80 per cent of fixed remuneration (defined as salary, FPA and pension). The maximum limit on what variable remuneration can be paid is set by regulation and this limit includes pension. The annual incentive awarded in respect of 2017 will be determined based on a balanced scorecard, shown on page 109.
<b>LTIP</b>	For awards in respect of 2017, the maximum LTIP opportunity will be 120 per cent of fixed remuneration (defined as salary, FPA and pension). The maximum limit on what variable remuneration can be paid is set by regulation and this limit includes pension. The LTIP awarded in respect of 2017 will be granted in 2018. This award will vest subject to performance measures determined by the Committee and disclosed in the 2017 Directors' remuneration report, prior to grant.

## 2017 annual incentive scorecard

The measures in the scorecard have been determined to be aligned with the Group's strategy. The targets are set annually by the Committee and take into account the Group's annual financial plan and its priorities for the next few years within the context of the economic environment. The Committee considers such targets to be commercially sensitive and that it would be detrimental to the interests of the Group to disclose them before the end of the financial year. Targets will be disclosed in the 2017 annual report and accounts alongside the actual level of performance achieved.

50 per cent of the annual incentive scorecard is comprised solely of financial measures. Some of the strategic measures are also financial in nature such as i) non-performing loan rate, ii) cost-efficiency and iii) income return on risk-weighted assets.

The Committee will review the scorecard annually and may vary the measures, weightings and targets each year.

### STEP 1: GATEWAY REQUIREMENT TO BE MET IN ORDER TO BE ELIGIBLE FOR ANY ANNUAL INCENTIVE

Appropriate level of individual values and conduct exhibited during the course of the year

### STEP 2: MEASUREMENT OF PERFORMANCE AGAINST FINANCIAL AND OTHER STRATEGIC MEASURES

Financial measures	Weighting	Target
<b>Total income<sup>1</sup></b>	10.0%	<ul style="list-style-type: none"> <li>● Target to be disclosed to shareholders retrospectively</li> </ul>
<b>Operating profit<sup>2</sup></b>	10.0%	<ul style="list-style-type: none"> <li>● Target to be disclosed to shareholders retrospectively</li> </ul>
<b>RoE<sup>3</sup> plus CET1<sup>4</sup> underpin of the higher of 12% or the minimum regulatory requirement</b>	20.0%	<ul style="list-style-type: none"> <li>● Target to be disclosed to shareholders retrospectively</li> </ul>
<b>Improve customer deposits</b>	10.0%	<ul style="list-style-type: none"> <li>● Increase net Transaction Banking 'Operating Account' and Retail Banking deposits. Target to be disclosed to shareholders retrospectively</li> </ul>
<b>Other strategic measures</b>	<b>Weighting</b>	<b>Target<sup>5</sup></b>
<b>Focus on clients and growth, and drive cross-bank collaboration</b>	12.5%	<ul style="list-style-type: none"> <li>● Grow Private Banking and Wealth Management Net New Money</li> <li>● Improve client satisfaction rating</li> <li>● Grow Commercial Banking and Corporate &amp; Institutional Banking client bases, and increase the proportion of Priority clients in Retail Banking</li> </ul>
<b>Strengthen foundations in risk and control</b>	10.0%	<ul style="list-style-type: none"> <li>● Improve quality of loan book as evidenced by a decrease in the non-performing loan flow rate</li> <li>● Successfully execute the Group's financial crime risk and remediation programmes</li> </ul>
<b>Improve efficiency, productivity and service quality</b>	10.0%	<ul style="list-style-type: none"> <li>● Achieve cost-efficiency target</li> <li>● Achieve income return on risk-weighted assets target</li> <li>● Improve client on-boarding turnaround time</li> </ul>
<b>Embed innovation, digitisation and analytics</b>	7.5%	<ul style="list-style-type: none"> <li>● Increase Corporate &amp; Institutional Banking sales via e-platforms</li> <li>● Increase digital penetration as evidenced by increased online/mobile adoption of Retail Banking and Commercial Banking clients</li> <li>● Drive innovation through new products, solutions and services for clients</li> </ul>
<b>Invest in people, strengthen culture and conduct</b>	10.0%	<ul style="list-style-type: none"> <li>● Improve diversity as a percentage of the management population</li> <li>● Measurable progress in developing a unified conduct and culture programme</li> </ul>

### STEP 3: ASSESSMENT OF PERSONAL PERFORMANCE

The Committee reviews the individual performance of each executive director and the performance in the areas of their personal responsibility. Consistent with the Group's treatment of all employees, the Committee can make a positive adjustment to the annual incentive if the executive directors' performance is considered strong (and vice versa), if appropriate

1. Total income is based on underlying operating income, excluding any fair value changes relating to gains/losses on disposals, restructuring gains and losses recorded in Income and exceptional transactions that are significant or material in the context of the Group's normal business for the period
2. Underlying operating profit excludes fair value changes relating to material one-off gains/losses such as disposals, other acquisitions and corporate-related activity, restructuring charges, which are not representative of underlying business performance and exceptional transactions that are significant or material in the context of the Group's normal business for the period. Underlying profit would normally exclude regulatory fines but, for remuneration purposes, this would be subject to review by the Committee
3. RoE will be based on profit attributed to ordinary shareholders, adjusted, on a tax-effected basis, for profits or losses of a capital nature, restructuring charges, amounts consequent to investment transactions driven by strategic intent and infrequent/exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period. RoE would normally exclude regulatory fines but, for remuneration purposes, this would be subject to review by the Committee
4. CET1 is based on regulatory definitions and modelling assumptions as at 31 December 2016. The CET1 underpin will be dynamically set at the higher of 12% and the minimum regulatory level as at 31 December 2019 (taking into account any transition rules or material changes in regulatory rules). In addition, the Committee has the discretion to take into account at the end of the performance period any changes in regulatory capital and risk-weighted asset requirements that might have been announced and implemented after the start of the performance period
5. Aligned to internal scorecards measuring in-year progress on multi-year initiatives

## Remuneration arrangements for the Chairman and independent non-executive directors

### Single figure of remuneration of the Chairman and independent non-executive directors (audited)

In October 2016, José Viñals joined the Board as Chairman Designate and was appointed as the Chairman with effect from 1 December 2016. His annual fee is £1,250,000, and he receives benefits including access to a car and driver for business purposes, private healthcare and life assurance. He also received assistance

in relocating to the UK in order to take up his appointment. Consistent with market practice, the letter of appointment has a six-month notice period.

The iNEDs were paid in 12 equal monthly instalments during the year. UK-based iNEDs 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 tables below show the fees and benefits received by the Chairman and iNEDs in 2016.

	Fees £000		Benefits £000		Total £000		Shares beneficially held as at 31 December 2016 <sup>6,7,8</sup>
	2016	2015	2016	2015	2016	2015	
<b>Chairman</b>							
J Viñals <sup>1</sup>	<b>313</b>	—	<b>86</b>	—	<b>399</b>	—	<b>2,000</b>
<b>Current iNEDs</b>							
N Kheraj <sup>2</sup>	<b>321</b>	272	<b>4</b>	5	<b>325</b>	277	<b>2,571</b>
O P Bhatt	<b>133</b>	130	<b>22</b>	35	<b>155</b>	165	<b>2,000</b>
Dr K M Campbell	<b>130</b>	130	<b>6</b>	7	<b>136</b>	137	—
Dr L Cheung	<b>130</b>	130	<b>25</b>	27	<b>155</b>	157	<b>2,571</b>
D P Conner <sup>3</sup>	<b>248</b>	—	<b>6</b>	—	<b>254</b>	—	<b>10,000</b>
Dr B E Grote	<b>160</b>	160	—	—	<b>160</b>	160	<b>37,041</b>
Dr Han Seung-soo, KBE	<b>130</b>	130	<b>72</b>	40	<b>202</b>	170	<b>3,474</b>
C M Hodgson	<b>265</b>	250	<b>2</b>	3	<b>267</b>	253	<b>2,571</b>
G Huey Evans, OBE	<b>168</b>	91	<b>2</b>	—	<b>170</b>	91	<b>2,571</b>
J M Whitbread	<b>218</b>	101	<b>1</b>	—	<b>219</b>	101	<b>2,571</b>
<b>Former iNEDs</b>							
Sir John Peace <sup>4</sup>	<b>1,057</b>	1,150	<b>12</b>	21	<b>1,069</b>	1,171	<b>299,397</b>
S J Lowth <sup>5</sup>	<b>93</b>	160	<b>3</b>	2	<b>96</b>	162	<b>15,136</b>
Dr L Thunell <sup>5</sup>	<b>20</b>	245	<b>4</b>	5	<b>24</b>	250	<b>8,708</b>

1. José Viñals joined the Board on 3 October 2016

2. Naguib Kheraj was appointed Deputy Chair on 1 December 2016

3. David Conner was appointed a member of the Combined United States Operations Risk Committee (US Risk Committee) effective 1 July 2016. The US Risk Committee is a Committee of the Court of Standard Chartered Bank, for which an annual fee of £20,000 is payable per annum

4. Sir John Peace stepped down from the Board on 1 December 2016. His annual fee was £1,150,000, paid partly in cash and partly in shares. He was also provided with a car and driver for business purposes, and other benefits

5. Simon Lowth and Dr Lars Thunell stepped down from the Board with effect from 31 July 2016 and 31 January 2016 respectively

6. The iNEDs are required to hold shares with a nominal value of \$1,000. All the directors, other than Dr Kurt Campbell, have met this requirement. Shareholders approved a resolution to disapply the shareholding qualification in relation to Dr Kurt Campbell at the Company's AGM in May 2014. This was in connection with the terms of the then proposed appointment of Dr Kurt Campbell's wife to the Board of Governors of the United States Federal Reserve System

7. No director had either i) an interest in the Company's preference shares or loan stocks of any subsidiary or associated undertaking of the Group or ii) any corporate interests in the Company's ordinary shares. All figures are as at 31 December 2016 or on the retirement of a director unless otherwise stated

8. The beneficial interests of directors and connected persons in the ordinary shares of the Company are set out above. The directors do not have any non-beneficial interests in the Company's shares. None of the directors used ordinary shares as collateral for any loans

### **Additional information to explain the single total figure table for the 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. The iNEDs' 2016 benefits figures shown are in respect of the 2015/16 tax year. This provides consistency with the reporting of similar benefits in previous years and with those received by executive directors.

In order to take up his appointment, the Chairman received relocation benefits and the reimbursement of costs. These were similar to those offered to employees who join from an overseas country. The total cost of these benefits was £37,673 and this is included in the table on page 110. This amount includes temporary accommodation on arrival into the UK (£21,000) and shipment of personal goods and possessions from the United States (£11,500). The estimated tax on the provision of relocation benefits (£31,000) was borne by the Group.

### **Exercise of share awards by the former Chairman (audited)**

From his appointment in 2009 until the end of 2013, part of Sir John Peace's total fee was delivered in an allocation of restricted shares. During 2016, Sir John exercised a number of vested awards. On exercise, shares were sold to cover the associated tax liabilities, with the balance of the shares retained.

Date of grant	Number of shares under award	Number of shares exercised	Date of exercise <sup>1</sup>	Number of unvested shares under award
11 Mar 2013	7,295	7,295	11 Mar 2016	–
17 Dec 2013	10,056	10,056	19 Dec 2016	–

1. The share price on the dates of exercise and total gains were £4.64 and £33,849 (11 March 2016) and £6.71 and £67,476 (19 December 2016) respectively

The Committee exercised its discretion in accordance with the rules of the share plan, under which Sir John held unvested awards, and determined that he should be treated as an eligible leaver, and as such be allowed to retain the share award which vested 16 days after his retirement from the Board. This discretion was exercised by the Committee consistent with the treatment for others retiring from the Group. The discretion has been exercised and reported in line with the requirements of The Stock Exchange of Hong Kong Limited.

### **Fees (audited)**

The iNEDs' fees were last reviewed in 2013 and were set based on the duties, time commitment and contribution expected and alignment to fees paid to iNEDs in banks and other companies of a similar scale and complexity.

The following fees were paid to the iNEDs in 2016:

	£000	As at 1 January 2017	As at 1 January 2016
Board member	100	100	100
<b>Additional responsibilities</b>			
Deputy Chair <sup>1</sup>	75	–	–
Senior Independent Director	40	40	40
Chair	70	70	70
● Audit Committee			
● Board Risk Committee			
Chair	60	60	60
● Board Financial Crime Risk Committee			
● Brand, Values and Conduct Committee			
● Remuneration Committee			
Membership	30	30	30
● Audit Committee			
● Board Financial Crime Risk Committee			
● Board Risk Committee			
● Brand, Values and Conduct Committee			
● Remuneration Committee			
Membership of Governance and Nomination Committee	15	15	15

1. A new Deputy Chairman fee of £75,000 was introduced effective 1 December 2016

### **How the remuneration policy will be implemented for independent non-executive directors in 2017**

There are no proposed changes to how the policy will be implemented in 2017.

### **Independent non-executive directors' letters of appointment in 2017**

The iNEDs have letters of appointment, which are available for inspection at the Group's registered office. Details of the iNEDs' appointments are set out on pages 57 to 59. iNEDs are appointed for a period of one year, unless terminated earlier by either party with three months' written notice.

# All employee remuneration policy

## Remuneration principles

Our remuneration approach is consistent with effective risk management and the delivery of our strategy, underpinned by:

- A competitive remuneration opportunity that enables us to attract, motivate and retain employees
- A clearly defined performance management framework that ensures employees have clear objectives and receive ongoing feedback
- Remuneration outcomes that relate to the performance of the individual, the business they work in and the Group. We aim to ensure everyone is aligned to deliver long-term sustainable growth in the interests of shareholders
- Variable remuneration that recognises the achievement, conduct, behaviours and values of each individual, ensuring reward is aligned to the Group's performance. We take into account both what is achieved and how it is achieved
- An appropriate mix of fixed and variable remuneration, with the level of fixed remuneration based on an individual's role and the business' risk profile

## Fixed remuneration

Element	Operation
<b>Salary</b>	<ul style="list-style-type: none"> <li>● Salaries reflect individuals' skills and experience and are reviewed annually against market information and in the context of the annual performance assessment and affordability</li> <li>● Increases may occur where there is a role change, increased responsibility or to ensure market competitiveness</li> </ul>
<b>Fixed pay allowance</b>	<ul style="list-style-type: none"> <li>● Executive directors only (paid in shares)</li> </ul>
<b>Pension and benefits</b>	<ul style="list-style-type: none"> <li>● Benefits are provided, with the details depending on local market practice. Employees have access to country-specific, company-funded benefits such as pension schemes, private medical insurance, permanent health insurance, life insurance and cash allowances. The cost of providing the benefits is defined and controlled</li> <li>● Employees who are relocated or spend a substantial portion of their time in more than one jurisdiction for business purposes may be provided with mobility benefits. If employees incur tax charges when travelling overseas in performance of their duties, these costs may be met by the Group</li> <li>● Sharesave is an all employee plan where participants are able to open a savings contract to fund the exercise of an option over shares. The option price is set at a discount of up to 20 per cent of the share price at the date of invitation (or such other discount as may be determined by the Committee). An equivalent cash or share plan is offered in countries where Sharesave may not be offered (typically due to tax, regulatory or securities law issues)</li> </ul>

- Remuneration that is fair and transparent. An equal pay review is undertaken as part of the pay review process globally

- A core level of benefits that protects all of our employees and reflects the Group's commitment to employee wellbeing

The Group proposes to develop a Fair Pay Charter in 2017, once the outcomes of the UK Government's Corporate Governance proposals are finalised.

## Remuneration approach for all employees

Employees typically receive salary, pension and other benefits and are eligible to be considered for variable remuneration (determined based on both business and individual performance). Material risk takers (MRTs) are subject to the 2:1 maximum ratio of variable to fixed remuneration.

Further information on the remuneration approach for all employees is provided below. There may be some country variations based on statutory requirements and market practice.

## Variable remuneration

Employees are typically eligible to be considered for variable remuneration (determined based on group, business and individual performance). At the start of 2016 the Group implemented changes to how its discretionary incentives operated across the Group. The changes increase transparency and strengthen the link between achievement and demonstration of expected values and behaviours, and the level of incentive. Individual incentives are linked to the Group scorecard, the individual's business area scorecard and individual performance.

The variable remuneration of employees in the Risk and Compliance functions is set independently of the business they oversee.

When determining levels of variable remuneration, the Group considers risk events in the year. The proportion of variable to fixed remuneration is carefully monitored, to ensure compliance with regulatory requirements. All incentives are subject to the Group's ex-post risk adjustment of remuneration policy. This enables the Group, in specified circumstances, to apply malus and clawback at its discretion.

Given senior management incentives are deferred for up to seven years, the Group does not believe that the incentive structures inadvertently motivate irresponsible behaviour.

The table below details the categories of employee and the relevant delivery and deferral mechanisms.

Category	Delivery	Deferral
<b>MRT – Senior Manager</b> Senior managers who retain the greatest influence over the strategic direction of the business	● Deferred incentives delivered in a mix of cash and shares, with at least 50% delivered in shares	● Minimum deferral period of seven years, with no vesting prior to year three
<b>MRT – Risk Manager</b> Individuals with responsibility for managing or supervising risk-taking or significant risk functions	● Deferred incentives delivered in a mix of cash and shares, with at least 50% delivered in shares	● Minimum deferral period of five years, with no vesting prior to year one
<b>MRT – Other MRTs</b> Other MRTs not identified in the categories above	● Deferred incentives delivered in a mix of cash and shares, with at least 50% delivered in shares	● Minimum deferral period of three years, with no vesting prior to year one
<b>All other employees</b>	● Deferred incentives are usually delivered in a combination of cash and shares	● Variable remuneration over a defined threshold is subject to a graduated level of deferral

## Approach to risk adjustment at an individual level

At an individual level, the following ex-post adjustments can potentially be applied:

- A proportion of variable remuneration delivered in the form of deferred awards: having an appropriate level of variable remuneration deferred for a sufficient period of time that can have ex-post risk adjustment applied
- Performance adjustment: potential diminution in the value of any deferred variable remuneration award through non-vesting due to performance measures and share price movement until vesting

The operation of malus and/or clawback is summarised below:

	Criteria	Application
<b>Individual level</b>	<ul style="list-style-type: none"> <li>● Deemed to have i) caused in full or in part 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</li> <li>● The individual failed to meet appropriate standards of fitness and propriety</li> </ul>	<ul style="list-style-type: none"> <li>● Malus and clawback may be applied to all or part of an award at the Committee's discretion</li> </ul>
<b>Business unit and/or Group level</b>	<ul style="list-style-type: none"> <li>● Material restatement of the Group's financials</li> <li>● Significant failure in risk management</li> <li>● Discovery of endemic problems in financial reporting</li> <li>● As a result of financial losses, due to a material breach of regulatory guidelines</li> <li>● The exercise of regulatory or government action to recapitalise the Group following material financial losses</li> </ul>	<ul style="list-style-type: none"> <li>● Malus and clawback may be applied to all or part of an award at the Committee's discretion</li> </ul>

**Differences in remuneration policy for all employees**

The table below compares the components of remuneration for different categories of the Group's employees.

	<b>Executive directors</b>	<b>Material risk takers</b>	<b>Other employees</b>
<b>Salary</b>	Yes	Yes	Yes
<b>Fixed pay allowances</b>	Yes (paid in shares). In line with the approved remuneration policy, provided for a market competitive level of fixed remuneration. They are capped at one times salary and released over five years	No	No
<b>Pension and benefits</b>	Pension levels differ globally to be competitive in different markets, and there is no single pension level across the Group		
<b>Discretionary variable remuneration</b>	Yes, delivered in the form of an annual incentive (cash, shares and deferred shares) and LTIP award (delivered in shares, subject to long-term performance measures)	Yes, may be delivered in the form of an annual incentive (paid in cash up to certain limits and the balance is deferred in shares and/or cash) and/or LTIP award (delivered in shares, subject to long-term performance measures)	Yes, most employees are eligible to be considered for an annual incentive (paid in cash up to certain limits and the balance is deferred in shares and/or cash) and/or LTIP award (delivered in shares, subject to long-term performance measures)

# Directors' remuneration policy

Standard Chartered's forward-looking remuneration policy for executive directors and iNEDs was approved at the AGM held on 4 May 2016 and applies for three years from that date. The full policy can be found on pages 105 to 114 of the 2015 Annual Report. This section sets out an abridged version of the executive directors' remuneration policy and is provided for information only.

 More information is available at [sc.com/annualreport2015](http://sc.com/annualreport2015)

## Remuneration policy for executive directors

### FIXED REMUNERATION

#### Element and purpose in supporting the Group's strategic objectives

#### Operation

#### Additional detail including maximum value and performance measures

##### Salary

Support the recruitment and retention of executive directors, recognising the size and scope of the role and the individual's skills and experience

Set at a level, together with other fixed remuneration, that enables the Group to operate fully flexible variable remuneration

- Reviewed annually with increases generally applying from April
- When determining salary levels, consideration is given to the following:
  - The size and scope of the role
  - The individual's skills and experience
  - Pay at international banks of a similar size and international scope
  - Pay within large UK-listed companies (including the major UK-listed banks)

- Increases may be made at the Committee's discretion to take account of circumstances such as:
  - Increase in scope or responsibility
  - Increase to reflect the individual's development in role (e.g. for a new appointment where salary may be increased over time rather than set directly at the level of the previous incumbent or market level)
  - Alignment to market-competitive levels
  - Consideration to increases given in the context of salary increases across the Group
- There are no performance measures

##### Fixed pay allowances

Provide a market competitive level of fixed remuneration appropriate for the role and the individual's skills and experience

- May be withdrawn or amended on a change in role or termination of employment and having regard to relevant remuneration regulations
- Enable the Group to deliver total fixed remuneration which is competitive and appropriate for the role, and which enables a competitive total remuneration when added to other elements of fixed remuneration and variable remuneration
- Are not pensionable and do not count towards other benefits which are calculated by reference to salary
- Will be paid in shares on an annual basis (or any other frequency that the Committee considers to be appropriate) and the shares will be subject to a holding period set by the Committee, currently five years with 20 per cent released annually
- Dividends are paid on the shares during the holding period

- FPAs will be set at an appropriate level for the role, subject to a maximum of one times salary

##### Pension

The pension arrangements comprise part of a competitive remuneration package and facilitate long-term retirement savings for directors

- Normally paid as a cash allowance or contribution to a defined contribution scheme
- Pension contributions may also be made in lieu of any waived salary (and the cash amount of any annual incentive)
- A Defined Benefit (DB) scheme exists and is closed to new entrants but continues to accrue benefits for existing members. Members of the DB scheme can opt for an individually costed pension allowance on a broadly cost-neutral basis to the Group for future service

- An annual pension allowance or contributions of up to 40 per cent of salary is payable
- The Committee will continue to review the level of pension allowance used for the recruitment of future executive directors
- Under the closed DB scheme a pension of one-thirtieth of final salary for each year of service is payable at the age of 60

**FIXED REMUNERATION****Element and purpose in supporting the Group's strategic objectives****Operation****Additional detail including maximum value and performance measures****Benefits**

Provide a competitive benefits package that is consistent with Group values and supports executives to carry out their duties effectively

- A range of benefits may be provided, including standard benefits such as holiday and sick pay, and may also include the provision of a benefits cash allowance, a car and driver (or other car-related service), private medical insurance, permanent health insurance, life insurance, financial advice and tax preparation and tax return assistance
- Additional benefits may also be provided where an executive director is relocated or spends a substantial portion of their time in more than one jurisdiction for business purposes. Benefits may include, but are not limited to, relocation, shipping and storage, housing allowance, education fees and tax and social security costs
- Other benefits may be offered if considered appropriate and reasonable by the Committee
- Executive directors are reimbursed for expenses, such as travel and subsistence, and any associated tax incurred in the performance of their duties. In addition, if executive directors incur tax charges when travelling overseas in performance of their duties, these costs will be met by the Group
- Executive directors may from time to time be accompanied by their spouse or partner to meetings/events. The costs (and any associated tax) will be met by the Group

- The maximum opportunity for benefits depends on the type of benefit and the cost of providing it, which may vary according to the market, individual circumstances and other factors
- Set at a level which the Committee considers a sufficient level of benefit based on the role and individual circumstances

**VARIABLE REMUNERATION****Element and purpose in supporting the Group's strategic objectives****Operation****Additional detail including maximum value and performance measures****Annual incentive**

Performance-based remuneration linked to measurable performance criteria  
Ensures a market-competitive remuneration package  
Links total remuneration to achievement of the Group's strategy in the short term

- Annual incentive awards are determined annually based on Group and individual performance
- Annual incentives are delivered as a combination of cash, shares subject to holding requirements and deferred shares (for example, to meet requirements under relevant remuneration regulations)
- Deferral proportions and vesting profiles will be structured so that, in combination with any LTIP award:
  - The proportion of variable remuneration that is deferred is no less than required by the relevant remuneration regulations (currently 60 per cent)
  - The deferred remuneration vests no faster than permitted under the relevant remuneration regulations (pro rata over years three to seven after award from 1 January 2016)
- Dividend or dividend equivalents accrue on deferred annual incentive awards and are paid on vesting, subject to the extent permitted by the relevant remuneration regulations
- The Committee can, in specified circumstances, apply malus or clawback to all or part of any annual incentive awards. Details on how malus and clawback operate currently are provided on page 113
- Deferred annual incentive awards will be granted as conditional share awards or nil-cost options:
  - The Committee may apply discretion to adjust the vesting of deferred annual incentive awards and/or the number of shares underlying a deferred annual incentive award on the occurrence of corporate events and other reorganisation events

- The maximum value of an annual incentive award granted to any executive director cannot exceed 80 per cent of that executive director's fixed remuneration. For this purpose, annual incentive awards may be valued in line with the relevant remuneration regulations
- Annual incentive awards can be any amount from zero to the maximum
- The determination of an executive director's annual incentive is made by the Committee based on an assessment of a balanced scorecard containing a mix of financial measures and other long-term strategic measures. Financial measures will comprise at least 50 per cent of the scorecard. The measures, individual weightings and targets will be set annually by the Committee
- The targets, together with an assessment of performance against those targets, will be disclosed retrospectively
- Discretion may be exercised by the Committee to ensure that the annual incentive outcome is a fair and accurate reflection of business and individual performance and any risk-related issues (but it will not exceed the maximum opportunity)

## VARIABLE REMUNERATION

### Element and purpose in supporting the Group's strategic objectives

#### Operation

#### Additional detail including maximum value and performance measures

<b>LTIP</b> Performance-based remuneration linked to measurable, long-term performance criteria Ensures a market-competitive remuneration package Links total remuneration to achievement of the Group's long-term strategy	<ul style="list-style-type: none"> <li>LTIP awards are granted annually, with award levels set to provide appropriate levels of long-term incentives to executive directors, with performance of the Group and the individual considered in determining the award level</li> <li>LTIP awards are delivered in shares and may be subject to holding requirements (for example, to meet the relevant remuneration regulations)</li> <li>Vesting profiles will be structured so that no LTIP award vests before the third anniversary of grant and in combination with any annual incentive award: <ul style="list-style-type: none"> <li>The proportion of variable remuneration that is deferred is no less than required by the relevant remuneration regulations (currently 60 per cent)</li> <li>The deferred remuneration vests no faster than permitted under the relevant remuneration regulations (currently pro rata over years three to seven after award)</li> </ul> </li> <li>Dividend or dividend equivalents accrue on LTIP awards and are paid subject to the satisfaction of any long-term performance measures, subject to the extent permitted by the relevant remuneration regulations</li> <li>The Committee can, in specified circumstances, apply malus or clawback to all or part of any LTIP awards. Details on how malus and clawback operate currently are provided on page 113</li> <li>LTIP awards will be granted as conditional share awards or nil-cost options: <ul style="list-style-type: none"> <li>The Committee may apply discretion to adjust the vesting of LTIP awards and/or the number of shares underlying an LTIP award on the occurrence of corporate events and other reorganisation events</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The maximum value of an LTIP award granted to any executive director cannot, in combination with the annual incentive opportunity in respect of any particular year, exceed 200 per cent of that executive director's fixed remuneration. For this purpose LTIP awards may be valued in line with the relevant remuneration regulations</li> <li>The Committee will, for each year, determine the split of the overall variable remuneration opportunity between the LTIP award and annual incentive opportunity at the start of the year and disclose this split in advance. The maximum LTIP award will form at least 120 per cent of fixed remuneration (i.e. at least 60 per cent of the maximum variable remuneration opportunity for any financial year), so that the majority of the variable remuneration opportunity is based on long-term performance</li> <li>LTIP awards can be any amount from zero to the maximum</li> <li>LTIP awards will be subject to long-term performance measures, measured over a period of at least three years</li> <li>The long-term performance measures may be a mix of financial measures and other long-term strategic measures. Financial measures will comprise at least 50 per cent of the performance measures. Weightings and targets will be set in advance of each grant by the Committee and disclosed prospectively and performance against those measures will be disclosed retrospectively. For financial measures, vesting will be on a sliding-scale basis between threshold and maximum with no more than 25 per cent vesting at threshold performance</li> </ul>
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## OTHER REMUNERATION

### Element and purpose in supporting the Group's strategic objectives

#### Operation

#### Additional detail including maximum value and performance measures

<b>Sharesave</b> Provide an opportunity to invest voluntarily in the Group	<ul style="list-style-type: none"> <li>Sharesave is an all-employee plan where participants (including executive directors) are able to open a savings contract to fund the exercise of an option over shares</li> <li>The option price is set at a discount of up to 20 per cent of the share price at the date of invitation, or such other discount as may be determined by the Committee</li> <li>An equivalent cash or share plan is offered in countries where Sharesave may not be offered (typically due to tax, regulatory or securities law issues)</li> </ul>	<ul style="list-style-type: none"> <li>Savings per month of between £5 and the maximum set by the Group (currently £250)</li> </ul>
<b>Legacy arrangements</b> Honour existing payments	<ul style="list-style-type: none"> <li>Any previous commitments or arrangements entered into with current or former directors will be honoured, including remuneration arrangements entered into under the previously approved directors' remuneration policy</li> </ul>	<ul style="list-style-type: none"> <li>In line with existing commitments</li> </ul>

## Chairman and independent non-executive directors' remuneration policy

### FEES AND BENEFITS

Element and purpose in supporting the Group's strategic objectives	Operation	Additional detail including maximum value and performance measures
<b>Fees</b> Attract a Chairman and independent non-executive directors (iNEDs) who together with the Board as a whole have a broad range of skills and experience to determine Group strategy and oversee its implementation	<ul style="list-style-type: none"> <li>Fees are paid in cash or shares. iNEDs' post-tax fees may be used to acquire shares</li> <li>The Chairman and iNED fees are reviewed periodically. The Board sets iNED fees and the Committee sets the Chairman's fees. The Chairman and iNEDs excuse themselves from any discussion on their fees</li> </ul>	<ul style="list-style-type: none"> <li>Overall aggregate base fees paid to all iNEDs will remain within the current limit of £1.5 million as stated in the Articles of Association</li> <li>Fees are set at a level which reflect the duties, time commitment and contribution which are expected from the Chairman and iNEDs</li> <li>Fees are reviewed and appropriately positioned against those for the Chairman and iNEDs in banks and other companies of a similar scale and complexity</li> <li>There are no recovery provisions or performance measures</li> </ul>
<b>Benefits</b> Attract a Chairman and iNEDs who together with the Board as a whole have a broad range of skills and experience to determine Group strategy and oversee its implementation	<ul style="list-style-type: none"> <li>The Chairman is provided with benefits associated with the role, including a car and driver and private medical insurance, permanent health insurance and life insurance. Any tax costs associated with these benefits is paid by the Group</li> <li>The Chairman and iNEDs are reimbursed for expenses, such as travel and subsistence (and including any associated tax), incurred in the performance of their duties</li> <li>The Chairman and iNEDs may, from time to time, be accompanied by their spouse or partner to meetings/ events. The costs (and any associated tax) are paid by the Group</li> <li>iNEDs are paid fees for chairmanship and membership of Board committees and for the senior independent director role</li> <li>The Chairman and iNEDs may receive tax preparation and tax return assistance</li> </ul>	<ul style="list-style-type: none"> <li>There are no performance measures</li> </ul>

# Additional remuneration disclosures

## Income statement charge for Group variable remuneration

	2016 \$million	2015 \$million
Total variable remuneration	1,039	992
Less: deferred variable remuneration that will be charged in future years	(122)	(168)
Plus: current year charge for deferred variable remuneration from prior years	33	111
Income statement charge for variable remuneration	950	935

Year in which income statement is expected to reflect deferred variable remuneration	Actual	Expected		
	2015 \$million	2016 \$million	2017 \$million	2018 and beyond \$million
Variable remuneration deferred from 2014 and earlier	111	(29)	5	5
Variable remuneration deferred from 2015	32	62	50	47
Variable remuneration deferred from 2016	–	46	52	70
Total	143	79	107	122

## 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 US dollars are set out in the table below.

	2016	2015
EUR	0.9040	0.9017
GBP	0.7409	0.6544
HKD	7.7627	7.7526

## Pillar 3 disclosures on material risk takers' remuneration and disclosures on the highest-paid employees

### Identification of material risk takers

The table below summarises the groups of employees who have been identified in accordance with regulatory requirements as material risk takers for remuneration purposes. Individuals have been identified as material risk takers in alignment with the qualitative and quantitative criteria set out in the European Banking Authority's Regulatory Technical Standard EU 604/2014 that came into force in June 2014.

Quantitative criteria	Qualitative criteria
<p>The quantitative criteria identifies employees who:</p> <ul style="list-style-type: none"> <li>● Have been awarded total remuneration of €500,000 or more in the previous financial year</li> <li>● Are within the 0.3 per cent of the number of staff on a global basis who have been awarded the highest total remuneration in the preceding financial year</li> <li>● 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</li> </ul> <p>Employees can be excluded from the list of material risk takers if they have no material impact on the Group's risk profile</p>	<p>The qualitative criteria broadly identifies the following employees:</p> <ul style="list-style-type: none"> <li>● Group directors (both executive and non-executive)</li> <li>● A member of senior management, which is defined as one or both of the following: <ul style="list-style-type: none"> <li>– A Senior Manager under the PRA/FCA Senior Manager Regime</li> <li>– A member of the Group's Management Team</li> </ul> </li> <li>● All senior management (top two bands beneath Group director level)</li> <li>● Senior employees within the audit, compliance, legal and risk functions (both at a Group and business level)</li> <li>● Senior employees within material business units</li> <li>● Employees who are members of certain committees</li> <li>● 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</li> </ul>

### Material risk takers' remuneration delivery

Remuneration for material risk takers was delivered in 2016 through a combination of salary, benefits and variable remuneration.

Variable remuneration for material risk takers is structured in line with the PRA and FCA's remuneration rules. For the 2016 performance year, the following will apply to variable remuneration awarded to material risk takers in accordance with the regulations:

- At least 40 per cent of a material risk taker's variable remuneration will be deferred over a minimum period of three years depending on the category of material risk taker

- Non-deferred variable remuneration will be delivered 50 per cent in up-front shares, subject to a minimum six-month retention period, and 50 per cent in cash
- At least 50 per cent of deferred variable remuneration will be delivered entirely in shares, subject to a minimum six-month retention period
- For some material risk takers, part of their 2016 variable remuneration may be in share awards which vest after a minimum of three years, subject to the satisfaction of performance measures
- Variable remuneration awards are subject to the Group's ex-post risk adjustment of remuneration policy

### MATERIAL RISK TAKERS' REMUNERATION DELIVERY

Date	Y0 (grant)	Y1	Y2	Y3	Y4	Y5	Y6	Y7
	March 2017	March 2018	March 2019	March 2020	March 2021	March 2022	March 2023	March 2024
<b>Senior Managers</b>	Minimum 40% of 2016 variable remuneration							
<b>Risk Managers</b>	Minimum 40% of 2016 variable remuneration							
<b>Other MRTs</b>	Minimum 40% of 2016 variable remuneration							

### Material risk takers' deferred remuneration in 2016

	Senior managers \$000			Other material risk takers \$000		
	Total	Cash	Shares	Total	Cash	Shares
Start of the year (1 January)	169,834	17,958	151,876	213,787	43,988	169,799
Impact of changes to material risk taker populations including leavers during 2015 and joiners in 2016	(110,103)	(14,467)	(95,636)	24,106	(3,030)	27,136
Start of the year (1 January) (after adjustments)	59,731	3,491	56,240	237,893	40,958	196,935
Awarded during the year	49,112	787	48,325	167,947	19,450	148,497
Total amount of reduction during the year due to	(14,978)	0	(14,978)	(30,858)	(2,474)	(28,384)
– malus or clawback; or						
– performance measures not being met						
Total amount of deferred remuneration paid out in the financial year	(9,261)	(1,406)	(7,855)	(75,856)	(18,874)	(56,982)
Close of the year (31 December)	84,604	2,872	81,732	299,126	39,060	260,066

### Material risk takers' 2016 fixed and variable remuneration

	Senior managers \$000	Other material risk takers \$000
<b>Fixed remuneration<sup>1,2</sup></b>		
Number of employees	27	637
Total fixed remuneration	37,935	285,203
Cash-based	34,683	285,203
Of which deferred	–	–
Shares or other share-linked instruments	3,252	–
Of which deferred	–	–
Other forms	–	–
Of which deferred	–	–
<b>Variable remuneration<sup>2,3</sup></b>		
Number of employees	18	542
Total variable remuneration	25,126	210,316
Cash-based	6,969	111,861
Of which deferred	1,419	46,583
Shares or other share-linked instruments	18,157	98,455
Of which deferred	12,606	47,060
Other forms	–	–
Of which deferred	–	–
<b>Total remuneration</b>	<b>63,061</b>	<b>495,519</b>

1. Fixed remuneration includes salary, cash allowance and fixed pay allowance (FPA) and, in the case of the Chairman and iNEDs, any fees

2. For some material risk takers, part of their 2016 variable remuneration may be delivered in share awards, vesting subject to performance measures. These awards are shown on an expected value basis

3. The ratio between fixed and variable remuneration for all material risk takers in 2016 was 1:0.73

### Material risk takers' sign-on and severance payments in 2016

	Senior managers		Other material risk takers	
	Number of employees	Total amount \$000	Number of employees	Total amount \$000
Sign-on payments	–	–	–	–
Guaranteed incentives	–	–	–	–
Severance payments (highest award \$877,000)	1	877	34	8,691

### Material risk takers' aggregate 2016 remuneration by business

	Corporate & Institutional Banking \$000	Commercial Banking \$000	Private Banking <sup>1</sup> \$000	Retail Banking \$000	Central & other <sup>2</sup> \$000	Management <sup>3</sup> \$000
<b>2016</b>	<b>288,499</b>	<b>10,873</b>	<b>19,254</b>	<b>16,900</b>	<b>204,150</b>	<b>18,904</b>

1. Private Banking includes Wealth Management

2. Central & other items includes control functions, support functions, stewardship and central roles and activities

3. Management includes all Group executive directors and iNEDs

**Remuneration at or above €1 million**

The table below is prepared in euros in accordance with Article 450 of the Capital Requirements Regulation.

Remuneration band EUR	Number of employees
1,000,000 – 1,500,000	89
1,500,001 – 2,000,000	24
2,000,001 – 2,500,000	9
2,500,001 – 3,000,000	9
3,000,001 – 3,500,000	3
3,500,001 – 4,000,000	1
4,000,001 – 4,500,000	1
4,500,001 – 5,000,000	1
5,000,001 – 6,000,000	1
6,000,001 – 7,000,000	1
<b>Total</b>	<b>139</b>

**Remuneration of the five highest-paid individuals and the remuneration of senior management**

In line with the requirements of The Stock Exchange of Hong Kong Limited, the following table sets out, on an aggregate basis, the annual remuneration of i) the five highest-paid employees; and ii) senior management for the year ended 31 December 2016.

Components of remuneration	Five highest paid <sup>1</sup> \$000	Senior management <sup>2</sup> \$000
Salary, fixed pay allowances and benefits in kind	12,822	27,359
Pension contributions	82	342
Variable remuneration awards paid or receivable <sup>3</sup>	20,916	33,128
Payments made on appointment	–	–
Remuneration for loss of office (contractual or other)	–	–
Other	–	–
<b>Total</b>	<b>33,820</b>	<b>60,829</b>
<b>Total HK dollar equivalent</b>	<b>262,536</b>	<b>472,198</b>

1. For 2016, the five highest-paid individuals include two executive directors, Bill Winters and Andy Halford

2. Senior management comprises the annual remuneration details of executive directors or other executives who were members of the executive management team at any point during 2016

3. Variable remuneration paid or receivable excludes any performance awards or commissions linked to profits generated by the individual collectively or with others engaged in similar activities. It includes the deferred element of any variable remuneration and LTIP awards (on a face value basis). Any buy-out award made on joining is included in payments made on appointment

The table below shows the emoluments of i) the five highest-paid employees; and ii) senior management for the year ended 31 December 2016.

Remuneration band HKD	Remuneration band USD equivalent	Number of employees	
		Five highest paid	Senior management
8,000,001 – 8,500,000	1,030,569 – 1,094,980	–	1
9,500,001 – 10,000,000	1,223,801 – 1,288,212	–	1
12,500,001 – 13,000,000	1,610,265 – 1,674,675	–	1
18,000,001 – 18,500,000	2,318,781 – 2,383,191	–	1
19,000,001 – 19,500,000	2,447,602 – 2,512,013	–	1
23,500,001 – 24,000,000	3,027,297 – 3,091,708	–	2
25,000,001 – 25,500,000	3,220,529 – 3,284,940	–	1
26,000,001 – 26,500,000	3,349,350 – 3,413,761	–	2
26,500,001 – 27,000,000	3,413,761 – 3,478,171	–	1
29,500,001 – 30,000,000	3,800,224 – 3,864,635	–	1
32,500,001 – 33,000,000	4,186,688 – 4,251,098	1	1
40,000,001 – 40,500,000	5,152,846 – 5,217,257	1	–
50,500,001 – 51,000,000	6,505,469 – 6,569,879	1	1
56,500,001 – 57,000,000	7,278,396 – 7,342,806	1	1
81,500,001 – 82,000,000	10,498,924 – 10,563,335	1	1
<b>Total</b>		<b>5</b>	<b>16</b>



**Christine Hodgson**  
Chair of the Remuneration Committee

24 February 2017

# Other disclosures

## Directors' report

The Directors' report for the year ended 31 December 2016 comprises pages 56 to 130 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)	103 to 105

## Principal activities

Standard Chartered is a leading international banking Group, with 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. The Group's roots in trade finance and commercial banking have been at the core of its success throughout its history, but the Group is now more broadly based across Retail Banking in its footprint markets. The Group comprises a network of more than 1,109 branches and outlets in 68 markets.

 Further details on our business can be found within the Strategic report on pages 2 to 53

## Fair, balanced and understandable

On behalf of the Board, the Audit Committee has reviewed the Annual Report and Accounts and the process by which the Group believes that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position and performance, strategy and business model of the Group. Following its review, the Audit Committee has advised the Board that such a statement can be made in the Annual Report and Accounts.

## Code for Financial Reporting Disclosure

The Group's 2016 financial statements have been prepared in accordance with the principles of the BBA 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 LLP (KPMG), is unaware. The directors have taken all reasonable steps to ascertain any relevant audit information and ensure that the Group statutory auditors are aware of such information.

## Going concern

Having made appropriate enquiries, the Board is satisfied that the Company and the Group as a whole have adequate resources to continue operational businesses for a period of at least 12 months

from the date of this report and therefore continue to adopt the going concern basis in preparing the financial statements.

## Viability

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

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

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

The directors have reviewed the Corporate Plan, the output of the Group's formalised process of budgeting and strategic planning. The Corporate Plan is evaluated and approved each year by the Board and considers the Group's future projections of profitability, cash flows, capital requirements and resources, liquidity ratios and other key financial and regulatory ratios over the period. The Corporate Plan details the Group's key performance measures, of forecast profit, CET 1 capital ratio forecast, return on equity forecasts, cost income ratio forecasts and cash investment projections. The Board has reviewed the ongoing performance management process of the Group by comparing the statutory results to the budgets and Corporate Plan.

The Group performs periodic enterprise wide stress tests through a combination of bespoke scenarios directed at our market and liquidity positions and market-wide, macro financial and idiosyncratic scenarios directed at Group capital and liquidity adequacy.

The scenarios represent severe but plausible scenarios exploring known risks to which the Group is particularly exposed domestically and globally. The scenarios may include traded risk shocks, geo political events, interactions between inflation, monetary policy and interest rates and commodity price changes. Under this range of severe, hypothetical scenarios, the results of these stress tests demonstrate that the Group has sufficient capital and liquidity to continue as a going concern and meet regulatory minimum capital and liquidity requirements. Further information on stress testing is provided on page 142.

The Board Risk Committee (BRC) exercises oversight on behalf of the Board for prudential risks, including amongst others credit, market, capital, liquidity and funding and operational risks. It reviews the Group's overall Risk Appetite and makes recommendations thereon to the Board.

The BRC receives regular reports that inform them of the Group's key risks, as well as updates on the macroeconomic environment, geo-political outlook, market developments, and regulatory updates in relation to capital, liquidity and risk. In 2016, the BRC also had deeper discussions on a number of key topics that included the Group's cyber security strategy, Survival horizon risk drivers, Brexit and Recovery and Resolution Plans.

Based on the information received, the directors considered the principal risks and uncertainties in their assessment of the Group's viability, how these impact the risk profile, performance and viability of the Group and any specific mitigating or remedial actions necessary. For further details information relevant to the directors, assessment can be found in the following sections of the annual report and accounts:

- The Group's Business model (pages 8 to 11) and Strategy (pages 14 to 17)
- The Group's current position and prospects including factors likely to affect future results and development, together with a description of financial and funding positions are described in the Operating and financial review on pages 24 to 53
- An update on the key risk themes of the Group is discussed in the Group Chief Risk Officer's review, found in the Strategic Report on pages 21 to 23
- The BRC section of the Director's report, on pages 79 to 82
- The Group's Principal uncertainties, sets out the key external factors that could impact the Group in the coming year, on page 23 and pages 136 to 138.
- The Group's Risk management approach details how the Group controls and governs risk, on pages 139 to 149.
- The Group's Risk profile provides an analysis of our risk exposures across all major risk types, page 150 to 181.
- The Capital position of the Group, regulatory development and the approach to management and allocation of capital are set out on pages 182 to 189.

Having considered all the factors outlined above, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment up to 31 December 2019.

### Sufficiency of public float

As at the date of this report, the Company has maintained the prescribed public float under the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the HK Listing Rules), based on the information publicly available to the Company and within the knowledge of the directors.

### Research and development

During the year, the Group invested \$1 billion (2015: \$594 million) in research and development, primarily relating to the planning, analysis, design, development, testing, integration, deployment and initial support of technology systems.

### Political donations

The Group has a policy in place which prohibits donations being made that would: (i) improperly influence legislation or regulation, (ii) promote political views or ideologies, and (iii) fund political causes. In alignment to this, no political donations were made in the year ended 31 December 2016.

### Directors and their interests

The membership of the Board, together with their biographical details, are given on pages 57 to 59. 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 93 and 123. 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 30 to the financial statements on page 261**

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 103 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, re-election and removal of directors. In line with the UK Corporate Governance Code 2014 all directors will stand for annual (re)election at the 2017 Annual General Meeting (AGM).

The Company has granted indemnities to all of its directors on terms consistent with the applicable statutory provisions. Qualifying third-party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the financial year ended 31 December 2016, 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 53.

### Results and dividends

2016: nil interim dividend paid  
(2015: 13.71<sup>1</sup> cents per share)

2016: nil proposed final dividend  
(2015: nil final dividend paid)

2016 total dividend, nil  
(2015: 13.71<sup>1</sup> cents)

1. Adjusted for the bonus element included within the 2015 rights issue

### Share capital

The issued ordinary share capital of the Company was increased by 6,275,370 during the year. The ordinary shares were issued under the Company's employee share plans at prices between nil and 937.53 pence. The Company has one class of ordinary shares, which carries no rights to fixed income. On a show of hands, each member present has the right to one vote at our general meetings.

On a poll, each member is entitled to one vote for every \$2 nominal value of share capital held. The issued nominal value of the ordinary shares represents 87 per cent of the total issued nominal value of all share capital. The remaining 13 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 27 to the financial statements on page 253

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. There are no specific restrictions on voting rights and the directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

### Articles of Association

The Articles of Association may be amended by special resolution of the shareholders; no changes to the Company's Articles of Association were made during the year.

### Authority to purchase own shares

At the AGM held on 4 May 2016, our shareholders renewed the Company's authority to make market purchases of up to 327,968,254 ordinary shares, equivalent to approximately 10 per cent of issued ordinary shares as at 14 March 2016, 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 2016.

In accordance with the terms of a waiver granted by The Stock Exchange of Hong Kong Limited (HKSE) on 16 April 2008, which was consequentially modified by the Company and confirmed by the HKSE on 30 April 2009, 25 July 2011, 9 October 2013 and 23 September 2015 respectively, the Company will comply with the applicable law and regulation in the UK in relation to holding of any shares in treasury and with the conditions of granting the waiver by the HKSE.

No treasury shares were held during the year.

 Further details can be found in note 27 to the financial statements on page 253

### Authority to issue shares

The Company is granted authority to issue shares by the shareholders at its AGM. The size of the authorities granted depends on the purposes for which shares are to be issued and is within applicable legal and regulatory requirements.

### Shareholder rights

Under the Companies Act 2006, shareholders holding 5 per cent or more of the paid-up share capital of the Company carrying the right of voting at general meetings of the Company are able to require the directors to hold a general meeting. A request may be in hard copy or electronic form and must be authenticated by the shareholders making it. Where such a request has been duly lodged with the Company, the directors are obliged to call a general meeting within 21 days of becoming subject to the request and must set a date for the meeting not more than 28 days from the date of the issue of the notice convening the meeting. Under the Companies Act 2006, shareholders holding 5 per cent or more of the total voting rights at an AGM of the Company, or 100 shareholders entitled to vote at the AGM with an average of at least £100 paid-up share capital per shareholder, are entitled to require the Company to circulate a resolution intended to be moved at the Company's next AGM. Such a request must be made not later than six weeks before the AGM to which the request relates or, if later,

the time notice is given of the AGM. The request may be in hard copy or electronic form, must identify the resolution of which notice is to be given and must be authenticated by the shareholders making it.

 Shareholders are able to put forward proposals to shareholder meetings and enquiries to the Board and/or the Senior Independent Director by using the 'contact us' information on the Company's website sc.com or by emailing the Group Corporate Secretariat at group-corporate.secretariat@sc.com

### Major interests in shares and voting rights

As at 31 December 2016, Temasek Holdings (Private) Limited (Temasek) is the only shareholder that has an interest of more than 10 per cent in the Company's issued ordinary share capital carrying a right to vote at any general meeting.

As at 20 February 2017, 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:

Shareholder	Number of ordinary shares	Percentage of voting rights direct	Percentage of voting rights indirect
Temasek Holdings (Private) Limited <sup>1</sup>	517,051,383	–	15.74
Dodge & Cox	177,017,662	–	5.39
BlackRock, Inc.	164,438,152		5.00

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 35 to the financial statements on page 271.

### 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 Limited (the HK Listing Rules) 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.

On 19 October 2015, the HKSE extended a waiver ('the Waiver') it previously granted to the Company for the revenue banking transactions with Temasek which do not otherwise fall under the passive investor exemption (the Passive Investor Exemption) under Rules 14A.99 and 14A.100. Under the Waiver, the HKSE agreed to waive the announcement requirement, the requirement to enter into a written agreement and set an annual cap and the reporting (including annual review) requirement under the relevant rules in Chapter 14A (as amended) for the three-year period ending 31 December 2018 on the conditions that:

- a) the Company will disclose details of the Waiver (including nature of the revenue banking transactions with Temasek and reason for the Waiver) in subsequent annual reports
- b) the Company will continue to monitor the revenue banking transactions with Temasek during the three years ending 31 December 2018 to ensure that the 5 per cent threshold for the revenue ratio will not be exceeded.

The Company set out the following main reasons for seeking the Waiver:

- The nature and terms of revenue banking transactions may vary and evolve over time; having fixed-term written agreements would not be suitable to accommodate the various banking needs of the Company's customers (including Temasek) and would be impractical and unduly burdensome for the Company
- It would be impracticable for the Company to estimate and determine an annual cap on the revenue banking transactions with Temasek as the volume and aggregate value of each transaction are uncertain and unknown to the Company as a banking group due to multiple factors including market driven factors
- The amount of revenues generated from revenue banking transactions was insignificant. Without a waiver from the HKSE or an applicable exemption, these transactions would be subject to various percentage ratio tests which cater for different types of connected transactions and as such may produce anomalous results

For the year ended 31 December 2016, the Group has provided Temasek with cash management, foreign exchange and money market placement products and services that are revenue transactions in nature.

As a result of the Passive Investor Exemption and the Waiver, the vast majority of the Company's transactions with Temasek and its associates fall outside of the connected transactions regime. However, non-revenue transactions with Temasek or any of its associates continue to be subject to monitoring for connected transaction issues on a transaction-by-transaction basis.

The Company confirms that:

- The revenue transactions entered into with Temasek in 2016 were below the 5 per cent threshold for the revenue ratio test under the HK Listing Rules
- The Group will continue to monitor non-exempt connected and continuing connected transactions and the revenue figures generated from the ongoing banking transactions with Temasek itself during the three years ending 31 December 2018 to ensure that the 5 per cent threshold for the revenue ratio will not be exceeded

The Company therefore satisfied the conditions attached to the Waiver.

## Fixed assets

Details of additions to fixed assets are presented in note 18 to the financial statements on page 246.

## Loan capital

Details of the loan capital of the Company and its subsidiaries are set out in note 26 to the financial statements on page 252.

## Debt issues and equity-linked agreements

During the financial year ending on 31 December 2016, the Company made six issues of debentures and entered into one equity-linked agreement, further details of which are set out in note 21 on page 248.

## Risk management

An ongoing process for identifying, evaluating and managing the significant risks that we face is in place. The Board is satisfied that this process constitutes a robust assessment of all of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

 **The Risk review and Capital review on pages 132 to 189 sets out the principal uncertainties, 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 Board-approved Risk Appetite Statement can be found on page 141**

## Internal control

The effectiveness of our internal control system is reviewed regularly by the Board, its committees, the Management Team and Group Internal Audit. The Audit Committee has reviewed the effectiveness of the Group's system of internal control during the year ended 31 December 2016 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 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 review and Capital review on pages 132 to 189 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 management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are monitored closely. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions. In respect of handling inside information, we have applied relevant controls on employees who are subject to handling inside information, including controls over the dissemination of such information and their dealings in the Company's shares. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

## Employee policies and engagement

Standard Chartered takes communications very seriously and works hard to ensure that employees are kept informed about matters affecting or of interest to them, but more importantly to provide opportunities for feedback and dialogue. The Group has a clear set of communications mechanisms that are used to inform employees of key business activity at a global, regional, business and function level. A recent review of internal communications was undertaken to establish the effectiveness of the Group's communications mechanisms, staff's preferred channels for obtaining information and providing feedback and to ensure that

staff are getting the information they want and need. The review captured qualitative and quantitative feedback from staff and highlighted where communications are effective and where improvements need to be made. These insights have proved invaluable in how we evolve our communications approach.

The primary channel for communicating with our employees is the Bridge – the Group's new social business collaboration platform. The Bridge not only provides global, local, business and function communications but it allows employees to collaborate, exchange ideas, feedback, comment, innovate, communicate, and find experts all through one space, wherever they are located.

The Bridge is supported by Group, local and business newsletters, targeted audio calls – for business area or management level – videos, success story bulletins, town halls and engagement events including brown bag lunches, leadership events, regional meetings, and focus groups. Business or time-critical information is sent directly to employee inboxes through a measurable email marketing platform.

The Group's leadership team and line managers also have a critical role to play in communicating to our employees ensuring that they are kept up to date on key business information, the Group's performance and strategy, their role in executing the strategy and ensuring that they consult and listen to staff views, feedback and concerns. Across the organisation team meetings with line managers, one-to-one discussions, and management meetings enable employees to discuss and clarify anything they have heard or read and address any questions they may have. The individual performance reviews also provide the opportunity to discuss how the employee, the team and the business area contributed to the overall performance of the Group and how any compensation awards relate to this.

This mix of channels ensures that all staff receive relevant information promptly regardless of how they prefer to be communicated with and regardless of where they sit in the organisation.

We continue to communicate with employees who have left the Group via our Alumni network and all employees, past, present and future are able to follow the Group's progress through social networks including the Group's LinkedIn network, Facebook page and Twitter stream.

As well as capturing staff feedback and views through team meetings, two-way communications and day-to-day dialogue, our employee engagement survey has been an important way for us to gather feedback on how employees feel about the organisation, how it is working, where our areas of strength are, and how we can further improve. The My Voice survey was launched in 2014 and was last carried out in May 2016. My Voice measures engagement across the Group on a variety of business factors such as leadership, strategy and conduct. In 2016 approximately 70,000 staff completed the survey and gave their views. The insight gained has been used to inform action plans intended to resolve highlighted issues.

In addition, targeted local surveys and focus groups seek views on particular topics or from particular groups of employees. Less formal measures of sentiment and engagement include quick polls and conversation on the Bridge.

Combined with over 40 employee networks across 18 countries and numerous champion groups, these insights are invaluable in shaping our thinking and future planning.

The 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, is regularly reviewed (last revised in 2015). 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 and workplace adjustments where necessary. In 2016, the Group also launched a Global Guideline and Process for Workplace Adjustment that covers guidelines and processes for employees with disabilities.

Action may be taken to address disadvantage or under representation among specific groups, with the aim of ensuring that employment decisions are free from bias.

The Group 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 has 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.

Equally, in our recognition and interactions with various employee representative bodies (unions, works councils) globally, we are heavily influenced by the 1948 United Nations Universal Declaration of Human Rights (UDHR), several ILO conventions including the Right to Organise and Collective Bargaining Convention, 1949 (No. 98) and the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) as well as local country labour laws and acts that protect employees' rights to organise.

### 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 2016.

### Supply Chain Management

For information about how the Group engages with suppliers on environmental and social matters, please see our Supplier Charter. As required under the UK Modern Slavery Act 2015, the Group is required to publish a Modern Slavery Statement, which will be issued by June 2017. This document will give further detail on how the Group has managed social risks in its supply chain during 2016.

 Our Supplier Charter can be viewed at [sc.com/suppliercharter](http://sc.com/suppliercharter)

### Product Responsibility

The Group has in place product governance policies and procedures to ensure products are designed to meet client needs, are sold to suitable client segments and comply with relevant laws and regulations.

### Group Code of Conduct

The Board has adopted a refreshed Group Code of Conduct (the Code) relating to the lawful and ethical conduct of business and this is supported by the Group's core values.

It has been communicated to all directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates.

Directors and employees are asked to recommit to the Code annually, and this was done during September 2016.

### Environmental impact of our operations

We aim to minimise the environmental impact of our operations as part of our commitment to being a responsible company.

We report on energy, water, paper and waste data that are the basis of our Greenhouse Gas (GHG) emissions management as well as the targets we have set to reduce energy, water and paper use.

### Total scope 1, 2 and 3 Greenhouse Gas emissions for 2015 and 2016

Indicator	2015	2016	Units
Full-time employees (FTE) covered by reporting	84,076	<b>86,693</b>	FTE
Net internal area of occupied property covered by reporting	1,261,320	<b>1,237,043</b>	m <sup>2</sup>
Annual operating income (1 October 2015 to 30 September 2016)	17,566	<b>12,515</b>	\$million
<b>Greenhouse Gas emissions</b>			
Scope 1 emissions (combustion of fuels)	16,904	<b>13,562</b>	tonnes CO <sub>2</sub> eq/year
Scope 2 emissions (purchased electricity) – location-based method	184,912	<b>186,553</b>	tonnes CO <sub>2</sub> eq/year
Scope 2 emissions (purchased electricity) – market-based method	184,912	<b>186,553</b>	tonnes CO <sub>2</sub> eq/year
Total Scope 1 & 2 emissions	201,816	<b>200,115</b>	tonnes CO <sub>2</sub> eq/year
Scope 3 emissions without distance uplift (air travel)	54,519	<b>52,056</b>	tonnes CO <sub>2</sub> eq/year
Scope 3 emissions with distance uplift (air travel)	59,426	<b>56,741</b>	tonnes CO <sub>2</sub> eq/year
Scope 3 emissions (outsourced data centre)	19,339	<b>22,653</b>	tonnes CO <sub>2</sub> eq/year
Total Scope 1, 2 & 3 emissions	256,335	<b>252,171</b>	tonnes CO <sub>2</sub> eq/year
Total Scope 1, 2 & 3 emissions / FTE	3.05	<b>2.91</b>	tonnes CO <sub>2</sub> eq/FTE/year
Total Scope 1, 2 & 3 emissions/m <sup>2</sup>	203	<b>204</b>	kg CO <sub>2</sub> eq/m <sup>2</sup> /year
Total Scope 1, 2 & 3 emissions / operating income	14.59	<b>20.15</b>	tonnes CO <sub>2</sub> eq/\$m/year

Our reporting criteria document sets out the principles and methodology used to calculate the GHG emissions of the Group.

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 2015 GHG Conversion Factors for Company Reporting, emissions are reported in metric tonnes of carbon dioxide equivalent (CO<sub>2</sub>e), encompassing the six Kyoto gases.

Our definition of different emission sources is provided on this page.

#### Scope 1

Scope 1 emissions are defined as arising from the consumption of energy from direct sources, such as by burning diesel within generators, during the use of property occupied by the Group.

#### Scope 2

Scope 2 emissions are defined as arising from the consumption of indirect sources of energy, such as the consumption of purchased electricity and heat, during the use of property occupied by the Group.

In accordance with the amendment issued to the GHG Protocol in 2015, we report Scope 2 emissions under both location-based and market-based methods. However, we have not used location-based emissions factors and as a consequence, both results are the same. This is based on our reservations concerning the attribution of reduced electricity emissions and the potential for 'double counting'. We will continue to monitor the development of Scope 2 Quality Criteria, as well as the development of residual mixed by national agencies.

The Group does not use any form of offset such as green electricity to offset Scope 1 or Scope 2 emissions.

#### Scope 3

Scope 3 emissions are defined as occurring as a consequence of the Group's activities, but arising from sources not controlled by us.

The Group reports on Scope 3 emissions arising from air travel and our outsourced data centres in Hong Kong and the UK.

#### Reporting period

The reporting period of our environmental data is from 1 October 2015 to 30 September 2016. This allows sufficient time for independent assurance to be gained prior to the publication of results. Accordingly, the operating income used in this inventory corresponds to the same time period rather than the calendar year used in financial reporting.

#### Assurance

Our Scope 1 and 2 emissions are assured by an independent body, The Carbon Trust, against the requirements of ISA 3410.

#### Community engagement

We collaborate with local partners to support social and economic development in communities across our markets. For more information on how we engage with communities go to the How we do business section on page 11.

#### Electronic communication

The Board recognises the importance of good communications with all shareholders. Directors are in regular contact with our institutional shareholders and general presentations are made when we announce our financial results. The AGM presents an opportunity to communicate with all shareholders. Our shareholders are encouraged to receive our corporate documents electronically. The annual and interim financial statements, Notice of AGM and dividend circulars are all available electronically. If you do not already receive your corporate documents electronically and would like to do so in future, please contact our registrars at the address on page 318.

 Shareholders are also able to vote electronically on the resolutions being put to the AGM through our registrars' website at [investorcentre.com](http://investorcentre.com)

#### Annual General Meeting

Our AGM will be held at 11:00am (UK time) (6:00pm Hong Kong time) on 3 May 2017 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 2016 AGM was held on 4 May 2016 at 11:00am (London time) (6:00pm Hong Kong time) at etc.venues, 200 Aldersgate, St Paul's, London EC1A 4HD. Special business at the meeting included the approval of the power to allot ECAT1 Securities for cash without certain formalities. All resolutions were passed at the meeting.

#### **Non-audit services**

The Group's non-audit services policy (the policy) was reviewed and approved by the Audit Committee on 26 January 2017. The policy is based on an overriding principle that, to avoid any actual or perceived conflicts of interest, the Group's auditor should only be used when either there is evidence that there is no alternative in terms of quality and there is no conflict with their duties as auditor. KPMG can be used where the statutory auditor is required to be used due to regulatory or legal requirements.

The policy clearly sets out the criteria for when the Audit Committee's prior written approval is required. The policy requires a conservative approach to be taken to the assessment of requests for KPMG to provide non-audit services. Subject to the overriding principle, the Audit Committee's view is that KPMG can be of value in a range of non-audit service activities and should be allowed to tender subject to the terms of the policy. The Group is required to take a conservative approach to interpreting the potential threats to auditor independence and requires commensurately robust safeguards against them.

EU legislation and guidance from the Financial Reporting Council (FRC) sets out threats to audit independence including self-interest, self-review, familiarity, taking of a management role or conducting advocacy. In particular, maintaining KPMG's independence from the Group requires KPMG to avoid taking decisions on the Group's behalf. It is also recognised as essential that management retains the decision-making capability as to whether to act on advice given by KPMG as part of a non-audit service. This means not just the ability to action the advice given, but to have sufficient knowledge of the subject matter to be able to make a reasoned and independent judgement as to its validity. All of this is contained within the policy.

By way of (non-exhaustive) illustration of the application of the principles set out in the policy, the following types of non-audit services are:

#### **Likely to be permissible under the policy:**

- Audit-related services – the Group would also extend this to work on investor circulars in most foreseeable circumstances
- An objective view as to whether the Group has applied external laws and regulations appropriately, such as checks over regulatory compliance
- 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 published guidance from time to time
- Tax or regulatory structuring proposals
- Services where fees are paid on a contingent basis (in whole or in part)
- Consulting services that actively assist in running the business in place of management as opposed to providing or validating information, which management then utilises in the operation of the business

The policy is not a prescribed list of non-audit services that KPMG is permitted to provide. Rather, each request for KPMG to provide non-audit services will be assessed on its own merits. The Audit

Committee believes that such a case-by-case approach best accommodates (i) the need for the appropriate rigour and challenge to be applied to each request for KPMG to provide non-audit services while (ii) preserving sufficient flexibility for the Group to engage KPMG to provide non-audit services where they are able to deliver particular value to the Group and where the proposed services can be provided without compromising KPMG's objectivity and independence.

It should be noted that a global cap is being introduced such that non-audit services provided by KPMG cannot exceed 70 per cent of the average audit fee from the previous three consecutive financial years. If applied on a retrospective basis the Group would have complied with this requirement with non-audit services in the current year being less than 25 per cent of the average audit fee from the previous three consecutive financial years.

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 37 to the financial statements on page 272. There were no significant engagements of KPMG in 2016 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 76), resolutions to appoint KPMG and to determine its remuneration will be proposed at the 2017 Annual General Meeting.

Each director believes that there is no relevant information of which our Group statutory auditor is unaware. Each has taken all steps necessary as a director to be aware of any relevant audit information and to establish that KPMG is made aware of any pertinent information.

By order of the Board

**Liz Lloyd**  
Group Company Secretary

24 February 2017  
Standard Chartered PLC  
Registered No. 966425

# 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.

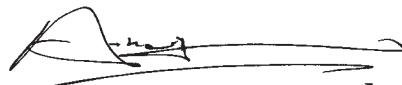
The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position and performance, strategy and business model of the Group.

## 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



**Andy Halford**

Group Chief Financial Officer

24 February 2017

A close-up photograph of a yellow forklift in an industrial environment. The forklift has a black seat and a black steering wheel. A person's arm and shirt are visible on the right side. The background shows a green metal structure and some equipment.

RISK REVIEW AND  
CAPITAL REVIEW

PRINCIPAL  
UNCERTAINTIES

RISK MANAGEMENT  
APPROACH

RISK PROFILE

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# Risk review and Capital review

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

- From the start of the Risk management approach on page 139 to the end of 'Liquidity risk – stress testing' on page 147, excluding Country cross-border risk on page 145
- From the start of the Risk profile section on page 150 to the end of 'Strategic risk' in the same section on page 181, excluding:
  - Our risk profile in 2016, page 150
  - Commodities and commodities-related exposures, page 167
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  - Encumbered assets, page 177
  - Readily available for encumbrance, page 178
  - Operational risk, page 180
- From the start of Capital Requirements Directive (CRD) IV Capital base on page 183 to the end of 'Movement in total capital' on page 184, excluding capital ratios and risk-weighted assets (RWA) amounts.

# Principal uncertainties

The Risk review is divided into the following sections:

**Principal uncertainties** on pages 136 to 138 sets out the key external factors that could impact the Group in the coming year.

**Risk management approach** on pages 139 to 149 details how we control and govern risk.

**Risk profile** on page 150 to 181 provides an analysis of our risk exposures across all major risk types.

The key uncertainties and material risks 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

Deteriorating macroeconomic conditions such as the continuing slow growth in the eurozone, moderation of growth in China and asset price correction, influence 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 for our business.

Global economic growth remains subdued, although the outlook for economic growth differs across each of our markets. Weak investment spending and low productivity growth remain key concerns for the developed world. The uncertainty related to recent geo-political developments could exacerbate these weaknesses. Asia remains the main driver of global growth supported by internal growth drivers, led by China. A mini-credit boom in early 2016 helped steady China's growth outlook; however, this will continue to fuel concerns about the size of its debt and the pace of transition to more consumption-led growth. While commodity prices have recovered from the lows of early 2016, further weakness in commodity prices could have a continued negative effect on the economic performance of commodity dependent nations in Sub-Saharan Africa, the Middle East and North Africa, through reduced foreign exchange earnings and government revenues.

The global economy has entered a period of monetary policy divergence, with the US Federal Reserve raising policy rates while other major central banks have adopted unorthodox monetary policy measures, including the setting of negative real benchmark interest rates and quantitative easing. This divergence is likely to result in changing asset preferences of investors and volatility in markets. Significant increases in interest rates from the historically low levels currently prevailing in many markets, in particular the US, could have an impact on the wider economy through credit quality and asset values.

Financial markets are highly linked to macroeconomic developments. A sudden financial markets dislocation could affect our performance, directly through its impact on the valuation of assets in our available-for-sale and trading portfolios or indirectly through the availability of capital or liquidity. Financial markets instability may also increase the likelihood of default by our counterparties and may increase the likelihood of client disputes.

To mitigate the abovementioned risks, we have for a number of years had in place a Business Risk Horizon framework that provides a forward-looking 12 to 18 month view of the economic, business and credit conditions across the Group's key markets, enabling us to take proactive action.

We monitor economic trends in our key markets very closely and ensure that our portfolio remains well diversified across products, regions and client segments so as to provide resilience against economic shocks. We monitor our portfolio indicators regularly to

ensure that we are operating within our risk appetite and we take necessary risk-mitigating actions on our exposures when such a need arises.

Stress testing is also an integral part of the Group's approach to risk management. We conduct stress tests at a Group, country, portfolio and business level to assess the effect of extreme but plausible developments in the global economy and financial markets on our performance and ability to operate within our risk appetite. This includes assessing the management actions we can take to ensure our resilience to stress. We have a comprehensive stress testing programme that is conducted throughout the year and includes the annual Bank of England stress test. The results of the stress test are considered in our assessment of risk appetite and limit setting. The Group's approach to stress testing is discussed in greater detail in the Risk management approach on page 142.

We stress test our market risk exposures to highlight the potential impact of extreme market events and to confirm that they are within authorised stress loss triggers. Our stress scenarios are regularly updated to reflect changes in risk profile and economic events. We also perform scenario analysis on our portfolios to monitor the impact from emerging trends. Where necessary, overall reductions in market risk exposures are enforced.

We continuously review the suitability of our risk policies and controls and maintain robust processes to assess the suitability and appropriateness of the products and services we provide to our clients.

## Geo-political uncertainties

Geo-political uncertainty and its impact on world trade affects trade flows, our customers' ability to pay, and our ability to manage capital or operations across borders as our performance is in part reliant on the openness of cross-border trade and capital flows. Political developments and policy decisions will continue to influence global macroeconomic conditions.

In Europe, the outcome of the UK referendum to leave the European Union (Brexit) as well as upcoming elections in key European Union member states in 2017 could have implications on economic conditions globally as a result of changes in policy direction, which may in turn influence the economic outlook for the eurozone and its key trading partners. The election cycle in Europe could bring market volatility, while the uncertainties linked to the Brexit negotiation process could delay some investment decisions until there is more clarity.

The result of the US Presidential elections in November 2016 led to some initial market volatility with the longer-term impact unclear given uncertainty about the broader direction and impact of US foreign and domestic policy. In particular, policies questioning free trade or the traditional system of security alliances could trigger market volatility and have a direct impact on some economic activities, including global trade. The protectionist policies, if followed by the US, could disrupt established supply chains and invoke retaliatory actions from other countries. A sudden change in fiscal policy could lead to a large market repricing of financial assets, with repercussions on all dollar-linked transactions.

Financial markets are also closely linked to geo-political events and a sudden dislocation of financial markets could affect our performance. The impact from such an occurrence and the measures we take to manage the resulting market risks has been discussed in the previous section on deteriorating macroeconomic conditions.

We regularly assess the geo-political risks and forward-looking impact on economic, business and credit conditions across the Group's key markets through the Business Risk Horizon framework, enabling us to take proactive actions where appropriate. There is regular senior level oversight, through the Group Risk Committee, of work undertaken to assess and manage geo-political risk.

We also conduct stress tests, where appropriate, with a focus on the potential impact of geo-political and physical events on relevant regions, client segments and risk types. The Risk Committees may commission portfolio reviews and deep dives to highlight the impact of geo-political events and proactively manage the portfolio.

### **Impact from the UK referendum to leave the European Union (Brexit)**

On 23 June 2016, the UK held a referendum and voted to leave the European Union. The precise timing and terms of the exit are unclear, as is the nature of the relationship between the UK, the European Union and other nations post exit. This has resulted in significant financial market and macroeconomic uncertainty.

The first order impact of Brexit is not material given the Group's exposure is predominantly to economies in Asia, Africa and the Middle East.

In addition to relevant mitigants mentioned elsewhere in this section, we continue to ensure that there is regular senior oversight of work undertaken to assess and manage Brexit risk and the practical implications, including our contingency plans.

Our continued approach is to maximise planning and preparedness while we observe further developments, including the triggering of Article 50 of the Treaty of Lisbon to formally provide notice of the UK's intention to leave the European Union, and we are in the advanced stages of our planning for continued market access for our clients.

The full impact of Brexit will only be known over the next couple of years as the negotiations progress with the European Union and other major trading partners. We continue to proactively assess and, where appropriate, manage the impact to the Group and our exposures to clients.

### **Evolving financial crime, fraud and cybercrime**

The banking industry continues to be a target for financial crime, fraud and cybercrime. Operational losses may result from, for example:

- Failure to comply with legal or regulatory requirements, or to meet regulatory expectations in relation to anti-money laundering, countering terrorist financing and sanctions compliance
- Internal and external fraud
- Cybercrime, or criminal exploitation via information systems or online channels

The Group, through its size and strategic intent, continues to be exposed to money laundering and sanctions risks. These risks are inherent in the Group's operations and may arise from, among other things, the Group offering different banking products to diverse customer types delivered through multiple channels in, or related to, many regions; the Group's defences being overcome by criminals; and/or regulators assessing deficiencies in the Group's design and/or governance over controls operating across the Group's client or counterparty due diligence and surveillance.

Economic crime arising from internal or external fraud continues to be a global problem for the financial services industry, and managing fraud risk remains complex. The Group is also exposed to economic crime arising from fraud risk for similar reasons as those listed above for money laundering and sanctions.

Cybercrime is rising and becoming more globally coordinated. The Group may incur losses due to cybercrime including risks

relating to fraud, vandalism and damage to critical infrastructure. The Group's business depends on our ability to process a large number of transactions efficiently and accurately, and is highly reliant on digital technologies, computer and email services, software and networks. This dependency on secure processing, storage and transmission of confidential and other information in our computer systems and networks increases our exposure risk to cybercrime.

The Group seeks to be vigilant in managing risks relating to financial crime, fraud and cybercrime. The Group has implemented policies and procedures to minimise these risks. Controls are embedded in the Group's processes to prevent such risks or to detect them as quickly as possible. The Group performs regular reviews of our control environment, and performs benchmarking of its standards to continuously improve its controls against these risks. The Group considers these risks as scenarios in stress testing. In June 2016, the Group was formally recognised by the US Financial Crimes Enforcement Network (FinCEN) for two investigations conducted by the Group's Financial Crime Compliance team that led to successful law enforcement action.

The Group continues to pursue its Financial Crime Risk Mitigation Programme to enhance its approach to money laundering prevention, combating terrorist financing, and compliance with sanctions as described below in the regulatory investigations and legal proceedings principal uncertainty. To improve the oversight of fraud management, a Global Fraud Risk Management Group has been formed and is overseeing the enhancement of standards to meet the Group Fraud Risk Management Policy and related procedure. The Group has implemented a range of cybercrime defences to protect from hacking, misuse, malware, errors, social engineering and physical threats. The Group also performs external benchmarking against government and international cyber security standards and frameworks, and conducts tests of our defences against cyber and other attacks in line with regulatory frameworks. Any of the foregoing risks, or a failure by the Group to manage such risks, may have a material adverse effect on the Group's financial condition, results of operations and prospects.

### **Operational performance eroding external confidence in the Group**

Group operational under-performance can result from differences in the Group's earnings as compared to market expectations or competitor performance. This could impact the Group's share price and, in extreme cases, a material under-performance may even erode confidence in the Group.

The Group has a clear strategy that is consistent with the risk appetite and financial objectives for the Group. The risk appetite is set at granular levels and is approved by the Board, against which regular updates are provided. The financial objectives are reviewed periodically and the strategy is regularly reviewed and challenged by the Board for potential risks and its execution.

The organisational structure of country, regional and segment CEOs allows us to respond quickly and effectively to any areas of under-performance. The Group regularly monitors the execution of its strategic plan through the Group's performance management process.

We update our equity and debt providers and rating agencies regularly to ensure they understand our progress against the strategy.

### **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 partially mitigated to the extent there are proportionate movements in risk-weighted assets.

### Evolving impact of regulatory compliance

Our business as an international bank will continue to comply with an evolving and complex regulatory and legislative framework in each of the jurisdictions in which we operate. The precise nature and impact of future changes in laws and regulations is not always predictable and may, at times, not be aligned with our strategic interests. These changes sometimes have broader implications on the volatility and liquidity in some of the markets in which we operate, which may in turn have an impact on the way we conduct business and manage our capital and liquidity. As a bank with a substantial footprint across emerging markets, but being headquartered in the UK, we continue to face an evolving and complex regulatory framework in each of the jurisdictions where we operate. Despite regulatory frameworks being enhanced for much of the decade to increase confidence in the banking sector, we await final rules in many key areas of regulation that could further impact on our business model and how we manage our capital and liquidity. We are closely monitoring the discussions of Basel Committee of Banking Services regarding the standards for the calibration and implementation of capital floors. At the time of writing we await final proposals from the Basel Committee on the revisions to credit risk and operational risk, as well as the European application of the revised approach to calculating market risk, binding leverage ratio and net stable funding ratio.

In addition to having to comply with regulations in each of our emerging markets we operate in, the fact that many regulations stemming from the US or EU regulators are extraterritorial in their application adds additional challenges, complexities and uncertainties for cross-border business in these markets.

The Markets in Financial Instruments Directive (MiFID2) will be implemented from the start of 2018, yet the precise geographical scope of its application to products and securities in markets outside the European Union remains uncertain. A number of regulations require changing contractual terms for all clients to ensure compliance with over-the-counter (OTC) derivative reforms or bail-in requirements stemming from the European Union's Banking Resolution and Recovery Directive (BRRD).

The Group requires adherence to and implementation of regulations while meeting and anticipating the expectations of regulators and regulatory reform. The Group has implemented Group-wide policies and procedures to manage the risks associated with managing regulatory change.

### Regulatory investigations, reviews and legal proceedings

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. The Group is also party to legal proceedings from time to time, which may give rise to financial losses or adversely impact our reputation in the eyes of our customers, investors and other stakeholders.

Regulatory and enforcement authorities have broad discretion to pursue actions and impose a wide range of penalties for non-compliance with laws and regulations. Penalties imposed by authorities have included substantial monetary penalties, additional compliance and remediation requirements and additional business restrictions. In recent years, such authorities have exercised their discretion to impose increasingly severe penalties on financial institutions that have been determined to have violated laws and

regulations, and there can be no assurance that future penalties will not be of a different type or increased severity. The Group is cooperating with a number of reviews, requests for information and investigations and actively managing its legal proceedings including in respect of legacy issues, but both the nature and timing of the outcome of these matters is uncertain and difficult to predict. As such, it is not possible to predict the extent of any liabilities or other adverse consequences that may arise for the Group.

The Group has made significant investments to enhance its systems and controls environment and has increased the capacity and capability of its compliance resources. A Financial Crime Risk Committee sits at Board level to oversee financial crime compliance and the Group has invested in various remediation programmes and appointed independent reviewers to critically examine its systems and controls. The Group has an ongoing 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 combating terrorism finance and the approach to sanctions compliance and the prevention of bribery and corruption. In addition, as a result of the Group's 2012 and 2014 settlements with certain US authorities (the Settlements), a remediation programme referred to as the US Supervisory Remediation Program (SRP) was established comprising workstreams designed to ensure compliance with the Settlements. 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 remediation programmes and other compliance-related investments are a necessary cost of doing business for the Group and affect numerous markets, businesses and functions. The roll out of these programmes and enhancements may be complex and the timing and associated costs of these measures are uncertain.

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 the Group's footprint, are and will remain a focus of the relevant authorities.

In meeting regulatory expectations and demonstrating active risk management, the Group is also reviewing its portfolio and taking steps to restrict or restructure or otherwise mitigate higher-risk business activities, which could include divesting or closing businesses that exist beyond risk appetite. We continue to educate and train our people on conduct, conflicts of interest, information security and financial crime compliance in order to reduce our exposure to legal and regulatory proceedings.

For further details on legal and regulatory matters, including details on the Settlements, refer to note 25 to the financial statements on pages 250 to 251.

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

## Risk Management Framework

Effective risk management is essential to consistent and sustainable performance for all of our stakeholders and is therefore a central part of the financial and operational management of the Group. The Group adds value to clients and therefore the communities in which they operate, generating returns for shareholders by taking and managing risk.

Through our Risk Management Framework we manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our risk appetite.

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 risks within our risk appetite and risk tolerances, and where consistent with our approved strategy
- We manage our risk profile so as to maintain a low probability of an unexpected loss event that would materially undermine the confidence of our investors

### Conduct of business

- We demonstrate that 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 appetite statement 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 exclusively comprised of independent non-executive directors of the Group, has responsibility for oversight and review of prudential risks, including but not limited to credit, country cross-border, market, pension, capital, liquidity and funding, and operational risks. It reviews the Group's overall risk appetite statement and makes

recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controlling the adequacy of information it is provided with, considering the implications of material regulatory change proposals, and ensuring effective due diligence on material acquisitions and disposals. The Board Risk Committee also reviews reports on key cyber risks, threats, events, project updates and the Board's top risk profile updates as identified by the Information and Cyber Security Management Group.

The Committee has the authority to request and receive relevant information consistent with the requirements of the Basel Committee on Banking Supervision regulation 239 (BCBS239) that will allow the Committee to fulfil its governance mandate relating to the risks to which the Group is exposed, and alert senior management when risk reports do not meet its requirements.

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 risk information report that is provided at each scheduled committee meeting.

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 Appetite Statement approved by the Board and the creation of long-term shareholder value.

The Board Financial Crime Risk Committee focuses on financial crime compliance risk matters across the Group and oversees the Group's effective compliance with financial crime regulations.

The Audit Committee reviews the Group's internal financial controls to identify, assess, manage and monitor financial risks.

 Further details on the role of the Board and its committees in matters of risk governance are covered in the Directors' report on pages 63 to 92

Executive responsibility for risk management is delegated to the Standard Chartered Bank Court (the 'Court'), which comprises the Group executive directors and other directors of Standard Chartered Bank. 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 determining the Group's approach to balance sheet management and ensuring that, in executing the Group's strategy, the Group operates within internally approved risk appetite and external requirements relating to capital, liquidity and leverage risk. It is also responsible for policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate exposure and tax exposure.

**HOW THE STANDARD CHARTERED COURT COMMITTEE STRUCTURE HAS CHANGED**

As at 1 January 2016



As at 31 December 2016



Further simplification of the committee structure was carried out in 2016. Five risk committees were formed to ensure coverage of all risks arising from activities within the businesses and regions. These committees, appointed by the Group Risk Committee, comprised: Africa & Middle East Risk Committee, ASEAN & South Asia Risk Committee, Greater China & North Asia Risk Committee, Corporate & Institutional Banking Risk Committee, and Private Banking Risk Committee. These committees are chaired by the respective Chief Risk Officer.

Under the revised risk committee structure, Corporate & Institutional Banking Risk Committee covers risks arising from activities in Corporate & Institutional Banking globally and in the Europe & Americas region as well as bank-wide Market and Traded Credit Risk. The Private Banking Risk Committee covers risks arising in Private Banking globally including Wealth Management. The three regional risk committees will cover risks arising from their respective region including Commercial and Retail Banking.

The roles of 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 in some areas.

Members of the Group Risk Committee are drawn from the Management Team and the Group Asset and Liability Committee

are drawn principally 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 Chief Financial Officer. 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 frameworks in respect of capital and liquidity and funding risks. 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 to the appropriate functional, client segment and country-level senior management and committees. Information regarding material risk issues and compliance with policies and standards is communicated to the appropriate country, client segment, functional and Group-level senior management and committees.

In 2016, we aligned the sources of authorities to the Senior Managers Regime. Given the focus on individual accountability, this area continues to be reviewed and further refined.

The Group Risk Committee and Group Asset and Liability Committee request and receive information to fulfil their governance mandates relating to the risks to which the Group is exposed,

and alert senior management when risk reports do not meet their requirements. Similar to the Board Risk Committee, the Group Risk Committee and Group Asset and Liability Committee receive reports that include information on risk measures, risk appetite metrics, risk concentrations, forward-looking assessments, updates on specific risk situations or actions agreed by these committees to reduce or manage risk.

On 29 June 2016, the Standard Chartered Bank Combined United States Operations Risk Committee was established to comply with the Dodd-Frank Act section 165 Enhanced Prudential Standards (EPS Rules). The EPS Rules legislated a number of enhanced obligations on the US operations commensurate with its structure, risk profile, complexity, activities and size. The Committee receives its authority from the Court and is chaired by the Group Chief Risk Officer with membership drawn from the Board of directors of Standard Chartered Bank and one Independent Director of Standard Chartered Bank. Its responsibilities are drawn from the EPS Rules and pertain to liquidity, risk governance and oversight. The committee receives reports that include information on risk measures, compliance with local liquidity risk limits, risk concentrations, changes to the Risk Management Framework and updates on specific risk situations or actions agreed by the Committee to reduce or manage risk.

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 residual risks within the scope of their responsibilities remain within risk 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 on pages 142 to 149
- Third line of defence: the independent assurance provided by the Group Internal Audit function. Its role is defined and overseen by the Audit Committee 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 and independent from the origination, trading and sales functions of the businesses.

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 to 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<sup>1</sup> for credit, market, country cross-border 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 appetite

In 2016 our risk appetite and risk tolerance definitions were updated. We recognise three sets of constraints which determine the risks that we are willing to take in pursuit of our strategy and the development of a sustainable business:

- **Risk capacity** 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 appetite** is defined by the Group and approved by the Board. It is the maximum amount and type of risk that the Group is willing to assume in pursuit of its strategy. Risk appetite cannot exceed risk capacity
- **Risk tolerance** is the outer constraint defined by the Group for each risk type via metrics and thresholds. Risk tolerance is set within the risk appetite and is a buffer, determined by management, within the Board approved risk appetite

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 capacity). Status against risk appetite is reported to the Board Risk Committee. This includes the reporting of breaches.

The Board has approved a Risk Appetite 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 number of risk tolerances has been increased in 2016 to include greater breadth and greater granularity for credit, capital, market and operational risks. A strategic risk appetite statement has been introduced for the first time. The Risk Appetite Statement has been supplemented by an overarching statement outlining the Group's Risk Appetite Principles.

The Group's Risk Appetite Principles and Risk Appetite Statement, along with the key associated risk appetite metrics approved by the Board are as follows:

- Risk Appetite Principles: The Group Risk Appetite is in accordance with Risk Management Principles that inform our overall approach to risk management and our risk culture. We follow the highest ethical standards required by investors and ensure a fair outcome for our clients, the effective operation of financial markets, while at the same time meeting expectations of regulators and law enforcement agencies. We set our risk appetite to enable us to grow sustainably and to avoid shocks to earnings or our general financial health, that would materially undermine the confidence of our investors and all internal and external stakeholders.
- General: the Group will not compromise adherence to its risk appetite in order to pursue revenue growth or higher returns

1. In 2017, the Risk function will also exercise direct risk control ownership for reputational risk

- Credit and country cross-border risk: the Group manages its credit and country cross-border exposures following the principle of diversification across products, regions, client segments and industry sectors. Specific metrics are set for individual and aggregate single-name credit concentrations, industry credit concentrations, portfolio tenor, specific portfolio exposure, portfolio collateralisation, retail unsecured credit risk concentrations, high risk retail unsecured credit risk concentrations, mortgage high loan-to-value concentrations and country cross-border credit risk concentrations
- 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 metrics are set to ensure resilience to market stress to minimise volatility to profit and loss in Financial Markets and Common Equity Tier 1 capital
- Liquidity and Funding 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 metrics are set for liquidity stress survival horizons, short-term wholesale borrowing, minimum advances to deposits and liquidity coverage ratios
- Capital: The Group should maintain a strong capital position including the maintenance of management buffers sufficient to support its strategic aims. Specific metrics are set for minimum Common Equity Tier 1 capital, Tier 1 capital, Total capital and leverage ratios under business-as-usual and stress conditions
- 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 metrics for each operational top risk. See page 181 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
- Pension risk: the Group will manage its pension plans such that:
  - There is no material unexpected deterioration in their funding requirements or other financial metrics
  - Members' benefits will continue in their current form although management actions such as a removal of discretionary benefits are allowable in the case of a market stress event
- Strategic risk: the Group will review its strategy on an annual basis to take account of external and internal developments and monitor execution of strategic plans to ensure their effective implementation

The Group Risk Committee, the Group Financial Crime Risk Committee and the Group Asset and Liability Committee are responsible for ensuring that our risk profile is managed in compliance with the risk appetite set by the Board. The Board Risk Committee and the Board Financial Crime Risk Committee (for Financial Crime Compliance) advises the Board on the Risk Appetite Statement and monitors Group compliance with it.

### **Stress testing**

Stress testing and scenario analysis are used to assess the ability of Standard Chartered to continue operating effectively under extreme but plausible macrofinancial conditions.

Our approach to stress testing is designed to:

- Contribute to the setting and monitoring of Board-level risk appetite
- Contribute to the setting and monitoring of executive-level risk appetite and risk management more generally
- Identify key risks to our capital and liquidity positions, strategy, franchise and reputation

- Support the development of management actions and contingency plans, including business continuity, to ensure the Group can recover from extreme but plausible conditions
- Meet regulatory requirements

Stress tests are performed at Group, country, business and portfolio level. Bespoke scenarios are applied to our market and liquidity positions as described in the section on Market risk on page 146 and Liquidity and funding risk on page 147. In addition to these, our stress tests also focus on the potential impact of macroeconomic, geo-political and physical events on relevant regions, client segments and risk types including among others credit risk which is discussed in more detail below.

### **Credit risk**

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, other than in very few authorised cases for Retail Banking – this is discussed in the Credit approval and credit risk assessment section. 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, regions, industries, collateral types and client segments.

### **Credit Risk Governance**

The Group Risk Committee delegates the authority for the management of credit risk (among other risk types) to several committees – the Corporate & Institutional Banking Risk Committee, Private Banking Risk Committee as well as the regional risk committees for Greater China & North Asia, ASEAN & South Asia and Africa & Middle East. These committees are responsible for overseeing the credit risk profile of the Group within the respective business areas and regions. Meetings are held regularly and the committees monitor all material credit risk exposures, key internal developments and external trends, and ensure that appropriate action is taken.

### **Credit policies**

Credit policies and standards are considered and approved by recognised second line risk committees or individuals with delegated authority. The Group Risk Committee oversees the delegation of credit approval and loan impairment provisioning authorities. The principles for the delegation, review and maintenance of credit approval authorities are defined in the Risk Authorities policy. In addition, there are other Group-wide policies integral to credit risk management such as those relating to stress testing, risk measurement and impairment provisioning.

Policies and procedures specific to each client or product segment are established by authorised individuals identified in the Risk Authorities policy. These are consistent with our Group-wide credit policies, but are more detailed and adapted to reflect the different risk characteristics across client and product segments. Policies are regularly reviewed and monitored to ensure they 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 Banking and Commercial Banking 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 Credit quality of those loans that are neither past due nor impaired is set out on pages 153 to 155.

Retail Banking IRB portfolios use application and behaviour credit scores that are calibrated to generate a probability of default and then mapped to the standard alphanumeric credit risk grade system. We refer to external ratings from credit bureaus (where these are available), however, we do not rely solely on these to determine Retail Banking CGs.

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 were approved by the Credit and Market Risk Committee, on the recommendation of the Credit Model Assessment Committee. The Credit Model Assessment Committee approves all other IRB risk measurement models, with key decisions noted to the Credit and Market Risk Committee. The Credit Model Assessment Committee drew authority from the Credit and Market Risk Committee in ensuring risk identification and measurement capabilities are objective and consistent, so that risk control and risk origination decisions are properly informed. The Credit and Market Risk Committee ceased to exist in September 2016 and the Stress Testing Committee assumed these authorities. 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 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 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 for Retail Banking. In those very few exceptions where they are not, originators can only approve limited exposures within defined risk parameters which are subject to oversight from the credit risk function.

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 body. An analysis of the loan portfolio is set out on pages 163 to 167.

### Credit concentration risk

Credit concentration risk may arise from a single large exposure to a counterparty or a group of connected counterparties, or from multiple exposures across the portfolio that are closely correlated.

Large exposure concentration risk is managed through concentration limits set by a counterparty or a group of connected counterparties.

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 respective Risk Committees and reported to the Group Risk and Board Risk Committees.

Risk appetite levels are set by a counterparty depending on credit grade, by industry, and for the Top 20 Corporate exposures.

### 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 risk mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation, correlation and counterparty risk of the protection provider. The requirement for risk mitigation is, however, not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

The Group credit policies set out the key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements.

Collateral types that are eligible as risk mitigants include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and standby letters of credit. The Group also enters into collateralised reverse repurchase agreements.

The Group has credit policies and procedures in place setting out the criteria for collateral to be recognised as a credit risk mitigant, including requirements concerning legal certainty, priority, concentration, correlation, liquidity and valuation parameters such as frequency of review and independence.

Physical collateral, such as property, fixed assets and commodities, and financial collateral must be independently valued and an active secondary resale market must exist. The collateral must be valued prior to drawdown and regularly thereafter. The valuation frequency is at minimum annual and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. For financial collateral to be eligible for recognition the collateral must be sufficiently liquid, and its value over time sufficiently stable, to provide appropriate certainty as to the credit protection achieved. Risk mitigation benefits may be reduced or removed where the collateral value is not supported by a recent independent valuation.

Documentation must be held to enable the Group to realise the collateral without the cooperation of the obligor in the event that this is necessary. For certain types of lending, typically mortgages or asset financing where a first charge over the risk mitigant must be attained, the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. Physical collateral is required to be insured at all times against risk of physical loss or damage.

Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of liquidation. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios.

The Group also seeks to diversify its collateral holdings across asset classes and markets.

Where guarantees, credit insurance or credit derivatives are used as credit risk mitigation, the creditworthiness of the protection provider is assessed and monitored using the same credit approval process applied to the obligor. The main types of guarantors include banks, insurance companies, parent companies, governments and export credit agencies.

### Traded products

Credit risk from traded products derives from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential future market movements. This counterparty credit risk is managed within the Group's overall credit risk appetite for corporate and financial institutions and relies on various single and multi-risk factor stress test scenarios to measure, identify and risk manage counterparty credit risk across derivatives and securities financing transactions.

The Group uses bilateral and multilateral netting to reduce pre-settlement and settlement counterparty credit risk. Pre-settlement risk exposures are normally netted using bilateral netting documentation in legally approved jurisdictions. Settlement exposures are generally netted using Delivery versus Payments or Payment versus Payments systems. Master netting agreements are generally enforced only in the event of default. In line with International Accounting Standards (IAS) 32, derivative exposures are presented on a net basis in the financial statements only if there is a legal right to offset and there is intent to settle on a net basis or realise the assets and liabilities simultaneously.

In addition, the Group enters into credit support annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Further details on CSAs are set out on page 164.

Wrong way risk occurs when an exposure increase is coupled with a decrease in the credit quality of the obligor. Specifically, as the mark-to-market on a derivative contract increases in favour of the Group, the driver of this mark-to-market change also reduces the ability of the counterparty to meet its payment, margin call or collateral posting requirements. The Group employs various policies and procedures to ensure that wrong way risk exposures are recognised upfront and monitored.

### 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 Corporate & Institutional Banking 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.

### Credit monitoring

We regularly monitor credit exposures, portfolio performance, and external trends that may impact risk management outcomes.

Internal risk management reports that are presented to risk committees contain information on key environmental, political and

economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance.

Credit risk committees meet regularly to assess the impact of external events and trends on the Group's credit risk portfolios and to define and implement our response in terms of the appropriate changes to portfolio shape, portfolio and underwriting standards, risk policy and procedures.

Clients or portfolios are 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 the Credit Issues Committees in the relevant countries where 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 Banking, Commercial Banking and Private Banking past due accounts are managed by GSAM.

For Retail Banking exposures, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and considered for lending decisions. Accounts that are past due or charged-off are subject to a collections or recovery process respectively, and managed independently by the Risk function. In some countries, aspects of collections and recovery activities are outsourced.

### Loan impairment

A loan is impaired when we assess that we will not recover a portion of the contractual cash flows. Specific definitions of when a loan is deemed as impaired are discussed in the following sections for Retail Banking, as well as Corporate & Institutional Banking, Commercial Banking and Private Banking.

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and advances. Individually impaired loans are those loans against which individual impairment provisions (IIP) have been raised.

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 provision is inherently uncertain, being sensitive to changes in economic and credit conditions across the regions in which the Group operates. Economic and credit conditions are interdependent within each geography and as a result there is no single factor to which the Group's loan impairment allowances as a whole are sensitive. It is possible that actual events over the next year will differ from the assumptions built into our model, resulting in material adjustments to the carrying amount of loans and advances.

## Retail Banking

For Retail Banking portfolios, an account is considered impaired when it meets certain defined threshold conditions in terms of overdue payments (contractual impairment) or meets other objective conditions such as bankruptcy, debt restructuring, fraud or death. A loan is considered delinquent (or past due), when the customer has failed to make a principal or interest payment in accordance with the loan contract. These threshold conditions are defined in policy and are set at the point where empirical evidence suggests that the client is unlikely to meet their contractual obligations or a loss of principal is expected.

Portfolio impairment provisions (PIP) cover the inherent losses in the portfolio that exist at the balance sheet date but have not been individually identified. Considerations applied in determining the appropriate level of portfolio provisions include historic loss experience, loss emergence periods, risk indicators such as delinquency rates, and the potential impact of existing external conditions. Some of these factors require judgemental overlays. 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.

It is on this basis that Retail Banking accounts are considered impaired when a credit obligation is 150 days past due. There are, however, exceptions to this rule for portfolios where empirical evidence suggests that they should be set more conservatively.

The core components of the IIP calculation are the value of gross charge off and recoveries. Gross charge off and/or provisions are recognised when it is established that the account is unlikely to pay, either through past due or any other specific condition. Recovery of unsecured debt post-impairment is recognised based on actual cash collected, either directly from clients or through the sale of defaulted loans to third-party institutions. Provision release of secured loans post-impairment is recognised if the loan outstanding is paid in full (release of full provision), or the provision is higher than the loan outstanding (release of the excess provision), or the loan is paid to current and remains in current for more than 180 days (release of full provision).

For further details on Retail Banking see pages 153 to 165.

## Corporate & Institutional Banking, Commercial Banking and Private Banking

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 independent 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 Banking, a PIP is held to cover the inherent risk of losses which, although not identified, are known through experience to be present in any loan portfolio. 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 Banking, Commercial Banking and Private Banking see page 153 and page 165.

## Country cross-border risk (unaudited)

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 approving country cross-border risk limits and delegates the setting and management of limits to the Group Country Risk function. The business and country chief executive officers manage exposures within these limits. 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, 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 economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises predominantly from these sources:

- Trading book: the Group provides clients access to financial markets, facilitation of which entails the Group taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk-related activities is primarily driven by the volume of client activity rather than risk-taking. From 1 January 2016, a CVA desk has been actively hedging the credit and market exposures arising from CVA and FVA. From 1 August 2016, Credit and Funding Valuation Adjustment (XVA) risk was recognised in the total trading and non-trading VaR, and the impact of which was not material
- Non-trading book:
  - The Asset and Liability Management (ALM) desk is required to hold a liquid assets buffer of which \$84.9 billion is held in high-quality marketable debt securities
  - The Group has capital invested and related income streams denominated in currencies other than US dollars. To the extent that these are not hedged, the Group is subject to structural foreign exchange risk, which is reflected in reserves

The primary categories of market risk for the Group are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options
- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options
- Commodity price risk: arising from changes in commodity prices and implied volatilities on commodity options; covering energy, precious metals, base metals and agriculture
- Credit spread risk: arising from changes in the credit spread of its derivatives' counterparties through credit value adjustment (CVA) accounting

## Market risk governance

The Board approves the Group's risk appetite for market risk. Subject to the risk appetite set for market risk, the Group Risk Committee sets Group-level market risk limits and stress loss triggers.

The Corporate & Institutional Banking Risk Committee (CIBRC), under authority delegated by the Group Risk Committee, is responsible for setting material value at risk (VaR) and stress loss triggers for market risk within the levels set by the Group Risk Committee. The CIBRC also delegates to the Global Head, Market & Traded Credit Risk responsibility for the policies and standards for the control of market risk and overseeing their ongoing effectiveness. These policies cover both trading and non-trading books of the Group.

The Market and Traded Credit Risk function approves all the other market risk 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

The Group applies VaR as a measure of the risk of losses arising from future potential adverse movements in market rates, prices and volatilities. VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit and loss outcome.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

The Group applies two VaR methodologies:

- Historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors and the majority of specific (credit spread) risk VaR
- Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets

In both methods a historical observation period of one year is chosen and applied.

VaR is calculated 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 ongoing performance, VaR models are backtested against actual results.

See an analysis of VaR and backtesting results in 2016 on pages 171 to 172.

## Stress testing

Losses beyond the 97.5 per cent confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of losses in tail event situations.

Market and Traded Credit Risk 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 appetite.

Regular stress test scenarios are applied to interest rates, credit spreads, exchange rates, commodity prices and equity prices. This covers all asset classes in the Financial Markets banking and trading books.

Ad hoc scenarios are also prepared, reflecting specific market conditions and for particular concentrations of risk that arise within the business.

## Non-trading book and Group Treasury market risk treatment

Interest rate risk from non-trading book portfolios is transferred to local Asset and Liability Management (ALM) desks. 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. Local Asset and Liability Committees are responsible for any residual interest rate risks that cannot be managed by ALM.

VaR and stress tests are therefore applied to these ALM exposures, including available-for-sale debt securities, in the same way as for the trading book. 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 a limited effect on either profit and loss or reserves.

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 13 to the financial statements on pages 230 to 231.

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. These risks were managed within an Earnings at Risk limit set by Operational Balance Sheet Committee but, in future, will be incorporated into the overall Earnings Risk framework of the Group.

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. Under delegated authorities, the Group Treasurer may decide to hedge the net investments if it is expected 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 on page 174. Structural foreign exchange risk is not included within Group VaR.

### Liquidity and funding risk

Liquidity Risk is the potential for loss because the Group, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can access these financial resources only at excessive cost.

Funding risk is the potential for actual or opportunity loss because the Group does not have stable or diversified sources of funding in the medium- and long-term to enable it to meet its financial obligations, in pursuit of its desired business strategy or growth objectives.

We seek to manage our liquidity and funding prudently in all 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.

We have a robust risk type framework for managing the Group's liquidity and funding risk. Through this framework we control and optimise the risk-return profile of the Group. This is principally achieved by:

- Setting risk appetites aligned with strategic objectives
- Identifying, measuring and monitoring liquidity risks:
  - Assessment of regulatory requirements and internal balance sheet characteristics driving liquidity risk
  - The ILAAP (Internal Liquidity Adequacy Assessment Process), which assesses the liquidity adequacy of the Group under business as usual and stressed conditions
  - The Group's liquidity stress testing framework covering both internal and regulatory scenarios
- Constraining risk profile within the Board approved risk appetite:
  - Development of policies to address the liquidity and funding risks identified
  - Implementation of associated risk measures that act as mitigants of these risks
  - Ongoing monitoring of risk measures against limits

To mitigate liquidity and funding risk we maintain a well-diversified, customer-driven funding base and access to wholesale funds under normal market conditions. In addition, we maintain a diversified portfolio of marketable securities that can be monetised or pledged as collateral in the event of a liquidity stress. The Group Recovery Plan, reviewed and approved annually, is maintained by Group Treasury and includes a broad set of Recovery Indicators, an escalation framework and a set of management actions that could be effectively implemented by senior management in the event of a liquidity stress. A similar plan is maintained within each major country.

### Liquidity and funding risk governance

The Board approves the Group's Risk Appetite for liquidity and funding risk along with supporting metrics. The Group Chief Financial Officer has overall responsibility for determining the Group's approach to liquidity and funding risk management and delegates authority to the Group Treasurer.

Country oversight under the liquidity and funding framework resides with country Asset and Liability Committees, supported by local Asset and Liability Management desks. Countries must ensure they operate within predefined liquidity limits and remain in compliance with Group liquidity policies and practices, as well as local regulatory requirements.

### Stress testing

The Group intends to maintain a prudent and sustainable funding and liquidity position, in all presence countries and currencies, such that it can withstand a severe yet plausible liquidity stress. This is reflected in the Risk Appetite Statement and metrics discussed on page 175.

Regular stress testing is conducted to demonstrate that the Group's liquidity exposure remains within the approved Risk Appetite Statement as well as within regulatory limits.

The internal liquidity stress testing framework includes multiple stress scenarios with varied survival periods and stressed conditions to appropriately reflect the liquidity risks undertaken by the Group. The framework includes an idiosyncratic stress, a market-wide stress and a combined stress. The combined stress assumes both idiosyncratic and market-wide events that affect the Group simultaneously and hence is typically the most severe scenario.

The results for the combined stress takes into account convertibility and portability constraints across all major presence countries and is used to calibrate the amount of liquidity resources the Group should hold. It is monitored daily and managed by Group Treasury.

The Stress Testing Committee (STC) has oversight over the appropriateness of the stress scenarios and the assumptions contained within them.

### Operational risk (unaudited)

We define operational risk as the potential for loss from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks.

The management of operational risk is a challenge due to its broad scope as operational risks arise from all activities carried out within the Group. To address this challenge we map risks across the Group at a processes level with controls installed to mitigate these risks. We benchmark practices against peers and regulatory requirements.

### Operational risk governance

The Group Risk Committee provides oversight of operational risk management across the Group. It is supported by the Group Operational Risk Committee, and the Group Financial Crime Risk Committee, which oversee operational risk arising from the global businesses and functions. These committees receive regular reports on the Group's operational risk profile. The Group Risk Committee is also supported by the Group Information Management Governance Committee which oversees the management of the data quality framework and strategy.

### Internal organisation – Three lines of defence

To implement its operational risk management approach, the Group applies the Three Lines of Defence model, as set out in the Risk Management Framework and explained on page 141. In the context of operational risk:

The first line of defence is responsible for identifying and managing the inherent risks in processes they own.

The second line of defence is responsible for setting and maintaining control standards for the operational risk management. The second line of defence comprises both risk control owners of each operational risk sub-type and Group policy owners.

The third line of defence is the independent assurance provided by the Group Internal Audit function.

### Risk classification

Operational risk sub-types are the different ways that the Group may be operationally exposed to loss. The Group uses operational risk sub-types principally as an aid to ensure comprehensive and consistent identification of operational risks, wherever they may arise. Operational risk sub-types are listed in the table below.

**OPERATIONAL RISK SUB-TYPES**

<b>External rules and regulations</b>	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
<b>Liability</b>	Potential for loss or sanction due to a legal claim against any part of the Group or individuals within the Group
<b>Legal enforceability</b>	Potential for loss due to failure to legally protect the Group's interests or from difficulty in enforcing the Group's rights
<b>Damage or loss of physical assets</b>	Potential for loss or damage or denial of use of property or other physical assets
<b>Safety and security</b>	Potential for loss or damage relating to health and safety or physical security
<b>Internal fraud or dishonesty</b>	Potential for loss due to action by staff that is intended to defraud, or to circumvent the law or Group policy
<b>External fraud</b>	Potential for loss due to criminal acts by external parties such as fraud or theft of financial assets
<b>Information security</b>	Potential for loss due to unauthorised access, use, disclosure, disruption, modification or destruction of information
<b>Processing failure</b>	Potential for loss due to failure of an established process or a process design weakness
<b>Model</b>	Potential for loss due to a significant discrepancy between the output of credit and market risk measurement models and actual experience Potential for regulatory breach due to a significant discrepancy between the output of financial crime client risk scoring and financial crime transaction monitoring models and actual experience

**Operational risk management approach**

The Group defines and maintains a process universe for all client segments, products and functions.

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 approach has been installed for prioritised risks across all countries. The operational risk management approach requires:

- All processes to be identified and standardised except for regulatory or legitimate system exceptions
- Inherent risks to be identified and assessed by the first line and approved by the second line
- Industrial strength controls to be designed with standards for quantity, materiality and timeliness of detection and rectification of defects
- Residual risks to be assessed by first line and approved by second line
- Monitoring of risks and controls
- Prompt execution of risk treatment actions

**Stress testing**

As part of the operational risk management approach, the Group conducts stress testing by scenario analysis.

In 2016, we participated in the Bank of England stress test and the annual Internal Capital Adequacy Assessment Process. The exercises included judgemental overlays for the potential risk of low-frequency, high-severity events occurring during stress conditions.

In addition to the above, we review concentration of risks across the Group's processes and prioritises low-frequency high-severity scenarios to assess the potential impact that may exceed the Group's risk appetite. During 2016, the scenario analysis programme conducted 13 scenarios. These scenarios included anti-money laundering, sanctions, information and cyber security and change management.

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 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 Operational Risk Framework 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 and Group policy owners are responsible for defining the Group's minimum standards and controls in respect of each category
- Conduct is considered in the Group's operational top risks (see Risk profile on page 181). 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

**Reputational risk (unaudited)**

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.

Our reputational risk framework covers two areas. Reputational risk management refers to proactively avoiding or mitigating the potential damage that might result from a future reputational risk event (*ex ante*). Reputational issues management and crisis communication refers to measures to limit damage from a reputational risk event that has already occurred (*ex post*).

Reputational risk may also arise from a failure to comply with environmental and social standards in our relationship with clients and in our financing decisions. Environmental risk is the potential for material harm or degradation to the natural environment, while social risk is the potential to cause material harm to individuals or communities. Environmental and social risks associated with clients are a key area of risk for the Group and we have continued to develop and enhance our approach to managing such risks since 1997.

Reflecting the differing regulatory and legislative frameworks applicable to clients in the Group's markets, we have global sector-specific environmental and social (E&S) standards as set out in our 17 sectoral and three thematic position statements. We apply these in the provision of financial services to clients who operate in sectors presenting specific risks, and for key issues. These are underpinned by the Equator Principles and the IFC Performance Standards.

The Board recognises its responsibility to manage these risks and that failure to manage them adequately would have an adverse impact on our business, and is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place.

The Board receives regular information to identify and assess significant risks and opportunities arising from environmental and social matters. These issues are overseen by the Brand, Values and Conduct Committee. The Committee reviews sustainability priorities, and oversees the development of, and delivery against, public commitments regarding the activities and/or businesses that the Group will or will not accept in alignment with our Here for good brand promise.

We take our position statement commitments seriously. To ensure we deliver our commitments, we embed these requirements through our core banking processes. We have mechanisms in our origination and credit processes to identify and assess environmental and social risks in accordance with our standards. We have a dedicated Environmental and Social Risk Management (ESRM) team that reviews clients and proposed transactions that present specific risks.

The Group recognises that stakeholder expectations of our environmental and social risk management will change over time. As such we seek to explain our approach and standards via our position statements, and to ensure they remain appropriate through active monitoring. In 2016 we have updated our Climate Change and Energy Position Statements to reflect changing expectations on our role in energy financing and in managing climate risk. We also created a Human Rights Position Statement, consolidating our previous policies and disclosures.

In 2016, our ESRM team reviewed over 320 client relationships and transactions across a range of Position Statement sectors. We believe in working collaboratively to achieve sustainability goals. This includes working with clients, other financial institutions and industry bodies to promote, develop and encourage leading E&S standards. For all risks identified, we seek to develop effective mitigating measures. Where this is not possible, transactions have been and will continue to be turned down. In 2016, we trained more than 110 staff on our requirements and processes.

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.

#### **For more information on our environmental and social risk assessment please refer to [sc.com/eandsrisk](#)**

The Group Risk Committee provides Group-wide oversight on reputational risk, sets policy and monitors material risks. 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.

In 2017 a review of risk control ownership and governance of reputational risk will take place.

#### **Pension risk (unaudited)**

Pension risk is the potential for loss due to having to meet an actuarially assessed shortfall in the Group's pension schemes. Standard Chartered offers defined contribution pension plans for new hires in most locations, and only maintains defined benefit plans where required by law, contract or for closed groups of long-serving employees. The Group monitors and manages both the pension financial risks stemming from its legacy defined benefit schemes and the operational and reputational risks of all its pension arrangements. In doing this the Group has primary regard to its capital position, and the relative costs and benefits of reducing or removing its risk exposure.

The Group's primary pension risk measures are updates, at least quarterly, of the accounting balance sheet position, the 1-in-200 year stress test required annually by the PRA, and the funding position of the UK Fund (over 60 per cent of the Group's pension liabilities). The Group mitigates pension risk via a Group Pension Risk Policy which requires all new plans to be defined contribution where possible, and mandates standards around investments, benefit changes, funding, documentation, actuarial valuations, accounts and auditing. Adherence to these standards is assured by an annual governance review.

The Pension Risk Control Owner is responsible for the governance of pension risk and reports to the Group Risk Committee every six months on pension risk matters.

#### **Strategic risk (unaudited)**

Strategic risk is defined as a possible source of loss (or lost opportunity) that might arise from the pursuit of an unsuccessful business plan. Strategic risk is as much about missing out on potential upside opportunities as managing downside risks. Strategic Risks also materialise through other risk types.

As the ultimate governance body for the Group, the Board challenges the Group's strategy and highlights potential underlying risks. The Group Chief Financial Officer is responsible for formulation of the Group Strategy consistent with the risk appetite and financial objectives agreed by the Board from time to time. He is also responsible for ensuring any strategic analysis presented to the Group Chief Executive, the Board of Standard Chartered PLC or other governing bodies is sound and comprehensive. Responsibility for strategy development formally rests with the business heads, but the Group Head of Strategy is the risk control owner for all strategic risks.

# Risk profile

## Our risk profile in 2016

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 Appetite Statement. Market conditions continued to be challenging in 2016 and the economic outlook remains uncertain. We manage these uncertainties through a framework that provides a forward-looking 12 to 18 month view of the economic, business and credit conditions across the Group's key markets, enabling us to proactively manage our portfolio.

We continue to take action to reposition the Group's corporate portfolio, exiting weaker credit or lower return clients and adding new clients selectively. The Group's portfolio is now more diversified across dimensions such as industry sectors, geographies and single names.

The table below highlights the Group's overall risk profile associated with our business strategy.

## OUR RISK PROFILE IN 2016

<b>Robust risk governance structure and experienced senior team</b>	<b>Increasingly diversified short tenor portfolio with reducing concentrations</b>	<b>Strong capital and liquidity position</b>
<ul style="list-style-type: none"> <li>• We have a robust Risk Management Framework that assigns accountability and responsibility for the management and control of risk</li> <li>• We have a clear Risk Appetite Statement which is aligned to the Group's strategy; it is approved by the Board and informs the more granular risk parameters within which our businesses operate with a particular focus on reducing concentrations</li> <li>• We have a very experienced senior risk team and our risk committees are staffed by the Group's most senior leaders</li> <li>• We continuously monitor our risk profile to ensure it remains within our risk appetite, regularly conduct stress tests and adjust our exposures, underwriting standards and limits</li> </ul>	<p><b>Increasingly diversified short tenor portfolio with reducing concentrations</b></p> <ul style="list-style-type: none"> <li>• Our balance sheet remains resilient and increasingly well-diversified across a wide range of regions, client segments, industries and products that serve to mitigate risk</li> <li>• Within the Corporate &amp; Institutional Banking and Commercial Banking portfolio: <ul style="list-style-type: none"> <li>- Loans and advances to the financing, insurance and non-banking industry are 27 per cent of the total customer portfolio, mostly to investment grade institutions. All other industry concentrations are below 14 per cent of the total customer portfolio</li> <li>- The loan portfolio remains predominantly short-dated, with 70 per cent of loans and advances to customers maturing in under one year</li> <li>- Our top 20 corporate exposures have reduced to 55 per cent of Tier 1 capital, from 61 per cent as at December 2015</li> <li>- Over 47 per cent of customer loans and advances is investment grade and this mix is improving</li> <li>- We hold a diverse mix of collateral, valued conservatively. Over half of our sub-investment grade corporate portfolio is collateralised. 55 per cent of long-term sub investment grade is collateralised</li> </ul> </li> <li>• More than 41 per cent of customer loans and advances are in retail products. The overall loan-to-value ratio on our mortgage portfolio is less than 50 per cent</li> <li>• We have low exposure to asset classes outside our core markets</li> </ul>	<p><b>Strong capital and liquidity position</b></p> <ul style="list-style-type: none"> <li>• We remain well capitalised and our balance sheet remains highly liquid</li> <li>• We have a strong advances-to-deposits ratio, and remain a net provider of liquidity to interbank markets</li> <li>• Our customer deposit base is diversified by type and maturity</li> <li>• We have a substantial portfolio of liquid assets that can be realised if a liquidity stress occurs</li> </ul>

## Basis of preparation

Unless otherwise stated the balance sheet and income statement information presented within this section is based on the Group's management view. This is principally the location from which a client relationship is managed, which may differ from where it is financially booked and may be shared between businesses and/or regions. This view reflects how the client segments and regions are managed internally.

## Credit risk

The following pages provide details 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 151)
- Credit quality, which provides an analysis of the loan portfolio by client segment categorised by Strong, Satisfactory and Higher risk, forborne loans, and credit quality by region (pages 153 to 156)
- Problem credit management and provisioning, which provides an analysis of non-performing loans and impaired loans (pages 157 to 161)

- Credit risk mitigation, which provides analysis of collateral held by client segment and collateral type, and details of loan-to-value ratios and other forms of credit risk mitigation (pages 162 to 165)
- Other portfolio analysis, which provides maturity analysis by client segment, and industry and retail products analysis by region (pages 165 to 167)
- Selected portfolios, which provide further detail on commodities and commodities related exposures, debt securities and treasury bills and asset backed securities (pages 167 to 169)

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

A summary of our current policies and practices regarding credit risk management is provided in the Risk management approach on page 142.

## Maximum exposure to credit risk

The table below presents the Group's maximum exposure to credit risk for its on-balance sheet and off-balance sheet financial instruments as at 31 December 2016, before and after taking into

account any collateral held or other credit risk mitigation. For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk generally represents the contractual notional amounts.

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

The Group's gross maximum exposure to credit risk has decreased by \$15 million when compared to 2015, mainly driven by the reduction in off-balance sheet exposure, offset by the increase in on-balance sheet exposure. Cash and balances at central banks

have increased by \$5.4 billion reflecting higher surplus liquidity in Europe and the Americas. Loans and advances to customers and banks have increased by \$2.4 billion, with loans to customers down \$5.5 billion mainly due to risk-mitigating actions to reduce exposures in some markets and sectors and exposure to banks, up \$7.9 billion from short-term reverse repurchase transactions backed by high quality bonds. Further details of the loan portfolio are set out on page 165. Off-balance sheet exposures, mainly arising from trade finance, decreased by \$6.2 billion, reflecting the slowdown in key markets in our footprint.

Investment securities decreased by \$5.9 billion as we reduced holdings of UK government bonds and other debt securities. The Group's credit risk exposure before risk mitigation arising from derivatives increased by \$2.4 billion.

#### Maximum exposure to credit risk

	2016				2015			
	Credit risk management				Credit risk management			
	Maximum exposure \$million	Collateral \$million	Master netting \$million	Net exposure \$million	Maximum exposure \$million	Collateral \$million	Master netting \$million	Net exposure \$million
<b>On-balance sheet</b>								
Cash and balances at central banks	<b>70,706</b>	-	-	<b>70,706</b>	65,312	-	-	65,312
Loans and advances to customers held at: <sup>1</sup>								
Fair value through profit or loss	<b>3,177</b>				4,047			
Amortised cost	<b>252,719</b>				257,356			
	<b>255,896</b>				261,403			
Loans and advances to banks held at: <sup>1</sup>								
Fair value through profit or loss	<b>2,060</b>				2,275			
Amortised cost	<b>72,609</b>				64,494			
	<b>74,669</b>				66,769			
Total loans and advances to banks and customers	<b>330,565</b>	<b>151,310</b>	-	<b>179,255</b>	328,172	145,311 <sup>7</sup>	-	182,861
Investment securities <sup>2</sup>								
As per balance sheet	<b>108,972</b>	-	-	<b>108,972</b>	114,767	-	-	114,767
Held at fair value through profit or loss	<b>14,840</b>	-	-	<b>14,840</b>	17,079	-	-	17,079
Less: Equity securities	<b>(2,564)</b>	-	-	<b>(2,564)</b>	(4,655)	-	-	(4,655)
	<b>121,248</b>	-	-	<b>121,248</b>	127,191	-	-	127,191
Derivative financial instruments <sup>3</sup>	<b>65,509</b>	<b>9,624</b>	<b>40,391</b>	<b>15,494</b>	63,143	10,074	38,934	14,135
Accrued income <sup>4</sup>	<b>1,639</b>			<b>1,639</b>	1,924			1,924
Assets held for sale	<b>1,102</b>			<b>1,102</b>	340			340
Other assets <sup>5</sup>	<b>33,942</b>			<b>33,942</b>	32,408			32,408
Total balance sheet	<b>624,711</b>	<b>160,934</b>	<b>40,391</b>	<b>423,386</b>	618,490	155,385	38,934	424,171
<b>Off-balance sheet</b>								
Contingent liabilities	<b>37,390</b>	-	-	<b>37,390</b>	39,055	-	-	39,055
Undrawn irrevocable standby facilities, credit lines and other commitments to lend <sup>6</sup>	<b>55,655</b>	-	-	<b>55,655</b>	59,431	-	-	59,431
Documentary credits and short-term, trade-related transactions	<b>4,120</b>	-	-	<b>4,120</b>	4,852	-	-	4,852
Forward asset purchases and forward deposits	<b>6</b>	-	-	<b>6</b>	69 <sup>8</sup>	-	-	69
Total off-balance sheet	<b>97,171</b>	-	-	<b>97,171</b>	103,407	-	-	103,407
Total	<b>721,882</b>	<b>160,934</b>	<b>40,391</b>	<b>520,557</b>	721,897	155,385	38,934	527,578

1. An analysis of credit quality is set out on page 152. Further details of collateral held by client segment and held for past due and individually impaired loans are set out on page 162

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. Accrued income is now included in the table to more accurately reflect the maximum exposure to credit risk

5. The composition of other assets has been amended to more accurately reflect the maximum exposure to credit risk. Other assets now also include HK certificate of indebtedness, cash collateral, acceptances in addition to unsettled trades and other financial assets

6. Excludes unconditionally cancellable facilities

7. Collateral balance has been restated. Refer to page 162 for details

8. Forward asset purchases and forward deposits have been restated. Refer to note 24 for details

## Credit quality analysis

An overall breakdown of the loan portfolio by client segment is set out on pages 153 to 155, differentiating between the performing and non-performing book.

Within the performing book, there is an analysis:

- By credit quality, which plays a central role in the quality assessment and monitoring of risk, as explained on pages 142 and 143
- 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 that have complied with their revised contractual terms for more than 180 days and on which no further loss of principal is expected

### Mapping of credit quality<sup>1</sup>

Credit quality description	Corporate & Institutional Banking and Commercial Banking			Private Banking	Retail Banking
	Credit Grade mapping	S&P external ratings equivalent	Probability of default (%)		
Strong	Grades 1-5	AAA to BBB-	0.000-0.425	Class I and Class IV	Current loans (no past dues nor impaired)
Satisfactory	Grades 6-8 Grades 9-11	BB+ to BB-/B+ B+ to B-/CCC	0.426-2.350 2.351-15.750	Class II and Class III	Loans past due till 29 days
Higher risk	Grade 12	B-/CCC	15.751-50.000	GSAM managed	Past due loans 30 days and over till 90 days

1. The credit quality categories for performing loans were changed to align them to how the business is managed in Retail Banking and Private Banking. The categories for Corporate & Institutional Banking and Commercial Banking were aligned to external ratings categories

Overall, the credit quality of the Corporate & Institutional Banking and Commercial Banking loan book has improved when compared to 2015. The strong credit quality category has increased by \$6.8 billion due to higher levels of reverse repurchase activity with financing, insurance and non-banking clients. The satisfactory credit quality category has decreased by \$4.1 billion due to actions taken to reduce single name concentration and commodities exposure. Excluding the above two items, the credit quality composition across most sectors and countries is consistent with the prior year, although there has been some deterioration in the commodities-related sector due to sustained commodity price volatility. This deterioration resulted in a small increase in the higher risk credit quality category of \$0.3 billion.

The credit quality composition for loans to banks is also consistent with prior periods, with the majority of the growth in this period being in the strong category.

Retail Banking credit quality remained stable over the past year.

Further details of our approach to credit rating and measurement is set out on pages 142 to 143.

Performing loans and advances that are past due but not impaired decreased slightly in 2016, with improvement in 61-90 days past dues. The past due balances arise substantially in the 'up to 30 days past due' category. In the Corporate & Institutional Banking and Commercial Banking segments, across all past due categories, approximately 73 per cent of the amounts past due were regularised by 31 January 2017.

### Non-performing loans (NPLs)

A 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.

NPLs are analysed, net of individual impairment provisions, between what is past due but not impaired and what is impaired.

NPLs (net of individual impairment provisions) are \$2.7bn lower than 2015. This is driven primarily by the liquidation portfolio in the Corporate & Institutional Banking segment. Gross NPLs increased

Further analysis of credit quality by geography, together with the related impairment charges and provisions, is set out on page 156.

### Credit grade migration

Performing loans constitute 98 per cent of customer loans, a 1 per cent increase from 2015.

All loans are assigned a Credit Grade (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.

A breakdown of the performing loans by credit quality is provided on page 153. The Group uses an internal risk mapping to determine the credit quality for loans, as shown in the table below.

in the ongoing business mainly due to a small number of exposures in the commodities-related sector and diamond and jewellery sector in the Corporate & Institutional Banking book. Gross NPLs in the ongoing business for the second half of 2016 was lower compared to the first half of 2016.

### Individual impairment provisions

In Corporate & Institutional Banking, individual impairment provisions on the balance sheet for NPLs decreased by \$269 million (6 per cent) compared to 31 December 2015. This was mainly driven by lower provisions in the liquidation portfolio. Individual impairment provisions in the ongoing business increased by \$825 million. Commercial Banking individual impairment provisions on the balance sheet for NPLs remained flat compared to 31 December 2015.

Retail Banking individual impairment provision balance improved by \$70 million compared to 2015, primarily driven by improvements in Korea Personal Debt Rehabilitation Scheme (PDRS) related losses and the sale of portfolios in Thailand and the Philippines. We remain disciplined in our approach to risk management and proactive in our collection efforts to minimise account delinquencies.

### Portfolio impairment provisions

Portfolio impairment provisions are held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in any loan portfolio. Portfolio impairment provision balances have increased 4.6 per cent from 2015. There was an increase of \$106 million in the Corporate & Institutional Banking segment due to an adjustment for uncertainties arising from the same sectors as those driving loan impairment. The increase in Corporate & Institutional Banking portfolio impairment provision was partially offset by a decrease of \$58 million in the Retail Banking segment and \$19 million in the Commercial Banking segment due to improvement in credit quality.

Further details around the policy and rationale underlying the determinant of the portfolio impairment provision are provided on page 144 and 145.

By client segment

	2016						
	Loans to customers						
	Loans to banks \$million	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Performing loans</b>							
– Strong	66,954	63,547	91,186	4,851	7,816	4,023	171,423
– Satisfactory	7,682	55,207	1,560	18,296	3,767	233	79,063
– Higher risk	34	1,223	410	264	38	–	1,935
	74,670	119,977	93,156	23,411	11,621	4,256	252,421
<b>Impaired forbearance loans, net of provisions</b>							
	–	–	251	–	–	–	251
<b>Non-performing loans</b>							
	–	2,515	339	768	289	–	3,911
<b>Total loans</b>							
Portfolio impairment provision	74,670	122,492	93,746	24,179	11,910	4,256	256,583
<b>Total net loans</b>	<b>74,669</b>	<b>122,231</b>	<b>93,488</b>	<b>24,013</b>	<b>11,908</b>	<b>4,256</b>	<b>255,896</b>

The following table further analyses total loans included within the table above

	2016						
	Loans to customers						
	Loans to banks \$million	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Included in performing loans</b>							
<b>Neither past due nor impaired</b>							
– Strong	66,600	63,416	91,186	4,812	7,816	4,023	171,253
– Satisfactory	7,580	53,791	–	17,728	3,690	233	75,442
– Higher risk	34	1,121	–	188	18	–	1,327
	74,214	118,328	91,186	22,728	11,524	4,256	248,022
<b>Past due but not impaired</b>							
– Up to 30 days past due	456	1,402	1,560	539	91	–	3,592
– 31-60 days past due	–	100	282	111	–	–	493
– 61-90 days past due	–	147	128	33	6	–	314
	456	1,649	1,970	683	97	–	4,399
<b>Total performing loans</b>	<b>74,670</b>	<b>119,977</b>	<b>93,156</b>	<b>23,411</b>	<b>11,621</b>	<b>4,256</b>	<b>252,421</b>
of which, forbearance loans amounting to	1	964	224	111	–	–	1,299
<b>Included in non-performing loans</b>							
<b>Past due but not impaired</b>							
– 91-120 days past due	–	–	72	5	–	–	77
– 121-150 days past due	–	–	60	12	–	–	72
	–	–	132	17	–	–	149
<b>Individually impaired loans, net of provisions</b>	<b>–</b>	<b>2,515</b>	<b>207</b>	<b>751</b>	<b>289</b>	<b>–</b>	<b>3,762</b>
<b>Total non-performing loans</b>	<b>–</b>	<b>2,515</b>	<b>339</b>	<b>768</b>	<b>289</b>	<b>–</b>	<b>3,911</b>
of which, forbearance loans amounting to	–	889	135	200	–	–	1,224

The following table sets out loans and advances held at fair value through profit and loss which are included within the previous table.

	2016						
	Loans to customers						
	Loans to banks \$million	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Neither past due nor impaired</b>							
– Strong	1,659	1,769	–	–	–	–	1,769
– Satisfactory	401	1,346	–	47	–	–	1,393
– Higher risk	–	–	–	–	–	–	–
	<b>2,060</b>	<b>3,115</b>	<b>–</b>	<b>47</b>	<b>–</b>	<b>–</b>	<b>3,162</b>
<b>Past due but not impaired</b>							
– 61-90 days past due	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
<b>Individually impaired loans</b>							
	–	15	–	–	–	–	15
<b>Total loans held at fair value through profit and loss</b>	<b>2,060</b>	<b>3,130</b>	<b>–</b>	<b>47</b>	<b>–</b>	<b>–</b>	<b>3,177</b>

#### By client segment

	2015						
	Loans to customers <sup>1</sup>						
	Loans to banks \$million	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Performing loans</b>							
<b>Neither past due nor impaired</b>							
– Strong	60,502	57,297	92,117	4,335	10,010	5,547	169,306
– Satisfactory	6,183	58,694	1,701	18,910	4,965	–	84,270
– Higher risk	44	830	487	337	–	–	1,654
	<b>66,729</b>	<b>116,821</b>	<b>94,305</b>	<b>23,582</b>	<b>14,975</b>	<b>5,547</b>	<b>255,230</b>
<b>Impaired forbearance loans, net of provisions</b>	–	–	240	–	–	–	240
<b>Non-performing Loans</b>	41	4,857	468	943	322	–	6,590
<b>Total loans</b>	<b>66,770</b>	<b>121,678</b>	<b>95,013</b>	<b>24,525</b>	<b>15,297</b>	<b>5,547</b>	<b>262,060</b>
Portfolio impairment provision	(1)	(155)	(316)	(185)	(1)	–	(657)
<b>Total net loans</b>	<b>66,769</b>	<b>121,523</b>	<b>94,697</b>	<b>24,340</b>	<b>15,296</b>	<b>5,547</b>	<b>261,403</b>

The following table further analyses total loans included within the table above.

	2015						
	Loans to customers <sup>1</sup>						
	Loans to banks \$million	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Included in performing loans</b>							
<b>Neither past due nor impaired</b>							
– Strong	60,197	55,562	92,117	3,773	9,958	5,547	166,957
– Satisfactory	6,183	58,929	–	19,024	4,965	–	82,918
– Higher risk	44	595	–	223	–	–	818
	<b>66,424</b>	<b>115,086</b>	<b>92,117</b>	<b>23,020</b>	<b>14,923</b>	<b>5,547</b>	<b>250,693</b>
<b>Past due but not impaired</b>							
– Up to 30 days past due	177	1,237	1,701	453	52	–	3,443
– 31-60 days past due	2	89	335	60	–	–	484
– 61-90 days past due	126	409	152	49	–	–	610
	<b>305</b>	<b>1,735</b>	<b>2,188</b>	<b>562</b>	<b>52</b>	<b>–</b>	<b>4,537</b>
<b>Total performing loans</b>	<b>66,729</b>	<b>116,821</b>	<b>94,305</b>	<b>23,582</b>	<b>14,975</b>	<b>5,547</b>	<b>255,230</b>
of which, forbearance loans amounting to	1	1,038	194	110	–	–	1,342

1. The 2015 comparatives have been represented to reflect the reorganisation of the Group's client segments. Refer to note 1 for details

	2015						
	Loans to customers <sup>1</sup>						
	Loans to banks \$million	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Included in non-performing loans</b>							
<b>Past due but not impaired</b>							
– 91-120 days past due	–	–	149	9	–	–	158
– 121-150 days past due	–	–	65	4	–	–	69
–	–	–	214	13	–	–	227
<b>Individually impaired loans, net of provisions</b>	<b>41</b>	<b>4,857</b>	<b>254</b>	<b>930</b>	<b>322</b>	<b>–</b>	<b>6,363</b>
<b>Total non-performing loans</b>	<b>41</b>	<b>4,857</b>	<b>468</b>	<b>943</b>	<b>322</b>	<b>–</b>	<b>6,590</b>
of which, forborne loans amounting to	1	2,868	214	211	–	–	3,293

The following table sets out loans held at fair value through profit and loss which are included within the previous table.

	2015						
	Loans to customers <sup>1</sup>						
	Loans to banks \$million	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million
<b>Neither past due nor impaired</b>							
– Strong							
– Satisfactory	2,275	3,707	–	5	–	–	3,712
– Higher risk	–	103	–	–	–	–	103
–	–	–	–	–	–	–	–
	2,275	3,810	–	5	–	–	3,815
<b>Past due but not impaired</b>							
– 61-90 days past due							
–	–	98	–	–	–	–	98
–	–	98	–	–	–	–	98
<b>Individually impaired loans</b>	<b>–</b>	<b>134</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>134</b>
<b>Total loans held at fair value through profit and loss</b>	<b>2,275</b>	<b>4,042</b>	<b>–</b>	<b>5</b>	<b>–</b>	<b>–</b>	<b>4,047</b>

1. The 2015 comparatives have been represented to reflect the reorganisation of the Group's client segments. Refer to note 1 for details

#### Forborne loans

The table below shows an analysis of forborne loans by region. The 43 per cent reduction in total forborne loans in 2016 was due to the settlement of a large exposure in the liquidation portfolio. Refer to note 8 for the accounting policy on forborne loans.

	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & MENAP \$million	Europe & Americas \$million	Total \$million
Not impaired	159	242	790	109	1,300
Impaired	327	726	284	138	1,475
<b>Total forborne loans</b>	<b>486</b>	<b>968</b>	<b>1,074</b>	<b>247</b>	<b>2,775</b>

	2015 <sup>1</sup>				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & MENAP \$million	Europe & Americas \$million	Total \$million
Not impaired	304	350	632	57	1,343
Impaired	334	1,325	384	1,491	3,534
<b>Total forborne loans</b>	<b>638</b>	<b>1,675</b>	<b>1,016</b>	<b>1,548</b>	<b>4,877</b>

1. The 2015 comparatives have been represented to reflect the management view. Previously numbers were presented on a financial view. Refer to note 2 for details

## Credit quality by region

## Loans and advances to customers

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.

	2016									
	Balance sheet <sup>1</sup>					Profit and loss <sup>1</sup>				
	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individually impaired \$million	Individual impairment provision \$million	Portfolio impairment provision <sup>3</sup> \$million	Total \$million	Net individual impairment provision \$million	Portfolio impairment provision/ (release) \$million	Net loan impairment charge \$million	
Greater China & North Asia	109,250	901	1,115	(535)	(198)	110,533	484	(53)	431	
ASEAN & South Asia	69,652	1,648	4,665	(2,568)	(236)	73,161	984	6	990	
Africa & Middle East	25,846	1,720	2,682	(1,981)	(127)	28,140	594	7	601	
Europe & Americas	43,274	279	1,218	(583)	(126)	44,062	491	92	583	
	248,022	4,548	9,680	(5,667)	(687)	255,896	2,553	52	2,605	

	2015									
	Balance sheet <sup>1,2</sup>					Profit and loss <sup>1,2</sup>				
	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individually impaired \$million	Individual impairment provision	Portfolio impairment provision	Total	Net individual impairment provision	Portfolio impairment provision/ (release)	Net loan impairment charge <sup>2</sup>	
Greater China & North Asia	104,800	912	1,489	(787)	(253)	106,161	847	89	936	
ASEAN & South Asia	81,365	2,195	5,537	(2,509)	(245)	86,343	2,143	57	2,200	
Africa & Middle East	28,486	1,462	3,021	(1,771)	(128)	31,070	908	(11)	897	
Europe & Americas	36,042	195	2,579	(956)	(31)	37,829	832	(138)	694	
	250,693	4,764	12,626	(6,023)	(657)	261,403	4,730	(3)	4,727	

1. Excludes impairment charges relating to debt securities classified as loans and receivables (refer to note 8 on page 216)

2. The 2015 comparatives have been represented to reflect the management view. Previously numbers were presented on a financial view. Refer to note 2 for details on pages 209 to 210

3. The movement in portfolio impairment provision includes net impairment charges or releases against profit, transfers to assets held for sale and exchange translation differences, refer to page 160 for details

## Loans and advances to banks

	2016									
	Balance sheet <sup>1</sup>					Profit and loss <sup>1</sup>				
	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individually impaired \$million	Individual impairment provision \$million	Portfolio impairment provision \$million	Total \$million	Net individual impairment provision \$million	Portfolio impairment provision/ (release) \$million	Net loan impairment charge \$million	
Greater China & North Asia	31,930	309	—	—	—	32,239	—	—	—	
ASEAN & South Asia	14,722	17	163	(163)	(1)	14,738	—	—	—	
Africa & Middle East	7,492	61	—	—	—	7,553	—	—	—	
Europe & Americas	20,070	69	—	—	—	20,139	—	—	—	
	74,214	456	163	(163)	(1)	74,669	—	—	—	

	2015									
	Balance sheet <sup>1,2</sup>					Profit and loss <sup>1,2</sup>				
	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individually impaired \$million	Individual impairment provision \$million	Portfolio impairment provision \$million	Total \$million	Net individual impairment provision \$million	Portfolio impairment provision/ (release) \$million	Net loan impairment charge \$million	
Greater China & North Asia	29,151	1	—	—	—	29,152	—	—	—	
ASEAN & South Asia	9,438	21	160	(160)	(1)	9,458	82	(1)	81	
Africa & Middle East	6,827	98	1	—	—	6,926	—	—	—	
Europe & Americas	21,008	185	43	(3)	—	21,233	8	—	8	
	66,424	305	204	(163)	(1)	66,769	90	(1)	89	

1. Excludes impairment charges relating to debt securities classified as loans and receivables (refer to note 8 on page 216)

2. The 2015 comparatives have been represented to reflect the management view. Previously numbers were presented on a financial view. Refer to note 2 for details on pages 209 to 210

## Problem credit management and provisioning

### Impairments

At Group level, total loan impairment including the liquidation portfolio was \$2,791 million representing 107 basis points (bps) of average customer loans and advances, down from \$4,976 million in 2015. Loan impairment for the ongoing business remained largely flat at \$2,382 million compared to \$2,381 million in 2015.

By client segment, Retail Banking loan impairment has continued to improve and fell 28 per cent to \$489 million (2015: \$677m) representing 51 bps of loss. Improvement in loan impairment in 2016 is an outcome of improving portfolio performance in markets such as Korea, Hong Kong, Thailand, Singapore and a modest improvement in other markets.

Commercial Banking ongoing business loan impairment, though remaining elevated, fell by 50 per cent to \$491 million in 2016 (2015: \$980 million). This was across all regions as a result of improved credit and account management, but we remain vigilant for emerging risks.

The ongoing business loan impairment charge in Corporate & Institutional Banking increased to \$1,401 million when compared to \$723 million in 2015. Loan impairment of \$795 million in the second half of 2016 is higher than previous half years (H1 2016: \$606 million; H2 2015: \$525 million) due to impairment related to the diamond and jewellery sector. Geographically, Europe and Americas contributed to 36 per cent of the 2016 loan impairment.

The ongoing business cover ratio for Corporate & Institutional Banking has increased to 62 per cent (2015: 47 per cent) and for Commercial Banking increased to 75 per cent (2015: 70 per cent). The ongoing business cover ratio for the Group has increased to 69 per cent (2015: 62 per cent).

By industry sector, loan impairment related to commodities in the Corporate & Institutional Banking ongoing business was

\$435 million, an increase of 8 per cent from 2015 (2015: \$401 million) albeit lower in the second half of 2016 than in the first half. This constitutes 31 per cent of the Corporate & Institutional Banking ongoing business impairment charge and mainly relates to exposures in India.

The commodities sector loan impairment in the Commercial Banking ongoing business was \$101 million, down 41 per cent from 2015 (2015: \$171 million) and constituted 21 per cent of the Commercial Banking impairment charge.

In India, loan impairment for the Corporate & Institutional Banking ongoing business increased to \$284 million in 2016 (2015: \$188 million). The increase was primarily driven by a small number of exposures in the commodities sector. Loan impairment in the India Commercial Banking ongoing business decreased by 57 per cent to \$103 million (2015: \$239 million).

In 2015 the liquidation portfolio had been marked down to an estimate of its realisable value resulting in an impairment of \$2.6bn. Additional impairment of \$409 million was recognised in 2016 on the resolution of cases and on a clearer view of realisable value.

Other impairment (including restructuring charges and goodwill impairment) was \$612 million (2015: \$855 million). Excluding goodwill impairment, other impairment was \$446 million, an increase of \$79 million primarily due to the decline in value of Principal Finance.

In 2016 the Group disclosed its decision to reduce balance sheet exposure to Principal Finance by streamlining the business over time and managing its third-party portfolio to maximise value for shareholders and third-party investors. As a non-strategic business, the Group will exit Principal Finance and future gains and losses will be treated as restructuring and excluded from the underlying results of the Group.

The following table provides details of the impairment charge for the year.

	2016 \$million	2015 \$million
Corporate & Institutional Banking	1,401	723
Retail Banking	489	677
Commercial Banking	491	980
Private Banking	1	1
Impairment on loans and advances and other credit risk provisions	<b>2,382</b>	2,381
<b>Ongoing business portfolio loan impairment</b>		
Corporate & Institutional Banking	335	2,321
Commercial Banking	10	181
Private Banking	64	93
Impairment on loans and advances and other credit risk provisions	<b>409</b>	2,595
<b>Liquidation portfolio loan impairment</b>		
Total loan impairment	2,791	4,976
Other impairment <sup>1</sup>	612	855
<b>Total impairment</b>	<b>3,403</b>	5,831

1. Includes charges relating to restructuring actions for other impairments

**Non-performing loans by client segment**

Gross NPLs decreased by \$3.1 billion, or 24 per cent, compared to 2015. These decreases were primarily driven by a reduction in the liquidation portfolio through the disposal of loans and write-offs. Gross NPLs in the ongoing business were up by \$633 million on account of a small number of exposures in the commodities-related sectors (oil and gas offshore support) and in the diamond and jewellery sector.

Compared to 2015, amounts written off relating to Corporate & Institutional Banking increased due to a small number of large write-offs from the liquidation portfolio.

Commercial Banking amounts written off increased compared to 2015, primarily in Greater China as a result of the partial write-off of a large exposure in the liquidation portfolio and a number of small write-offs from the ongoing business.

The table below presents a movement of the gross NPLs to banks and customers, together with the provisions held and the respective cover ratios for all segments.

**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 Banking improved to 85 per cent (2015: 80 per cent) due to the sales of portfolios in Thailand and the Philippines.

The cover ratio before collateral for Corporate & Institutional Banking increased to 65 per cent compared to 48 per cent in 2015. The Commercial Banking cover ratio before collateral also increased to 75 per cent from 70 per cent in 2015.

The balance of NPLs not covered by individual impairment provisions represents the adjusted value of collateral held and the Group's estimate of the net outcome of any workout or recovery strategy.

Collateral provides risk mitigation to some degree in all client segments and supports the credit quality and cover ratio assessments post impairment provisions. Further information on collateral is provided on page 162.

	2016				
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Total \$million
Gross non-performing loans at 1 January	9,128	747	2,559	325	12,759
Exchange translation differences	(68)	(12)	(59)	(2)	(141)
Classified as non-performing during the year	1,800	864	642	103	3,409
Recoveries on loans and advances previously written off	13	63	51	–	127
Additions	1,813	927	693	103	3,536
Transferred to assets held for sale	–	(47)	–	–	(47)
Transferred to performing during the year	(39)	(147)	(5)	–	(191)
Net repayments	(2,416)	(180)	(300)	–	(2,896)
Amounts written off	(1,390)	(722)	(480)	(63)	(2,655)
Disposals of loans	(552)	(18)	(39)	(69)	(678)
Reductions	(4,397)	(1,114)	(824)	(132)	(6,467)
Gross non-performing loans at 31 December	6,476	548	2,369	294	9,687
Individual impairment provisions <sup>1</sup>	(3,961)	(209)	(1,601)	(5)	(5,776)
Net non-performing loans	2,515	339	768	289	3,911
Portfolio impairment provision	(262)	(258)	(166)	(2)	(688)
Total	2,253	81	602	287	3,223
Cover ratio	65%	85%	75%	2%	67%
Collateral (\$million)	702	255	358	290	1,605
Cover ratio (after collateral)	72%	85%	83%	100%	76%

**Of the above, included in liquidation portfolio**

Gross non-performing loans at 31 December	3,333	–	213	261	3,807
Individual impairment provisions	(2,267)	–	(154)	–	(2,421)
<b>Net non-performing loans</b>	<b>1,066</b>	–	<b>59</b>	<b>261</b>	<b>1,386</b>
<b>Cover ratio</b>	<b>68%</b>	–	<b>72%</b>	–	<b>64%</b>
<b>Collateral (\$million)</b>	<b>356</b>	–	<b>–</b>	<b>261</b>	<b>617</b>
<b>Cover ratio (after collateral)</b>	<b>79%</b>	–	<b>72%</b>	<b>100%</b>	<b>80%</b>

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

	2015 <sup>2</sup>				
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Total \$million
Gross non-performing loans at 1 January	4,380	797	2,225	90	7,492
Exchange translation differences	(200)	(55)	(92)	(2)	(349)
Classified as non-performing during the year	5,778	561	951	394	7,684
Recoveries on loans and advances previously written off	–	5	–	–	5
Additions	5,778	566	951	394	7,689
Transferred to performing during the year	(11)	(59)	(28)	(6)	(104)
Net repayments	(357)	(144)	(230)	–	(731)
Amounts written off	(461)	(305)	(244)	(93)	(1,103)
Disposals of loans	(1)	(53)	(23)	(58)	(135)
Reductions	(830)	(561)	(525)	(157)	(2,073)
Gross non-performing loans at 31 December	9,128	747	2,559	325	12,759
Individual impairment provisions <sup>1</sup>	(4,230)	(279)	(1,616)	(3)	(6,128)
Net non-performing loans	4,898	468	943	322	6,631
Portfolio impairment provision	(155)	(316)	(185)	(2)	(658)
<b>Total</b>	<b>4,743</b>	<b>152</b>	<b>758</b>	<b>320</b>	<b>5,973</b>
Cover ratio	48%	80%	70%	1%	53%
Collateral (\$million)	1,396	258	449	322	2,425
Cover ratio (after collateral)	62%	72%	81%	100%	67%

**Of the above, included in liquidation portfolio**

Gross non-performing loans at 31 December	6,960	–	250	302	7,512
Individual impairment provisions	(3,361)	–	(183)	–	(3,544)
<b>Net non-performing loans</b>	<b>3,599</b>	–	<b>67</b>	<b>302</b>	<b>3,968</b>
<b>Cover ratio</b>	<b>48%</b>	–	<b>73%</b>	–	<b>47%</b>
<b>Collateral (\$million)</b>	<b>992</b>	–	–	<b>302</b>	<b>1,294</b>
<b>Cover ratio (after collateral, excluding PIP)</b>	<b>63%</b>	–	<b>73%</b>	<b>100%</b>	<b>64%</b>

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. The 2015 comparatives have been represented to reflect the reorganisation of the Group's client segments. Refer to note 1 for details

**Non-performing loans by region**

The following tables set out the total non-performing loans to banks and customers on the basis of the regions:

	2016				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
Loans and advances					
Gross non-performing	1,170	4,711	2,739	1,067	9,687
Individual impairment provision <sup>1</sup>	(600)	(2,659)	(1,847)	(670)	(5,776)
Non-performing loans net of individual impairment provision	570	2,052	892	397	3,911
Portfolio impairment provision	(198)	(236)	(128)	(126)	(688)
Net non-performing loans and advances	372	1,816	764	271	3,223
<b>Cover ratio</b>	<b>68%</b>	<b>61%</b>	<b>72%</b>	<b>75%</b>	<b>67%</b>

1. The difference to total individual impairment provision reflects provisions against forborne loans that are not included within non-performing loans as they have been performing for 180 days

	2015 <sup>2</sup>				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & MENAP \$million	Europe & Americas \$million	
Loans and advances					
Gross non-performing	1,392	5,686	3,058	2,623	12,759
Individual impairment provision <sup>1</sup>	(748)	(2,650)	(1,771)	(959)	(6,128)
Non-performing loans net of individual impairment provision	644	3,036	1,287	1,664	6,631
Portfolio impairment provision	(253)	(246)	(128)	(31)	(658)
Net non-performing loans and advances	391	2,790	1,159	1,633	5,973
<b>Cover ratio</b>	72%	51%	62%	38%	53%

1. The difference to total individual impairment provision reflects provisions against performing forbearance loans that are not included within non-performing loans as they have been performing for 180 days

2. The 2015 comparatives have been represented to reflect the management view. Previously numbers were presented on a financial view. Refer to note 2 for details

### Individual and portfolio impairment provisions

The present value of estimated future cash flows, discounted at the asset's original effective interest rate is used to determine the amount of any impairment. In the case of the liquidation portfolio, the effect and timing of the disposal strategy is included in the estimate of future cash flows.

The significant increase in discount unwind in 2016 is mainly due to a large exposure in the liquidation portfolio. The movement in individual impairment provisions is provided below.

	2016			2015		
	Individual impairment provisions \$million	Portfolio impairment provisions \$million	Total \$million	Individual impairment provisions \$million	Portfolio impairment provisions \$million	
Provisions held at 1 January	<b>6,186</b>	<b>658</b>	<b>6,844</b>	3,375	698	4,073
Exchange translation differences	(68)	(9)	(77)	(214)	(36)	(250)
Amounts written off	<b>(2,745)</b>	–	<b>(2,745)</b>	(1,889)	–	(1,889)
Releases of acquisition fair values	–	–	–	(1)	–	(1)
Recoveries of amounts previously written off	<b>177</b>	–	<b>177</b>	181	–	181
Discount unwind	<b>(287)</b>	–	<b>(287)</b>	(107)	–	(107)
Transferred to assets held for sale	<b>(16)</b>	<b>(13)</b>	<b>(29)</b>	–	–	–
Disposal of business units	–	–	–	(14)	–	(14)
New provisions – restructuring	<b>409</b>	–	<b>409</b>	968	–	968
New provisions – excluding restructuring	<b>2,582</b>	<b>205</b>	<b>2,787</b>	4,174	229	4,403
New provisions	<b>2,991</b>	<b>205</b>	<b>3,196</b>	5,142	229	5,371
Recoveries/provisions no longer required	<b>(438)</b>	<b>(153)</b>	<b>(591)</b>	(322)	(233)	(555)
Net impairment charge/(recoveries) against profit	<b>2,553</b>	<b>52</b>	<b>2,605</b>	4,820	(4)	4,816
Other movements <sup>1</sup>	<b>30</b>	–	<b>30</b>	35	–	35
Provisions held at 31 December	<b>5,830</b>	<b>688</b>	<b>6,518</b>	6,186	658	6,844

1. Other movements include provisions for liabilities and charges that have been drawn down and are now part of loan impairment

### Individually impaired loans by client segment

Corporate & Institutional Banking gross individually impaired loans decreased by \$2.7 billion, or 29 per cent, since 2015 primarily in Europe and South Asia as a result of the settlement of a large exposure in the liquidation portfolio.

Gross impaired loans in the Retail Banking book decreased to \$0.7 billion mainly due to improvement in Korea and the sale of Thailand and Philippine portfolios.

The following table shows the movement of individually impaired loans and provisions for each client segment:

	2016				
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Total \$million
Gross impaired loans at 1 January	9,128	831	2,546	325	12,830
Exchange translation differences	(75)	(11)	(59)	(1)	(146)
Classified as individually impaired during the year	1,801	769	573	103	3,246
Transferred to not impaired during the year	(39)	(87)	(2)	–	(128)
Other movements <sup>1</sup>	(4,339)	(782)	(705)	(133)	(5,959)
Gross impaired loans at 31 December	6,476	720	2,353	294	9,843
Provisions held at 1 January	4,230	337	1,616	3	6,186
Exchange translation differences	(77)	(3)	12	–	(68)
Amounts written off	(1,439)	(722)	(520)	(64)	(2,745)
Recoveries of amounts previously written off	8	164	5	–	177
Discount unwind	(230)	(26)	(31)	–	(287)
Transferred to assets held for sale	–	(16)	–	–	(16)
New provisions	1,574	763	587	67	2,991
Recoveries/provisions no longer required	(134)	(235)	(68)	(1)	(438)
Net individual impairment charge against profit	1,440	528	519	66	2,553
Other movements <sup>2</sup>	29	–	1	–	30
Individual impairment provisions held at 31 December	3,961	262	1,602	5	5,830
Net individually impaired loans	2,515	458	751	289	4,013

	2015 <sup>3</sup>				
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Total \$million
Gross impaired loans at 1 January	4,964	846	2,198	91	8,099
Exchange translation differences	(199)	(40)	(86)	(2)	(327)
Classified as individually impaired during the year	5,548	382	940	394	7,264
Transferred to not impaired during the year	(370)	(43)	(27)	(6)	(446)
Other movements <sup>1</sup>	(815)	(314)	(479)	(152)	(1,760)
Gross impaired loans at 31 December	9,128	831	2,546	325	12,830
Provisions held at 1 January	1,852	458	1,006	59	3,375
Exchange translation differences	(123)	(47)	(41)	(3)	(214)
Amounts written off	(528)	(875)	(340)	(146)	(1,889)
Releases of acquisition fair values	(1)	–	–	–	(1)
Recoveries of amounts previously written off	2	175	4	–	181
Discount unwind	(48)	(25)	(34)	–	(107)
Transferred to assets held for sale	–	(14)	–	–	(14)
New provisions	3,061	914	1,074	93	5,142
Recoveries/provisions no longer required	(25)	(249)	(48)	–	(322)
Net individual impairment charge against profit	3,036	665	1,026	93	4,820
Other movements <sup>2</sup>	40	–	(5)	–	35
Individual impairment provisions held at 31 December	4,230	337	1,616	3	6,186
Net individually impaired loans	4,898	494	930	322	6,644

1. Other movements include repayments, amounts written off and disposals of loans

2. Other movements include provisions for liabilities and charges that have been drawn down and are now part of loan impairment

3. The 2015 comparatives have been represented to reflect the re-organisation of the Group's client segments. Refer to note 1 for details

## 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 taking into account expected volatility and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor. See page 143 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 decisions.

As a result of reinforcing our collateralisation requirements, the fair value of collateral held as a percentage of amount outstanding has increased by 1 per cent since the end of 2015.

The unadjusted market value of collateral across all asset types, in respect of Corporate & Institutional Banking and Commercial Banking, without adjusting for over-collateralisation, was \$229 billion (2015: \$201 billion).

The collateral values in the table below are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation. 50 per cent of clients that have placed collateral with the Group are over-collateralised. The average amount of over-collateralisation is 47 per cent.

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

The increase of reverse repurchase (repo) collateral from 49 per cent to 56 per cent was due to increased liquidity management activity by the Group.

The average loan-to-value (LTV) ratio of the commercial real estate (CRE) portfolio has increased to 39 per cent, compared with 37 per cent in 2015. The proportion of loans with an LTV greater than 80 per cent has remained at 1 per cent during the same period.

In the Retail Banking and Private Banking segments, a secured loan is one where the borrower pledges an asset as collateral of which the Group is able to take possession in the event that the borrower defaults. The collateral levels for Retail Banking have increased marginally compared to 2015.

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 143 and for the effect of over-collateralisation.

	Collateral			Amount outstanding <sup>1,2</sup>		
	Of which		Total \$million	Of which		Total \$million
	Past due but not individually impaired loans \$million	Individually impaired loans \$million		Past due but not individually impaired loans \$million	Individually impaired loans \$million	
<b>As at 31 December 2016</b>						
<b>Corporate &amp; Institutional Banking</b>	<b>57,378</b>	<b>93</b>	<b>702</b>	<b>174,877</b>	<b>2,105</b>	<b>6,476</b>
Retail Banking	73,352	1,527	255	93,846	2,102	720
Commercial Banking	7,084	393	358	25,042	700	2,353
Private Banking	7,584	94	290	11,926	97	294
Central & other items	5,912	—	—	25,562	—	—
<b>Total</b>	<b>151,310</b>	<b>2,107</b>	<b>1,605</b>	<b>331,253</b>	<b>5,004</b>	<b>9,843</b>
<b>As at 31 December 2015<sup>3,4</sup></b>						
Corporate & Institutional Banking	50,218	41	1,396	168,741	2,040	9,128
Retail Banking	72,017	1,563	258	95,013	2,402	831
Commercial Banking	7,934	207	449	24,525	575	2,546
Private Banking	9,859	52	322	15,297	52	325
Central & other items	5,283	—	—	25,254	—	—
<b>Total</b>	<b>145,311</b>	<b>1,863</b>	<b>2,425</b>	<b>328,830</b>	<b>5,069</b>	<b>12,830</b>

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

2. Includes loans and advances to banks

3. The 2015 comparatives have been represented to reflect the re-organisation of the Group's client segments. Refer to note 1

4. In the July 2016 re-presentation of the new client segments, \$14 billion of collateral on reverse repo transactions presented in Central & other items has been moved to Corporate & Institutional Banking. Total collateral against loans and advances has been reduced by \$6.2 billion to \$145 billion across the relevant client segments

### Corporate & Institutional Banking and Commercial Banking

Collateral held against Corporate & Institutional Banking and Commercial Banking exposures amounted to \$64 billion (2015: \$58 billion).

Our underwriting standards encourage taking specific charges on assets and we consistently seek high-quality, investment grade collateral. 29 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 standby letters of credit – may also be held against corporate exposures, although the financial effect of this type of collateral is less significant in terms of recoveries. However, this type of collateral is considered when determining probability of default and other credit-related factors.

Collateral taken for longer-term and sub-investment grade Corporate loans continues to be high at 55 per cent (59 per cent in 2015). Collateral is also held against off-balance sheet exposures, including undrawn commitments and trade-related instruments.

The proportion of highly rated reverse repos to total collateral has increased from 37 per cent in 2015 to 43 per cent in 2016.

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

	2016 \$million	2015 <sup>1,2</sup> \$million
Property	<b>10,763</b>	12,266
Plant, machinery and other stock	<b>4,509</b>	3,430
Cash	<b>8,842</b>	8,778
Reverse repo	<b>35,930</b>	28,474
AAA	327	225
AA- to AA+	<b>27,660</b>	21,255
BBB- to BBB+	<b>2,657</b>	3,009
Lower than BBB-	<b>854</b>	1,185
Unrated	<b>4,432</b>	2,800
Commodities	<b>776</b>	765
Ships and aircraft	<b>3,642</b>	4,439
Total value of collateral	<b>64,462</b>	58,152

- The 2015 comparatives have been represented to reflect the re-organisation of the Group's client segments. Refer to note 1 for details
- In the July 2016 re-presentation of the new client segments, \$14 billion of collateral on reverse repo transactions presented in Central & other items has been moved to Corporate & Institutional Banking. Total collateral against loans and advances has been reduced by \$5.5 billion to \$58.2 billion across the relevant types of collateral

### Retail Banking and Private Banking

In Retail Banking and Private Banking, 83 per cent of the portfolio is fully secured. The proportion of unsecured loans remains unchanged from 2015 at 15 per cent.

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

In Retail 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 of our mortgage portfolio is less than 50 per cent – relatively unchanged since the end of 2015. All our key markets continue to have low portfolio LTVs. Hong Kong mortgage average LTV is at 44 per cent, while Korea, Singapore and Taiwan average mortgage LTV are at 50 per cent, 59 per cent and 49 per cent respectively.

Page 164, presents an analysis of LTV ratios by geography for the mortgage portfolio.

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

	2016				2015 <sup>2</sup>			
	Fully secured \$million	Partially secured \$million	Unsecured \$million	Total <sup>1</sup> \$million	Fully secured \$million	Partially secured \$million	Unsecured \$million	Total \$million
Loans to individuals								
Mortgages	<b>73,484</b>	23	–	<b>73,507</b>	74,006	12	–	74,018
CCPL	360	690	<b>15,156</b>	<b>16,206</b>	386	632	16,534	17,552
Auto	635	–	3	<b>638</b>	792	–	4	796
Secured wealth products	<b>11,036</b>	44	–	<b>11,080</b>	13,689	383	14	14,086
Other	2,935	875	415	<b>4,225</b>	2,330	1,208	320	3,858
	<b>88,450</b>	<b>1,632</b>	<b>15,574</b>	<b>105,656</b>	91,203	2,235	16,872	110,310
<b>Percentage of total loans</b>	<b>83%</b>	2%	15%			83%	2%	15%

- Amounts net of individual impairment provisions
- In the July 2016 re-presentation of the new client segments, \$0.3 billion of collateral on a mortgage book presented in Central & other items has been moved to Retail Banking, Mortgages. \$1 billion of collateral on Mortgages presented as Partially secured has been re-categorised to Fully secured

### Mortgage loan-to-value ratios by geography

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

	2016				
	Greater China & North Asia %	ASEAN & South Asia %	Africa & Middle East %	Europe & Americas %	Total %
Less than 50 per cent	55.9	36.9	22.3	36.7	49.9
50 per cent to 59 per cent	18.2	16.8	16.9	37.4	18.1
60 per cent to 69 per cent	17.3	18.8	20.5	16.2	17.8
70 per cent to 79 per cent	6.4	17.6	20.7	8.3	9.7
80 per cent to 89 per cent	1.9	8.8	11.3	0.9	3.9
90 per cent to 99 per cent	0.2	0.7	4.2	0.5	0.5
100 per cent and greater	0.1	0.4	4.1	—	0.3
Average portfolio loan-to-value	46.6	54.7	64.9	44.4	49.0
<b>Loans to individuals – mortgages (\$million)</b>	<b>51,219</b>	<b>18,903</b>	<b>2,245</b>	<b>1,140</b>	<b>73,507</b>
	2015				
	Greater China & North Asia %	ASEAN & South Asia %	Africa & Middle East %	Europe & Americas %	Total %
Less than 50 per cent	62.9	32.5	23.7	38.5	52.0
50 per cent to 59 per cent	15.1	18.4	18.0	38.5	17.0
60 per cent to 69 per cent	10.8	19.5	22.2	18.3	16.2
70 per cent to 79 per cent	6.9	18.9	17.9	4.3	9.5
80 per cent to 89 per cent	3.7	9.9	9.7	—	4.4
90 per cent to 99 per cent	0.6	0.6	3.5	0.5	0.6
100 per cent and greater	—	0.2	5.0	—	0.3
Average portfolio loan-to-value	45.9	55.3	63.2	44.4	48.9
<b>Loans to individuals – mortgages (\$million)</b>	<b>49,266</b>	<b>21,194</b>	<b>2,245</b>	<b>1,313</b>	<b>74,018</b>

### 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 2016 is \$51 million (2015: \$45 million).

	2016 \$million	2015 \$million
Property, plant and equipment	13.0	11.0
Equity shares	0.1	2.6
Guarantees	11.5	3.6
Cash	26.1	26.1
Other	0.4	2.0
<b>Total</b>	<b>51.1</b>	<b>45.3</b>

### 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 \$21 million (2015: \$76 million). The Group continues to recognise these assets in addition to the proceeds and related liability of \$15 million (2015: \$43 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 177.

#### Credit default swaps

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of \$17.5 billion (2015: \$23 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 \$40,391 million (2015: \$38,934 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 \$7,280 million (2015: \$4,194 million) under CSAs.

### Off-balance sheet exposures

For certain types of exposures, such as letters of credit and guarantees, the Group obtains collateral – such as cash – depending on internal credit risk assessments, as well as in the case of letters of credit holding legal title to the underlying assets should a default take place.

### Other portfolio analysis

This section provides maturity analysis by client segment and Industry and Retail products analysis by region.

#### Maturity analysis by client segment

The loans and advances to the Corporate & Institutional Banking and Commercial Banking segments remain predominantly short-term, with 70 per cent of loans and advances to customers

in the segments maturing in under one year, an increase compared to December 2015. 96 per cent of loans to banks mature in less than one year. Shorter maturity gives us the flexibility to respond promptly to events and rebalance or reduce our exposure to clients or sectors that are facing increased pressure or uncertainty.

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

The Retail Banking loan book continues to be longer-term in nature as mortgages constitute the majority of the Retail Banking loan book (2016: 66 per cent).

This section covers a summary of the Group's loan portfolio, broadly analysed by client segment and geography, along with an analysis of the maturity profile, credit quality and provisioning of the loan book.

	2016			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Corporate & Institutional Banking	84,199	29,919	8,374	122,492
Retail Banking	15,510	16,725	61,511	93,746
Commercial Banking	19,125	4,048	1,006	24,179
Private Banking	10,802	249	859	11,910
Central & other items	4,215	39	2	4,256
<b>Loans and advances to customers net of individual impairment provision</b>	<b>133,851</b>	<b>50,980</b>	<b>71,752</b>	<b>256,583</b>
Portfolio impairment provision				(687)
<b>Net loans and advances to customers</b>				<b>255,896</b>
<b>Net loans and advances to banks</b>	<b>71,867</b>	<b>2,644</b>	<b>158</b>	<b>74,669</b>
	2015 <sup>1</sup>			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Corporate & Institutional Banking	77,322	34,566	9,790	121,678
Retail Banking	15,214	17,304	62,495	95,013
Commercial Banking	18,738	4,266	1,521	24,525
Private Banking	13,695	494	1,108	15,297
Central & other items	5,537	10	–	5,547
<b>Loans and advances to customers net of individual impairment provision</b>	<b>130,506</b>	<b>56,640</b>	<b>74,914</b>	<b>262,060</b>
Portfolio impairment provision				(657)
<b>Net loans and advances to customers</b>				<b>261,403</b>
<b>Net loans and advances to banks</b>	<b>63,159</b>	<b>3,572</b>	<b>38</b>	<b>66,769</b>

1. The 2015 comparatives have been represented to reflect the reorganisation of the Group's client segments. Refer to note 1 for details

### Geographic region analysis

Loans and advances to customers (net of individual impairment provisions (IIP) and portfolio impairment provisions (PIP)) decreased by \$5.5 billion since December 2015. This reduction was primarily within the Private Banking segment (\$3.4 billion), Central & other items (\$1.3 billion) and Retail Banking segment (\$1.3 billion).

Loans and advances to banks increased by \$7.9 billion since December 2015 across ASEAN & South Asia (\$5.3 billion) and Greater China & North Asia (\$3.1 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.

Loans and advances in the Retail Banking portfolio decreased mainly in the ASEAN & South Asia region due to the sale of the Thailand portfolio, lower new bookings for residential mortgages and Business Banking in Singapore, and lower new bookings for residential mortgages in Malaysia. This was partly offset by growth in mortgages especially in Korea and Hong Kong.

Overall, the regional split of our loans and advances to customers is very similar to 2015 and our loan portfolio remains well-diversified across our footprint countries, with our largest single country representing 24 per cent of loans and advances to customers and

banks. The largest movements in loans and advances to customers are: ASEAN & South Asia, down by \$13 billion, primarily due to settlements in the liquidation portfolio and a reduction in Retail Banking exposure; and Europe & Americas, up \$6 billion due to increased liquidity management activity by the Group.

### Industry and retail products analysis by region

In the Corporate & Institutional Banking and Commercial Banking segments our largest industry exposure is financing, insurance and non-banking, which constitutes 27 per cent of Corporate & Institutional Banking and Commercial Banking loans and advances to customers (2015: 21 per cent). Lending to financing, insurance and non-banking clients is mostly to investment grade institutions, is short dated and is part of the liquidity management of the Group.

The manufacturing sector makes up 13 per cent of the Corporate & Institutional Banking and Commercial Banking loans and advances (2015: 14 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 4,200 clients.

Loans and advances to the energy sector have reduced to \$18.8 billion from \$19.7 billion in 2015 and constitutes 12 per cent (2015: 13 per cent) of total loans and advances to Corporate & Institutional Banking and Commercial Banking. The energy sector lending is spread across five subsectors and over 360 clients.

The Group provides loans to commercial real estate (CRE) counterparties of \$11.3 billion (2015: \$13.0 billion), which represents less than 5 per cent of total customer loans and advances. In total, \$6.4 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.

Transport, telecom and utilities includes financial leasing exposures. This does not include operating leasing exposures of \$5.6bn as these assets are owned by the bank. Further details are set out in note 18 to the financial statements on page 246.

Credit cards and personal loans (CCPL) and other unsecured lending of the Retail Banking portfolio remains broadly stable at 15 per cent of total Retail products loans and advances.

	2016				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	
<b>Industry:</b>					
Energy	2,781	5,334	4,076	6,586	18,777
Manufacturing	8,807	5,944	3,161	1,830	19,742
Financing, insurance and non-banking	7,959	5,007	1,451	26,816	41,233
Transport, telecom and utilities	5,562	4,570	3,659	1,708	15,499
Food and household products	1,932	4,624	2,408	1,088	10,052
Commercial real estate	5,580	4,555	1,122	27	11,284
Mining and quarrying	2,063	3,568	1,234	959	7,824
Consumer durables	4,356	2,321	1,432	1,261	9,370
Construction	1,027	1,313	1,392	84	3,816
Trading companies & distributors	938	535	657	259	2,389
Government	2,290	3,053	468	504	6,315
Other	1,437	1,644	1,015	530	4,626
<b>Retail products:</b>					
Mortgages	51,219	18,903	2,245	1,140	73,507
CCPL and other unsecured lending	9,265	3,838	3,012	91	16,206
Auto	–	315	323	–	638
Secured wealth products	3,725	5,965	90	1,300	11,080
Other	1,790	1,908	522	5	4,225
Portfolio impairment provision	110,731	73,397	28,267	44,188	256,583
(198)	(236)	(127)	(126)	(687)	
<b>Total loans and advances to customers</b>	<b>110,533</b>	<b>73,161</b>	<b>28,140</b>	<b>44,062</b>	<b>255,896</b>
<b>Total loans and advances to banks</b>	<b>32,239</b>	<b>14,739</b>	<b>7,552</b>	<b>20,139</b>	<b>74,669</b>

	2015 <sup>1</sup>				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	
<b>Industry:</b>					
Energy	1,466	7,198	4,370	6,647	19,681
Manufacturing	9,586	5,538	3,623	2,142	20,889
Financing, insurance and non-banking	5,287	6,996	1,548	17,627	31,458
Transport, telecom and utilities	4,512	6,129	4,048	1,790	16,479
Food and household products	1,825	5,763	2,762	1,278	11,628
Commercial real estate	6,821	5,008	1,162	37	13,028
Mining and quarrying	2,126	4,116	1,458	855	8,555
Consumer durables	4,491	2,350	1,394	2,624	10,859
Construction	1,307	2,080	1,741	174	5,302
Trading companies and distributors	892	701	801	35	2,429
Government	2,418	3,191	465	138	6,212
Other	1,563	1,975	1,091	601	5,230
<b>Retail products:</b>					
Mortgages	49,266	21,194	2,245	1,313	74,018
CCPL and other unsecured lending	9,484	4,793	3,185	90	17,552
Auto	–	445	351	–	796
Secured wealth products	3,727	7,756	98	2,505	14,086
Other	1,643	1,355	856	4	3,858
	106,414	86,588	31,198	37,860	262,060
Portfolio impairment provision	(253)	(245)	(128)	(31)	(657)
<b>Total loans and advances to customers</b>	<b>106,161</b>	<b>86,343</b>	<b>31,070</b>	<b>37,829</b>	<b>261,403</b>
<b>Total loans and advances to banks</b>	<b>29,152</b>	<b>9,458</b>	<b>6,926</b>	<b>21,233</b>	<b>66,769</b>

1. The 2015 comparatives have been represented to reflect the management view. Previously numbers were presented on a Financial view. Refer to note 2 for details

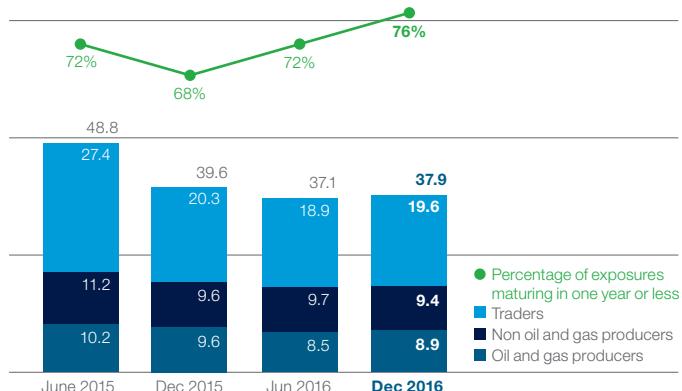
### Selected portfolios (unaudited)

This section provides further details on commodities and commodities-related exposures, debt securities and treasury bills and asset backed securities.

#### Commodities and commodities-related exposures

##### Commodities producers and traders

##### Commodities producers and traders credit portfolio \$billion



The Group's net exposure to commodities has reduced by \$1.7 billion (4 percent) over the past 12 months across producers and traders. This was driven by the continued close management of exposures across the sector in the first half of 2016, partially offset by an increase in facility utilisation for commodities traders in the final quarter of 2016 as commodities prices rose.

The commodities portfolio represented 7 per cent of the total Corporate & Institutional Banking and Commercial Banking net exposure (H1 2016: 7 per cent, H2 2015: 8 per cent).

Commodities credit exposure arises from the pursuit of the Group's strategy in its core markets, where commodities form a very significant proportion of the trade flows within and into the Group's

footprint countries. Commodities will continue to be a key component of the Group's strategy and portfolio. The Group is managing parts of the portfolio to reduce targeted exposures, increase diversification and reduce the volatility of loan impairment. The cover ratio before collateral has improved to 65 per cent from 58 per cent in H1 2016 (H2 2015: 61 per cent).

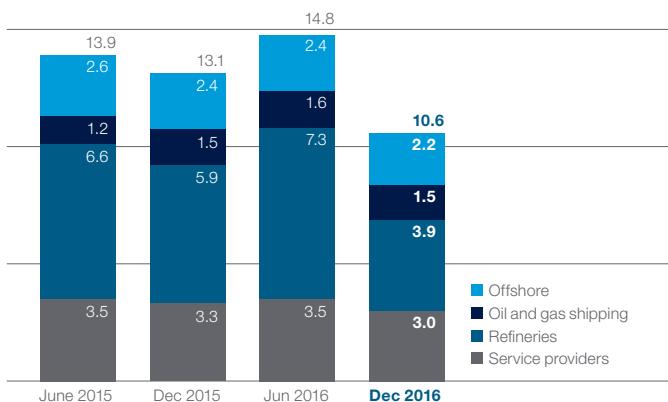
The tenor profile of the portfolio continued to remain predominantly short-dated, with 76 per cent (2015: 68 per cent) of net exposure maturing in one year or less. Long-term (maturity of greater than one year) net exposures to sub-investment grade and non-large state-owned enterprises (SOEs) have seen improved collateralisation levels over the course of 2016: 34 per cent in the first half of the year, increasing to 36 per cent in the second half of the year.

Producers are primarily from the oil and gas and metals and mining sectors. Our net exposure to oil and gas producers is \$8.9 billion (H1 2016: \$8.5 billion; H2 2015: \$9.6 billion) and our net exposure to metals and mining producers is \$7.7 billion (H1 2016: \$7.7 billion; H2 2015: \$7.6 billion).

87 per cent, \$7.3 billion of performing clients, can sustain an oil price of \$30 per barrel for 12 months or to global majors or are 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.

The key risk for traders, which are less directly affected by price changes, is the lack of liquidity and their risk management practices. The traders portfolio makes up 52 per cent of the commodities portfolio.

Exposure to traders increased by 4 per cent in the second half of 2016, due to higher utilisation of limits on the back of higher commodity prices. Most of the increase was in investment grade clients and strongly secured via commodity collateral.

**Commodities-related sectors****Commodities-related sectors credit portfolio \$billion**

As at 31 December 2016, the Group's net exposure to commodities-related sectors consisting of refineries, oil and gas offshore support, oil and gas service providers and oil and gas shipping was \$10.6 billion.

**Petroleum refineries (\$3.9 billion):** Net exposure to refineries dropped significantly in 2016 due to the settlement of a large exposure in the liquidation portfolio. The profitability of refiners

is driven by gross refining margins and the margins held broadly steady during this period despite the volatility in crude oil prices.

**Oil and gas offshore support (\$2.2 billion):** The portfolio consists of companies which provide support services allied to the offshore oil and gas industry including provision of drill ships, jack-up rigs, platform support vessels, anchor handlers, pipe laying support vessels, floating production support and operations vessels and other specialised vessels and equipment. The prolonged period of low prices has resulted in stress in this sector as the bulk of vessels are chartered on a short- to medium-term basis. Although oil prices have increased, the increase is not high enough to spur capital expenditure spend by oil producers. The Group performed an account by account review and continues to take targeted risk-mitigating actions on the sector. 68 per cent of the portfolio is being closely monitored, which includes \$0.2 billion of non-performing exposures.

**Oil and gas service providers (\$3.0 billion):** The service providers sub-sector is related to oilfield equipment manufacturers and other service providers. 43 per cent of the exposure is investment grade.

**Oil and gas shipping (\$1.5 billion):** The portfolio comprises shipping companies which are engaged in the transportation of oil and gas products. The vessels in this sector have benefited from low oil prices resulting in higher demand and charter rates. Notwithstanding, an expected increase in the supply of tankers will dampen charter rates going forward.

**Debt securities and treasury bills**

Debt securities and treasury bills are analysed as follows:

	2016			2015		
	Debt securities \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Treasury bills \$million	Total \$million
<b>Net impaired securities:</b>						
Impaired securities	<b>406</b>	–	<b>406</b>	395	–	395
Impairment	(400)	–	(400)	(283)	–	(283)
	<b>6</b>	–	<b>6</b>	112	–	112
<b>Securities neither past due nor impaired:</b>						
AAA	<b>29,807</b>	<b>15,008</b>	<b>44,815</b>	28,996	15,778	44,774
AA- to AA+	<b>21,472</b>	<b>12,640</b>	<b>34,112</b>	30,688	12,930	43,618
A- to A+	<b>12,778</b>	<b>2,538</b>	<b>15,316</b>	10,590	451	11,041
BBB- to BBB+	<b>10,014</b>	<b>2,584</b>	<b>12,598</b>	9,389	1,962	11,351
Lower than BBB-	<b>3,832</b>	<b>1,529</b>	<b>5,361</b>	3,106	1,578	4,684
Unrated	<b>6,950</b>	<b>2,090</b>	<b>9,040</b>	10,998	613	11,611
	<b>84,853</b>	<b>36,389</b>	<b>121,242</b>	93,767	33,312	127,079
	<b>84,859</b>	<b>36,389</b>	<b>121,248</b>	93,879	33,312	127,191
<b>Of which:</b>						
Assets at fair value						
Trading	<b>12,025</b>	<b>1,285</b>	<b>13,310</b>	12,896	859	13,755
Designated at fair value	<b>354</b>	–	<b>354</b>	389	–	389
Available-for-sale	<b>69,204</b>	<b>35,104</b>	<b>104,308</b>	77,684	32,453	110,137
	<b>81,583</b>	<b>36,389</b>	<b>117,972</b>	90,969	33,312	124,281
Assets at amortised cost						
Loans and receivables	<b>3,106</b>	–	<b>3,106</b>	2,700	–	2,700
Held-to-maturity	<b>170</b>	–	<b>170</b>	210	–	210
	<b>3,276</b>	–	<b>3,276</b>	2,910	–	2,910
	<b>84,859</b>	<b>36,389</b>	<b>121,248</b>	93,879	33,312	127,191

The above table analyses debt securities and treasury bills that are neither past due nor impaired by external credit rating. The standard credit ratings used by the Group are those used by Standard & Poor's or its equivalent. Debt securities held that have a short-term rating are reported against the long-term rating of the issuer. For securities that are unrated, the Group applies an internal credit rating, as described under the credit rating and measurement section on page 142.

Net impaired debt securities decreased during the year, primarily due to debt securities disposal in Europe and the decrease of a corporate bond exposure in India.

Debt securities in the AA- to AA+ rating category decreased by \$9.2 billion to \$21.5 billion in 2016, mainly driven by reduced holdings of UK government bonds and other debt securities due to price volatility.

Unrated securities primarily relate to corporate issuers. Using internal credit ratings, \$7,013 million (2015: \$9,629 million) of these securities is considered to be equivalent to investment grade.

### Asset backed securities (unaudited)

#### Total exposures to asset backed securities

	2016			2015				
	Percentage of notional value of portfolio	Notional \$million	Carrying value \$million	Fair value \$million <sup>1</sup>	Percentage of notional value of portfolio	Notional \$million	Carrying value \$million	Fair value \$million <sup>1</sup>
Residential mortgage backed securities (RMBS) <sup>2</sup>	37%	2,248	2,248	2,244	39%	2,988	2,983	2,980
Collateralised debt obligations (CDOs)	0%	28	8	7	0%	35	15	13
Commercial mortgage backed securities (CMBS)	1%	50	19	18	1%	75	37	36
Other asset backed securities (Other ABS) <sup>3</sup>	62%	3,717	3,716	3,716	60%	4,710	4,698	4,698
	100%	6,043	5,991	5,985	100%	7,808	7,733	7,727

Of which included within:

Financial assets held at fair value through profit or loss	3%	172	172	172	1%	96	97	97
Investment securities – available-for-sale	72%	4,380	4,331	4,331	84%	6,551	6,480	6,480
Investment securities – loans and receivables	25%	1,491	1,488	1,482	15%	1,161	1,156	1,150
	100%	6,043	5,991	5,985	100%	7,808	7,733	7,727

1. Fair value reflects the value of the entire portfolio, including assets redesignated to loans and receivables

2. RMBS includes Other UK, Dutch, Australia and Korea RMBS

3. Other asset backed securities includes auto loans, credit cards, student loans, future flows and trade receivables

The carrying value of asset-backed securities (ABS) represents 1 per cent (2015: 1 per cent) of the Group's total assets.

The decline in the portfolio in the year is attributable to natural amortisations and sales reflecting reductions in the Asset and Liabilities Management (ALM) liquidity portfolio.

The credit quality of the ABS portfolio remains strong, with 97 per cent of the overall portfolio rated A- or better, and over 86 per cent of the overall portfolio is rated as AAA. The portfolio is broadly diversified across asset classes and geographies, with an average credit grade of AA+.

Residential mortgage-backed securities (RMBS) make up 37 per cent of the overall portfolio and have a weighted averaged credit rating of AAA (AAA in 2015).

**Note 13 on page 225 to the financial statements provides details of the remaining balance of those assets reclassified in 2008.**

Other ABS includes credit cards ABS, comprising 27 per cent of the overall portfolio, and auto loans ABS (23 per cent) both maintain a weighted average credit rating of AAA. The balance of Other ABS mainly includes securities backed by diversified payment types and trade receivables with a net weighted average credit rating of A.

#### Financial statement impact of asset backed securities

	Available for-sale \$million	Loan and receivables \$million	Total \$million
2016			
Credit to available-for-sale reserves (Charge)/credit to the profit and loss account	7 (9)	1	7 (8)
2015			
(Charge) to available-for-sale reserves Credit to the profit and loss account	(19) 17	– 5	(19) 22

**Country cross-border risk (unaudited)**

Country cross-border risk is the risk that the Group will be unable to obtain payment from its customers or third-parties on their contractual obligations as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency.

The profile of the Group's country cross-border exposures as at 31 December 2016 remained consistent with its strategic focus on core franchise countries, and with the scale of the larger markets in which it operates. Changes in the pace of economic activity and portfolio management activity had an impact on the growth of cross-border exposure for certain territories.

Cross-border exposure to China remains predominantly short-term (71 per cent of such exposure had a tenor of less than 12 months). During 2016, the Group's cross-border exposure to China from lending and trade finance activity reduced in response to the moderation in Chinese and global economic conditions, with some of this reduction offset by increased exposure arising from liquidity management activity associated with the deployment of excess liquidity within the region.

Country cross-border risk exposure to Hong Kong increased during 2016. Factors contributing to the increase in exposure to Hong Kong included short-dated money market treasury and liquidity management activity, and growth in interbank placements.

The overall size of cross-border exposure to India reflects the size of the Group's franchise in the country, and the facilitation of overseas investment and trade flows supported by parent companies in India. Portfolio management activity and actions taken to ensure the most efficient use of risk appetite and capital, has contributed to the decline in cross-border exposure to India throughout 2016.

Slowing economic growth rates, weaker global demand for Korean exports, and a reduction in interbank placements associated with asset and liability management activity resulted in a decrease in country cross-border risk exposure to Korea in 2016.

Cross-border exposure to developed countries in which the Group does not have a major presence predominantly relates to short-dated money market treasury and liquidity management activities, which can change significantly from period to period. Exposure also represents global corporate business for customers with interests in our footprint. This is a key factor explaining the significant cross-border exposure to the US, Japan and France.

The table below, which is based on the Group's internal country cross-border risk reporting requirements, shows cross-border exposures that exceed 1 per cent of total assets.

	2016			2015		
	Less than one year \$million	More than one year \$million	Total \$million	Less than one year \$million	More than one year \$million	Total \$million
US	<b>22,063</b>	<b>14,153</b>	<b>36,216</b>	18,091	14,378	32,469
China	<b>25,644</b>	<b>10,540</b>	<b>36,184</b>	25,999	10,626	36,625
Hong Kong	<b>18,119</b>	<b>7,531</b>	<b>25,650</b>	15,767	7,340	23,107
Singapore	<b>18,235</b>	<b>3,487</b>	<b>21,722</b>	16,805	4,379	21,184
India	<b>6,333</b>	<b>9,264</b>	<b>15,597</b>	6,711	12,747	19,458
United Arab Emirates	<b>5,653</b>	<b>9,145</b>	<b>14,798</b>	5,756	8,562	14,318
Korea	<b>8,101</b>	<b>6,669</b>	<b>14,770</b>	10,933	7,684	18,617
Japan	<b>8,349</b>	<b>2,749</b>	<b>11,098</b>	1,746	5,265	7,011
France	<b>3,217</b>	<b>3,786</b>	<b>7,003</b>	1,784	3,729	5,513
Malaysia	<b>2,987</b>	<b>3,745</b>	<b>6,732</b>	3,555	2,675	6,230

## Market risk

Market risk is the potential for loss of economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises predominantly from these sources:

- Trading book: The Group provides clients access to financial markets, facilitation of which entails the Group taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk-related activities is primarily driven by the volume of client activity rather than risk-taking. From 1 August 2016, Credit and Funding Valuation Adjustment (XVA) risk was recognised in the total trading and non-trading VaR, and the impact of which was not material.
- Non-trading book:
  - The Asset and Liability Management (ALM) desk is required to hold a liquid assets buffer of which \$84.9 billion is held in high-quality marketable debt securities
  - The Group has capital invested and related income streams denominated in currencies other than US dollars. To the extent that these are not hedged, the Group is subject to structural foreign exchange risk which is reflected in reserves

A summary of our current policies and practices regarding market risk management is provided in the Risk management approach section on page 145.

### Daily value at risk (VaR at 97.5%, one day)

Trading and non-trading	2016				2015			
	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million
Interest rate risk <sup>3</sup>	<b>27.7</b>	<b>32.7</b>	<b>24.1</b>	<b>25.3</b>	26.9	35.5	18.9	30.7
Foreign exchange risk	<b>6.3</b>	<b>12.2</b>	<b>3.7</b>	<b>9.4</b>	4.9	9.0	2.3	4.8
Commodity risk	<b>1.9</b>	<b>3.1</b>	<b>1.0</b>	<b>1.4</b>	1.6	2.6	0.7	1.6
Equity risk	<b>10.0</b>	<b>13.1</b>	<b>6.9</b>	<b>8.1</b>	13.7	18.2	9.7	11.0
Total <sup>4</sup>	<b>31.6</b>	<b>38.8</b>	<b>26.4</b>	<b>29.9</b>	32.9	45.9	24.4	36.1

Trading <sup>5</sup>	2016				2015			
	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million
Interest rate risk <sup>3</sup>	<b>6.7</b>	<b>10.3</b>	<b>4.7</b>	<b>6.8</b>	7.0	8.8	5.3	6.4
Foreign exchange risk	<b>6.3</b>	<b>12.2</b>	<b>3.7</b>	<b>9.4</b>	4.9	9.0	2.3	4.8
Commodity risk	<b>1.9</b>	<b>3.1</b>	<b>1.0</b>	<b>1.4</b>	1.6	2.6	0.7	1.6
Equity risk	<b>0.4</b>	<b>1.3</b>	<b>0.1</b>	<b>0.1</b>	1.7	2.8	0.7	0.8
Total <sup>4</sup>	<b>10.6</b>	<b>18.7</b>	<b>7.5</b>	<b>11.6</b>	9.9	13.2	6.8	9.7

Non-trading	2016				2015			
	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million
Interest rate risk <sup>3</sup>	<b>26.3</b>	<b>31.4</b>	<b>21.5</b>	<b>22.8</b>	24.1	34.6	15.6	30.3
Equity risk	<b>9.8</b>	<b>12.5</b>	<b>6.9</b>	<b>8.1</b>	12.9	17.9	9.2	10.4
Total <sup>4</sup>	<b>30.7</b>	<b>35.1</b>	<b>24.6</b>	<b>27.3</b>	29.6	37.8	23.2	31.4

1. Highest and lowest VaR for each risk factor are independent and usually occur on different days

2. Actual one day VaR at year end date

3. Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale

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

5. Trading book for market risk is defined in accordance with the EU Capital Requirements Regulation (CRDIV/CRR) Part 3 Title I Chapter 3 which restricts the positions permitted in the trading book. This regulatory definition is narrower than the accounting definition of the trading book within IAS39 'Financial Instruments: Recognition and Measurement'

The primary categories of market risk for the Group are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options
- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options
- Commodity price risk: arising from changes in commodity prices and implied volatilities on commodity options; covering energy, precious metals, base metals and agriculture
- Credit spread risk: arising from changes in the credit spread of the Group's derivative counterparties through CVA accounting.

### Market risk changes

The average level of total trading and non-trading VaR in 2016 was lower than in 2015 by 4 per cent and the actual level of total VaR as at end of December 2016 was 17 per cent lower than in 2015. These declines were both primarily due to reduced market volatility in the historical time series. In 2015 the VaR had been elevated by events such as the devaluation of Chinese renminbi in August 2015 and uncertainty about the timing of anticipated US interest rate rises.

Foreign exchange VaR increased due to increased market volatility in the historical time series following the devaluation of the Nigerian naira in June 2016 and increased foreign exchange positions in the second half of the year.

Non-trading book equity risk VaR decreased in 2016 due to reduced non-listed Private Equity holdings.

The following table sets out how trading and non-trading VaR is distributed across the Group's products:

	2016				2015			
	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million	Average \$million	High <sup>1</sup> \$million	Low <sup>1</sup> \$million	Actual <sup>2</sup> \$million
<b>Trading and non-trading<sup>3</sup></b>	<b>31.6</b>	<b>38.8</b>	<b>26.4</b>	<b>29.9</b>	32.9	45.9	24.4	36.1
<b>Trading<sup>4</sup></b>								
Rates	5.2	8.6	3.3	5.8	5.5	7.0	3.5	5.1
Global Foreign Exchange	6.3	12.2	3.7	9.4	4.9	9.0	2.3	4.8
Credit Trading and Capital Markets	3.0	5.3	2.2	3.2	2.7	4.3	1.9	2.4
Commodities	1.9	3.1	1.0	1.4	1.6	2.6	0.7	1.6
Equities	0.4	1.3	0.1	0.1	1.7	2.8	0.7	0.8
Total <sup>3, 5</sup>	10.6	18.7	7.5	11.6	9.9	13.2	6.8	9.7
XVA <sup>3</sup>	9.8	12.0	6.6	6.6	—	—	—	—
<b>Non-trading</b>								
Asset and Liability Management	26.3	31.4	21.5	22.8	24.1	34.6	15.6	30.3
Listed private equity	9.8	12.5	6.9	8.1	12.9	17.9	9.2	10.4
Total <sup>5</sup>	30.7	35.1	24.6	27.3	29.6	37.8	23.2	31.4

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. XVA (Credit and Funding Valuation Adjustment): The XVA trading desk was mandated to actively hedge the market exposures arising from the recognition of CVA commencing 1 January 2016. The XVA desk VaR is included in the Trading and Non-trading Interest Rate and Total VaR results from 1 August 2016, but does not contribute to the Trading Interest Rate or Total VaR figures

4. Trading book for market risk is defined in accordance with the EU Capital Requirements Regulation (CRDIV/CRR) Part 3 Title I Chapter 3 which restricts the positions permitted in the trading book. This regulatory definition is narrower than the accounting definition of the trading book within IAS39 'Financial Instruments: Recognition and Measurement'

5. 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 (unaudited)

In 2016 the main market risk not reflected in VaR was 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. The other material market risk not reflected in VaR was associated with off-the-run bonds. Newly issued bonds are actively traded (on-the-run). Off-the-run bonds are no longer so actively traded which means that historical market price data for VaR is sometimes more limited. Additional capital is set aside to cover such 'risks not in VaR'. For further details on market risk capital see the Standard Chartered PLC Pillar 3 Disclosures 2016 section on market risk.

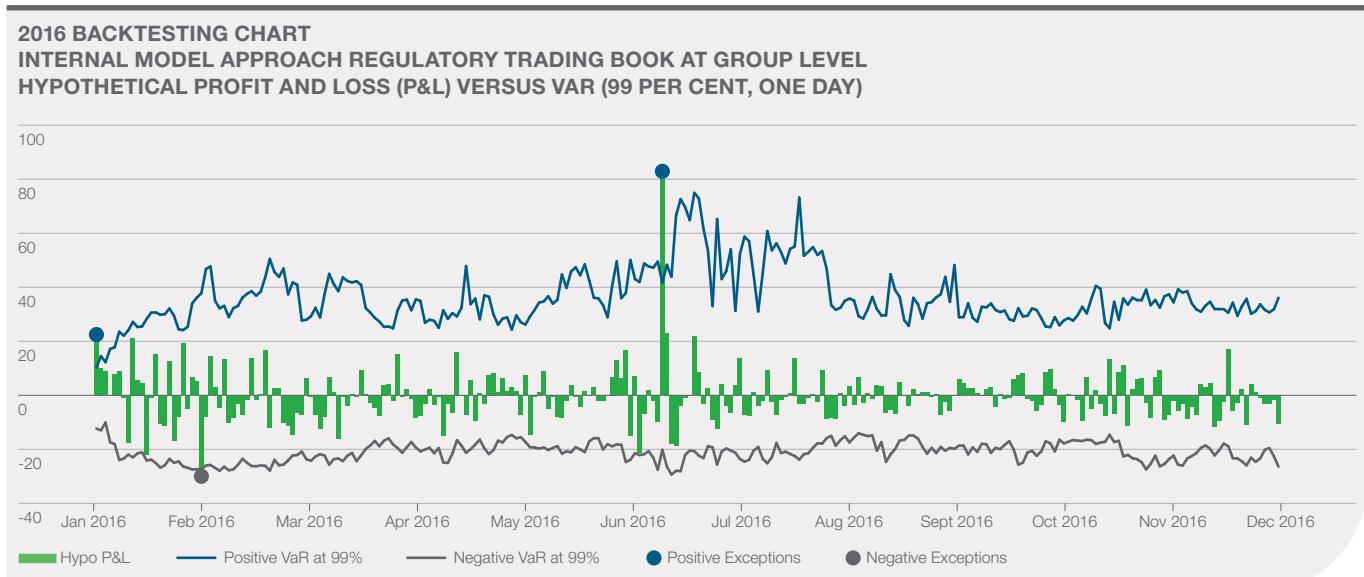
#### Backtesting (unaudited)

Regulatory backtesting is applied at both Group and Solo levels. In 2016, negative exceptions due to exceptional market volatility occurred on two days: one at Group level (two in 2015) and two at Solo level (one in 2015). These occasions were:

- 4 February: Weak US economic data lowered expectations of a Federal Reserve rate hike causing the US dollar to depreciate against other currencies.
- 17 June: Opinion polls ahead of the UK referendum to leave the European Union (EU) on 23 June indicated a shift towards the UK remaining in the EU. This caused appreciation of major currencies against the US dollar.

Two exceptions in a year due to market events are within the 'green zone' applied internationally to internal models by bank supervisors (Basel Committee on Banking Supervision: 'Supervisory framework for the use of backtesting in conjunction with the internal models approach to market risk capital requirements', January 1996).

The graph below illustrates the performance of the VaR model used in capital calculations. It compares the 99 percentile loss confidence level given by the VaR model with the Hypothetical P&L of each day given the actual market movement without taking into account any intra-day trading activity.



**Financial Markets loss days**

	2016	2015
Number of loss days reported for Financial Markets trading book total product income <sup>1</sup>	<b>30</b>	5

1. Reflects total product income for Financial Markets excluding the ALM business (non-trading) and periodic valuation changes for Capital Markets, expected loss provisions and OIS discounting

The increase in Financial Markets loss days in 2016 is mainly due to the recognition of CVA and FVA risk which commenced from the beginning of 2016 and was not reflected in the 2015 loss days. If CVA and FVA were not included then there would have been 12 loss days in 2016. Whilst still an increase compared with 2015, this is due to certain events which increased market volatility in 2016 including: the crash in oil prices and China equity market sell-off in January 2016; the outcome of the UK referendum to leave the European Union (Brexit) in June 2016; and the results of the US presidential elections in November 2016 which led to some initial market volatility with the longer term impact unclear.

**Average daily income earned from market risk-related activities<sup>1</sup>**

	2016 \$million	2015 \$million
<b>Trading</b>		
Interest rate risk	4.5	1.8
Foreign exchange risk	4.6	5.2
Commodity risk	0.7	1.0
Equity risk	(0.0)	0.3
Total	<b>9.8</b>	8.3

**Non-trading**

Interest rate risk	1.8	2.1
Equity risk	(0.2)	0.4
Total	<b>1.6</b>	2.5

1. Reflects total product income which is the sum of client income and own account income. Includes elements of trading income, interest income and other income which are generated from market risk-related activities. XVA income is included under interest rate risk

**Mapping of market risk items to the balance sheet  
(unaudited)**

Market risk contributes only 8.1 per cent of the Group's regulatory capital risk-weighted asset (RWA) requirement (see RWA table on page 185). As highlighted in the VaR disclosure, during 2016 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 manages the market risk associated with debt and equity capital issuance.

	Amounts as per financial statements \$million	Exposure to trading risk \$million	Exposure to non-trading risk \$million	Market risk type
<b>Financial assets</b>				
Derivative financial instruments	65,509	65,148	361	Interest rate, foreign exchange, commodity or equity risk
Loans and advances to banks	74,669	18,152	56,517	Interest rate or foreign exchange risk
Loans and advances to customers	255,896	29,225	226,671	Interest rate or foreign exchange risk
Debt securities	84,859	12,294	72,565	Interest rate mainly, but also foreign exchange or equity risk
Treasury bills	36,389	1,285	35,104	Interest rate or foreign exchange risk
Equities	2,564	425	2,139	Equities risk mainly, but also interest or foreign exchange risk
Other assets	36,940	5,262	31,678	Interest rate, foreign exchange, commodity or equity risk
Total	<b>556,826</b>	<b>131,791</b>	<b>425,035</b>	
<b>Financial liabilities</b>				
Deposits by banks	37,612	–	37,612	Interest rate or foreign exchange risk
Customer accounts	378,302	–	378,302	Interest rate or foreign exchange risk
Debt securities in issue	52,370	–	52,370	Interest rate mainly, but also foreign exchange or equity risk
Derivatives financial instruments	65,712	65,255	457	Interest rate, foreign exchange, commodity or equity risk
Short positions	3,763	3,763	–	Interest rate, foreign exchange, commodity or equity risk
Total	<b>537,759</b>	<b>69,018</b>	<b>468,741</b>	

## Structural foreign exchange exposures

The table below sets out the principal structural foreign exchange exposures (net of investment hedges) of the Group.

	2016 \$million	2015 \$million
Hong Kong dollar	6,452	6,973
Indian rupee	4,450	4,434
Renminbi	3,370	3,577
Singapore dollar	2,505	2,654
Korean won	2,460	2,448
Taiwanese dollar	2,140	2,143
UAE dirham	1,556	1,647
Malaysian ringgit	1,330	1,291
Thai baht	1,290	1,332
Indonesian rupiah	1,090	994
Pakistani rupee	573	588
Other	3,595	3,535
	<b>30,811</b>	31,616

As at 31 December 2016, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial investments) of \$1,313 million (2015: \$1,339 million) to partly cover its exposure to the Korean won. An analysis has been performed on these exposures to assess the impact of a 1 per cent fall in the US dollar exchange rates, adjusted to incorporate the impacts of correlations of these currencies to the US dollar. The impact on the positions above would be an increase of \$225 million (2015: \$228 million). Changes in the valuation of these positions are taken to reserves.

## Liquidity and funding risk

Liquidity and funding risk is the potential that the Group does not have sufficient financial resources or stable sources of funding in the medium or long term, to meet its obligations as they fall due, or can access these financial resources only at excessive cost.

The Group's liquidity and funding risk framework requires each country to operate on a standalone basis without implicit reliance on Group support or recourse to extraordinary central bank support.

The Group achieves this through a combination of setting risk appetite and associated limits, policy formation, risk measurement and monitoring, prudential and internal stress testing, governance and review.

For further information on the Group's liquidity and funding risk framework refer to page 147.

In 2016, the Group issued \$4.4 billion of senior debt securities, \$1.25 billion of subordinated debt and \$2 billion of Additional Tier 1 (AT1) securities from its holding company Standard Chartered PLC. (2015: \$4.2 billion of term senior debt securities and \$2 billion of AT1).

The Group has relatively low levels of sterling and euro funding and exposures within the context of the overall Group balance sheet. The result of the UK referendum to leave the European Union has therefore not had a material first order liquidity impact.

## Primary sources of funding

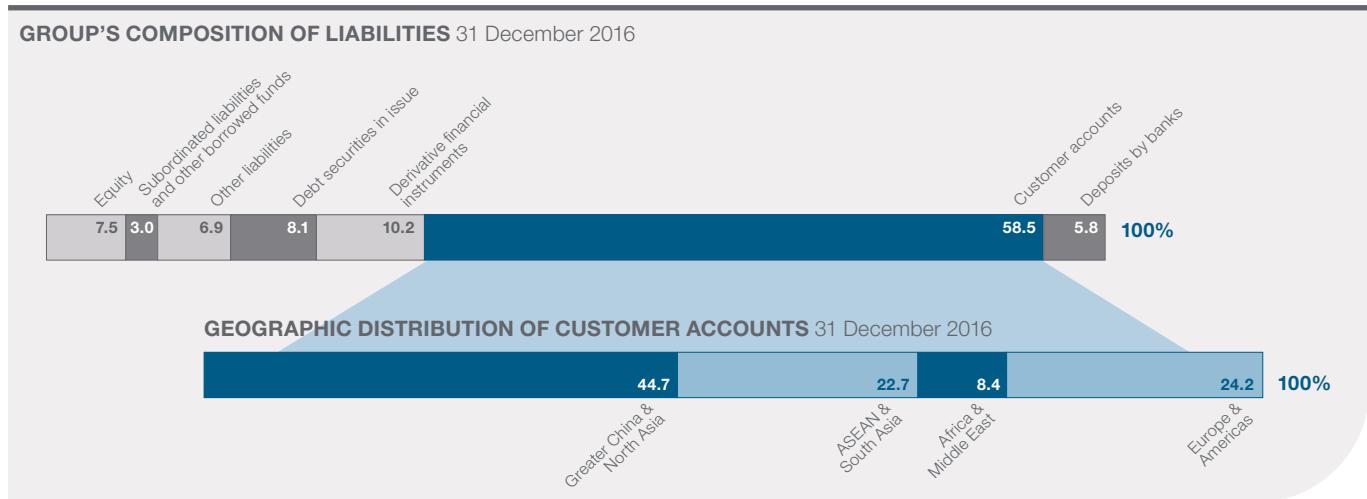
A substantial portion of our assets are funded by customer deposits. Wholesale funding is diversified by type and maturity and represents a stable source of funds for the Group.

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 performing our interest rate risk management activities.

Debt refinancing levels are low. In the next 12 months approximately \$5.7 billion of the Group's senior and subordinated debt and Additional Tier 1 securities are falling due for repayment either contractually or callable by the Group.

The information presented on page 176 is on a financial view. This is the location in which the transaction or balance was booked and provides a more accurate view of where liquidity risk is actually located.

The chart below shows the composition of liabilities in which customer deposits make up 58.5 per cent of total liabilities as at 31 December 2016, the majority of which are current accounts, savings accounts and time deposits. Our largest customer deposit base by geography is Greater China & North Asia (in particular Hong Kong), which holds 44.7 per cent of Group customer accounts.



## Liquidity metrics

We monitor key liquidity metrics on a regular basis, both on a country basis and in aggregate across the Group.

### Stressed coverage (unaudited)

The Group intends to maintain a prudent and sustainable funding and liquidity position, in all presence countries and currencies, such that it can withstand a severe but plausible liquidity stress:

- Across major presence countries<sup>1</sup>, the Group intends to be able to meet its payment and collateral obligations for at least 60 days in a combined Standard Chartered-specific and market-wide liquidity stress, without recourse to extraordinary central bank support;
- In smaller presence countries, each operating entity should be able to meet its payment and collateral obligations for at least 60 days in the event of a systemic market-wide stress in that country, without implicit reliance on Group support, or recourse to extraordinary central bank support.

The Group's internal liquidity stress testing framework covers the following stress scenarios:

Standard Chartered-specific – This scenario captures the liquidity impact from an idiosyncratic event affecting only Standard Chartered, i.e. the rest of the market is assumed to operate normally.

Market-wide – This scenario captures the liquidity impact from a market-wide crisis affecting all participants in a country, region or globally.

Combined – This scenario is a Board approved risk appetite metric. It assumes both Standard Chartered-specific and market-wide events affecting the Group simultaneously and hence is the most severe scenario.

All scenarios include, but are not limited to, modelled outflows for retail and wholesale funding, off-balance sheet funding risk, cross-currency funding risk, intra-day risk, franchise risk and risks associated with a deterioration of a firm's credit rating.

Stress testing results show that a positive surplus was maintained under all scenarios at 31 December 2016, i.e. respective countries are able to survive for a period of time as defined under each scenario. The combined scenario as at 31 December 2016 showed the Group maintained liquidity resources to survive greater than

60 days, as per our Board approved risk appetite. The results take into account currency convertibility and portability constraints across all major presence countries.

Standard Chartered Bank's credit ratings as at 31 December 2016 were A+ with stable outlook (Fitch), A with stable outlook (S&P) and Aa3 with negative outlook (Moody's). A downgrade in credit rating would increase derivative collateral requirements and outflows due to rating-linked liabilities. One possible outcome of a two-notch long-term ratings downgrade could be an estimated outflow of \$1.5 billion (unaudited).

For further information on the Group's liquidity stress testing framework refer to page 147.

### Liquidity Coverage Ratio (LCR) (unaudited)

The Group monitors and reports its liquidity position under European Commission Delegated Regulation 2015/61 and has maintained its liquidity position above the prudential requirement. As at 31 December 2016 the Group LCR was comfortably above 100 per cent with a prudent surplus to both Board approved risk appetite and regulatory requirements. We also held adequate liquidity across our footprint to meet all local prudential LCR requirements, where applicable.

### Net stable funding ratio (NSFR) (unaudited)

On 23 November 2016 the European Commission, as part of a package of risk-reducing measures, proposed a binding requirement for stable funding (Net Stable Funding Ratio (NSFR)) at European Union level. The proposal aims to implement the European Banking Authority's interpretation of the Basel standard on NSFR (BCBS295).

The ratio will apply at a level of 100 per cent two years after the date of entry into force of the proposed regulation.

The Group continues to monitor NSFR in line with the BCBS' final recommendation (BCBS295), pending review and approval of the European Commission's proposals by the European Parliament and Council.

As at 31 December 2016 the Group NSFR was above 100 per cent.

1. On an aggregate basis after consideration of portability and convertibility constraints

**Advances-to-deposits ratio**

This is defined as the ratio of total loans and advances to customers relative to total customer deposits. An advances-to-deposits ratio of below 100 per cent demonstrates that customer deposits exceed customer loans as a result of the emphasis placed on generating a high level of funding from customers. Customer deposits tend to be more stable than wholesale funding and a core portion of these deposits is likely to remain with the bank for the medium term.

The advances-to-deposits ratio (2016: 67.6 per cent) decreased from the previous year (2015: 72.8 per cent). Loans and advances to customers decreased due to reduced customer assets from more selective asset origination, deliberate de-risking and subdued corporate activity partially offset by an increase in customer reverse repurchase agreement transactions. Customer accounts increased largely due to growth in our customer repo business.

	2016 \$million	2015 \$million
Loans and advances to customers <sup>1</sup>	<b>255,896</b>	261,403
Customer accounts	<b>378,302</b>	359,127
Advances to deposits ratio	<b>67.6%</b>	72.8%

1. See note 13 to the financial statements on page 223

**Liquidity pool (unaudited)**

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 \$1,508 million (2015: \$1,210 million). Encumbered securities are now excluded from liquid assets for the purposes of the Group's liquidity pool.

The Group keeps sufficient liquid assets to survive a number of severe stress scenarios, both internal and regulatory.

Liquid assets increased \$4.5 billion from the previous year as higher surplus liquidity, largely resulting from reduced customer lending, was in part held in cash and central bank balances primarily in Europe & Americas. Net interbank lending also increased, with strong growth in ASEAN & South Asia and Greater China & North Asia as we repositioned liquidity in some markets. Debt securities were down \$9bn in the year as we reduced holdings of UK government bonds and other debt securities due to price volatility and increased investment in treasury bills.

	2016				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
Cash and balances at central banks	<b>17,770</b>	3,868	3,585	45,483	<b>70,706</b>
Restricted balances	(4,247)	(1,988)	(2,027)	(386)	(8,648)
Loans and advances to banks – net of non-performing loans <sup>1</sup>	<b>29,521</b>	13,952	3,214	27,982	<b>74,669</b>
Deposits by banks <sup>1</sup>	(7,402)	(3,846)	(2,913)	(23,451)	(37,612)
Treasury bills <sup>1</sup>	12,889	6,558	4,782	12,160	36,389
Debt securities <sup>1</sup>	33,785	17,761	6,740	26,573	84,859
of which:					
Issued by governments	17,899	10,133	4,465	5,331	37,828
Issued by banks	10,636	3,027	1,205	14,675	29,543
Issued by corporate and other entities	5,250	4,601	1,070	6,567	17,488
Illiquid and encumbered securities	(3,009)	(262)	–	(4,105)	(7,376)
of which:					
Illiquid securities	(909)	(123)	–	(476)	(1,508)
Encumbered securities	(2,100)	(139)	–	(3,629)	(5,868)
<b>Liquid assets</b>	<b>79,307</b>	<b>36,043</b>	<b>13,381</b>	<b>84,256</b>	<b>212,987</b>
	2015				
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Total \$million
Cash and balances at central banks	17,572	4,540	4,071	39,129	65,312
Restricted balances	(4,108)	(2,511)	(2,094)	(399)	(9,112)
Loans and advances to banks – net of non-performing loans <sup>1</sup>	25,972	8,292	3,222	29,242	66,728
Deposits by banks <sup>1</sup>	(8,313)	(5,243)	(2,729)	(21,963)	(38,248)
Treasury bills <sup>1</sup>	12,903	5,887	3,308	11,214	33,312
Debt securities <sup>1</sup>	35,549	17,043	7,654	33,633	93,879
of which:					
Issued by governments	19,553	9,056	5,332	9,395	43,336
Issued by banks	8,942	4,004	730	13,939	27,615
Issued by corporate and other entities	7,054	3,983	1,592	10,299	22,928
Illiquid and encumbered securities	(1,950)	(449)	(11)	(947)	(3,357)
of which:					
Illiquid securities	(599)	(39)	–	(572)	(1,210)
Encumbered securities	(1,351)	(410)	(11)	(375)	(2,147)
<b>Liquid assets</b>	<b>77,625</b>	<b>27,559</b>	<b>13,421</b>	<b>89,909</b>	<b>208,514</b>

1. Amounts include financial instruments held at fair value through profit or loss (see note 13 on page 223)

### Encumbered assets (unaudited)

Encumbered assets represent 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.

The following table provides a reconciliation of the Group's encumbered assets to total assets.

	2016									
	Assets encumbered as a result of transactions with counterparties other than central banks				Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
	Assets \$million	As a result of securitisations \$million	Other \$million	Total \$million	Assets positioned at the central bank (ie pre-positioned plus encumbered) \$million	Assets not positioned at the central bank			Other assets that are capable of being encumbered \$million	Cannot be encumbered \$million
						Readily available for encumbrance \$million				
Cash and balances at central banks	70,706	—	—	—	8,648	62,058	—	—	—	70,706
Derivative financial instruments	65,509	—	—	—	—	—	—	—	65,509	65,509
Loans and advances to banks <sup>1</sup>	74,669	—	—	—	—	32,231	—	—	42,438	74,669
Loans and advances to customers <sup>1</sup>	255,896	21	—	21	—	—	—	—	255,875	255,875
Investment securities <sup>1</sup>	123,812	—	5,868	5,868	35	78,536	27,909	11,464	117,944	
Other assets	36,940	—	19,674	19,674	—	—	—	—	17,266	17,266
Current tax assets	474	—	—	—	—	—	—	—	474	474
Prepayments and accrued income	2,238	—	—	—	—	—	—	—	2,238	2,238
Interests in associates and joint ventures	1,929	—	—	—	—	—	—	—	1,929	1,929
Goodwill and intangible assets	4,719	—	—	—	—	—	—	—	4,719	4,719
Property, plant and equipment	7,252	—	—	—	—	—	—	—	7,252	7,252
Deferred tax assets	1,294	—	—	—	—	—	—	—	1,294	1,294
Assets classified as held for sale	1,254	—	—	—	—	—	—	—	1,254	1,254
Total	646,692	21	25,542	25,563	8,683	172,825	27,909	411,712	621,129	
2015										
	Assets encumbered as a result of transactions with counterparties other than central banks				Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
	Assets \$million	As a result of securitisations \$million	Other \$million	Total \$million	Assets positioned at the central bank (ie pre-positioned plus encumbered) \$million	Assets not positioned at the central bank			Other assets that are capable of being encumbered \$million	Cannot be encumbered \$million
						Readily available for encumbrance \$million				
Cash and balances at central banks	65,312	—	—	—	9,112	56,200	—	—	—	65,312
Derivative financial instruments	63,143	—	—	—	—	—	—	—	63,143	63,143
Loans and advances to banks <sup>1</sup>	66,769	—	—	—	—	31,121	—	—	35,648	66,769
Loans and advances to customers <sup>1</sup>	261,403	76	—	76	—	—	—	—	261,327	261,327
Investment securities <sup>1</sup>	131,846	—	2,147	2,147	230	95,539	22,425	11,505	129,699	
Other assets	34,601	—	18,337	18,337	—	—	—	—	16,264	16,264
Current tax assets	388	—	—	—	—	—	—	—	388	388
Prepayments and accrued income	2,174	—	—	—	—	—	—	—	2,174	2,174
Interests in associates and joint ventures	1,937	—	—	—	—	—	—	—	1,937	1,937
Goodwill and intangible assets	4,642	—	—	—	—	—	—	—	4,642	4,642
Property, plant and equipment	7,209	—	—	—	—	—	—	—	7,209	7,209
Deferred tax assets	1,059	—	—	—	—	—	—	—	1,059	1,059
Total	640,483	76	20,484	20,560	9,342	182,860	22,425	405,296	619,923	

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

In addition to the above, the Group received \$54,473 million (2015: \$52,841 million) as collateral under reverse repurchase agreements that was eligible for repledging; of this the Group sold or repledged \$33,053 million (2015: \$22,185 million) under repurchase agreements.

**Readily available for encumbrance (unaudited)**

Readily available for encumbrance 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 for encumbrance 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**

The following table presents assets and liabilities by maturity groupings based on the remaining period to the contractual maturity date as at the balance sheet date on a discounted basis. Contractual maturities do not necessarily reflect actual repayments or cash flow.

Within the tables below cash and balances with central banks, interbank placements and investment securities that are available-for-sale are used by the Group principally for liquidity management purposes.

Assets remain predominantly short-dated, with 60 per cent maturing in under one year. Our less than three month cumulative net funding gap has improved from the previous year, in part due to shorter asset tenors including an increase in cash and balances held at central banks.

**Contractual maturity**

	2016								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	
<b>Assets</b>									
Cash and balances at central banks	62,058	—	—	—	—	—	—	8,648	70,706
Derivative financial instruments	7,749	10,562	8,263	5,317	4,580	8,472	10,798	9,768	65,509
Loans and advances to banks <sup>1</sup>	32,231	23,388	10,667	3,041	2,540	1,240	1,404	158	74,669
Loans and advances to customers <sup>1</sup>	71,483	27,977	17,948	7,917	7,839	18,365	32,615	71,752	255,896
Investment securities	8,600	16,894	11,796	10,496	11,764	19,272	32,626	12,364	123,812
Other assets	23,357	5,379	2,857	195	1,007	60	113	23,132	56,100
Total assets	205,478	84,200	51,531	26,966	27,730	47,409	77,556	125,822	646,692
<b>Liabilities</b>									
Deposits by banks <sup>1</sup>	31,340	2,912	1,115	665	573	629	146	232	37,612
Customer accounts <sup>1</sup>	280,329	46,060	25,258	11,135	8,942	2,577	2,119	1,882	378,302
Derivative financial instruments	8,709	9,911	7,661	6,058	4,797	8,969	11,275	8,332	65,712
Senior debt	96	173	1,212	1,500	981	3,347	8,849	3,433	19,591
Other debt securities in issue <sup>1</sup>	5,916	11,188	6,883	2,687	447	860	748	4,050	32,779
Other liabilities	19,262	6,163	5,003	687	604	1,368	847	10,581	44,515
Subordinated liabilities and other borrowed funds	22	31	—	1,710	—	978	785	15,997	19,523
Total liabilities	345,674	76,438	47,132	24,442	16,344	18,728	24,769	44,507	598,034
Net liquidity gap	(140,196)	7,762	4,399	2,524	11,386	28,681	52,787	81,315	48,658
	2015								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	
<b>Assets</b>									
Cash and balances at central banks	56,200	—	—	—	—	—	—	9,112	65,312
Derivative financial instruments	6,654	7,957	6,926	5,413	4,152	9,136	14,181	8,724	63,143
Loans and advances to banks <sup>1</sup>	31,208	16,629	9,180	3,648	2,494	1,982	1,590	38	66,769
Loans and advances to customers <sup>1</sup>	70,254	23,863	16,642	10,046	9,044	18,492	38,148	74,914	261,403
Investment securities <sup>1</sup>	7,226	14,706	15,925	10,078	7,095	19,359	40,959	16,498	131,846
Other assets	21,263	5,198	2,456	82	216	105	236	22,454	52,010
Total assets	192,805	68,353	51,129	29,267	23,001	49,074	95,114	131,740	640,483
<b>Liabilities</b>									
Deposits by banks <sup>1</sup>	32,008	2,606	1,623	867	155	414	369	206	38,248
Customer accounts <sup>1</sup>	283,048	33,939	20,768	8,539	7,974	1,960	1,187	1,712	359,127
Derivative financial instruments	6,830	7,510	6,878	5,137	4,324	8,552	14,304	8,404	61,939
Senior debt	1,706	170	3,484	153	1,431	2,699	7,578	4,017	21,238
Other debt securities in issue <sup>1</sup>	9,430	15,641	9,104	1,345	976	3,453	776	6,834	47,559
Other liabilities	17,475	5,947	3,390	553	563	797	854	12,429	42,008
Subordinated liabilities and other borrowed funds	—	—	—	—	—	3,591	4,061	14,200	21,852
Total liabilities	350,497	65,813	45,247	16,594	15,423	21,466	29,129	47,802	591,971
Net liquidity gap	(157,692)	2,540	5,882	12,673	7,578	27,608	65,985	83,938	48,512

1. Amounts include financial instruments held at fair value through profit or loss (see note 13 on pages 223 to 224)

## Behavioural maturity of financial assets and liabilities

The cash flows presented on page 178 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 assets and liabilities behave differently from their contractual terms, especially for short-term customer accounts, credit card balances and overdrafts, which extend

to a longer period than their contractual maturity. On the other hand, mortgage balances tend to have a shorter repayment period than their contractual maturity date. 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

	2016								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
<b>Assets</b>									
Loans and advances to banks <sup>1</sup>	32,287	23,359	10,668	3,091	2,654	1,187	1,265	158	74,669
Loans and advances to customers <sup>1</sup>	54,207	25,544	15,282	7,059	12,494	16,738	75,988	48,584	255,896
Total loans and advances	86,494	48,903	25,950	10,150	15,148	17,925	77,253	48,742	330,565

### Liabilities

	2016								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
<b>Assets</b>									
Deposits by banks <sup>1</sup>	25,923	3,026	1,233	821	637	5,479	262	231	37,612
Customer accounts <sup>1</sup>	112,256	38,040	19,232	10,837	19,060	63,392	112,301	3,184	378,302
Total deposits	138,179	41,066	20,465	11,658	19,697	68,871	112,563	3,415	415,914
Net gap	(51,685)	7,837	5,485	(1,508)	(4,549)	(50,946)	(35,310)	45,327	(85,349)

	2015								
	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
<b>Assets</b>									
Loans and advances to banks <sup>1</sup>	31,091	16,647	9,053	3,549	2,779	1,965	1,647	38	66,769
Loans and advances to customers <sup>1</sup>	54,687	22,171	13,262	8,045	13,269	18,084	79,150	52,735	261,403
Total loans and advances	85,778	38,818	22,315	11,594	16,048	20,049	80,797	52,773	328,172
<b>Liabilities</b>									
Deposits by banks <sup>1</sup>	21,861	2,705	1,744	985	278	9,758	711	206	38,248
Customer accounts <sup>1</sup>	115,514	21,641	13,423	8,821	17,582	65,241	114,913	1,992	359,127
Total deposits	137,375	24,346	15,167	9,806	17,860	74,999	115,624	2,198	397,375
Net gap	(51,597)	14,472	7,148	1,788	(1,812)	(54,950)	(34,827)	50,575	(69,203)

<sup>1</sup> Amounts include financial instruments held at fair value through profit or loss (see note 13 on pages 223 to 224)

### 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.

	2016								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
<b>Assets</b>									
Deposits by banks	31,412	2,923	1,123	671	576	644	154	257	37,760
Customer accounts	280,731	46,268	25,539	11,289	9,074	2,622	2,177	2,548	380,248
Debt securities in issue	6,159	11,361	8,228	4,240	1,606	4,574	10,271	9,362	55,801
Subordinated liabilities and other borrowed funds	173	86	163	1,949	77	1,691	2,724	23,228	30,091
Other liabilities	21,139	6,905	5,059	769	612	1,391	915	11,459	48,249
Total liabilities	339,614	67,543	40,112	18,918	11,945	10,922	16,241	46,854	552,149

	2015								
	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	32,030	2,615	1,629	875	161	434	393	254	38,391
Customer accounts	283,318	34,133	21,019	8,794	8,060	2,037	1,338	2,514	361,213
Debt securities in issue	11,216	15,855	12,739	1,566	2,597	6,592	9,280	13,302	73,147
Subordinated liabilities and other borrowed funds	174	92	1,200	344	147	4,571	6,415	20,136	33,079
Other liabilities	17,475	6,616	3,437	553	585	797	854	13,983	44,300
Total liabilities	344,213	59,311	40,024	12,132	11,550	14,431	18,280	50,189	550,130

1. Certain balances within Deposits by banks, Customer accounts and Other liabilities reported according to the behavioural maturity of their cash flows has been adjusted to contractual maturity. Certain transactions reported on a discounted basis have been adjusted to an undiscounted basis. The total undiscounted liabilities of the Group reported in 2015 as \$549 billion has been restated to \$550 billion. The relevant maturity categories have also been restated.

#### 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 10 per cent of the Group balance sheet.

	2016								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Derivative financial instruments	547,129	460,446	224,642	125,928	118,220	100,437	112,065	77,880	1,766,747

	2015								
	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	435,036	375,963	179,355	132,034	87,710	105,856	137,942	83,673	1,537,569

#### Operational risk (unaudited)

We define operational risk as the potential for loss from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks.

The management of operational risk is a challenge due to its broad scope as operational risks arise from all activities carried out within the Group. To address this challenge we map risks across the Group at a processes level with controls installed to mitigate these risks. We benchmark practices against peers and regulatory requirements.

A summary of our operational risk management approach is provided in Risk management approach on page 148.

#### Operational risk events and losses

Operational losses for 2016 were lower than 2015 and comprise a number of unrelated non-systemic events which were not individually significant.

The highest losses reviewed by Group committees during the year were:

- An \$8.1 million provision raised in Hong Kong for alleged mis-selling. Judgement has yet to be rendered
- A \$6.8 million recovery of excess spread in Nigeria

#### Operational risk profile

The operational risk profile is the Group's overall exposure to operational risk, at a given point in time, covering all applicable operational risk sub-types. The operational risk profile comprises both operational risk events and losses that have already occurred and the current exposures to operational risks which, at an aggregate level, includes the consideration of top risks and emerging risks.

The Group's profile of operational loss events in 2016 and 2015 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	
	2016	2015 <sup>1</sup>
Agency services	4.7%	0.6%
Commercial Banking	6.5%	23.8%
Corporate Finance	0.0%	0.0%
Corporate items	15.9%	3.7%
Payment and settlements	13.5%	7.8%
Retail banking	30.6%	46.8%
Retail brokerage	6.0%	1.4%
Trading and sales	22.8%	15.9%

1. 2015 operational losses are restated to reflect incremental losses recorded

The Group's profile of operational loss events in 2016 and 2015 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	
	2016	2015 <sup>1</sup>
Business disruption and system failures	3.6%	0.5%
Clients products and business practices	25.3%	15.2%
Damage to physical assets	0.1%	0.0%
Employment practices and workplace safety	0.5%	0.0%
Execution delivery and process management	49.2%	20.1%
External fraud	19.6%	26.7%
Internal fraud	1.7%	37.5%

1. 2015 operational losses are restated to reflect incremental losses recorded

Operational losses are one indicator of the effectiveness and robustness of the operational risk control environment. In addition, lessons learnt reviews and root cause analyses from external and internal loss events, including near misses, are used to improve processes and controls.

The 2016 loss distribution reflects improvements in the number of large losses compared with 2015 which impacted the Retail Banking, Trading and sales and Commercial Banking Basel business lines and the internal fraud, external fraud and clients products and business practices Basel event types. In addition, in 2016 Commercial Banking experienced a lower number of losses greater than \$1m compared to 2015.

#### Top risks and emerging risks

A top risk is a risk exposure, or a group of highly correlated risk exposures, that has the highest potential to breach the Group's risk capacity. The objective is to identify those risks that can materially impact the Group's risk capacity, and to calibrate metrics as early warning indicators against undesirable outcomes and performance under stress. Top risk candidates are identified through a top-down assessment of concentration of exposures or aggregation of risks.

Emerging risks are also considered, both internally from the Group's internal operational risk profile and from external events. Given their significance, top risks attract closer scrutiny from management and governance committees. Top risks are expected to change over time based on the top-down assessments by management.

The Group's operational top risks as at 31 December 2016 are shown in the table below.

#### Top risk

##### Macro-prudential, regulatory and external risks

- Regulatory non-compliance
- Anti-money laundering and terrorist financing
- International sanctions
- External fraud
- Information and cyber security
- Critical third-party vendors
- Additional conduct
- Anti-bribery and corruption

##### Internal processes, systems and change risks

- Change management
- Data management
- Major systems failure
- Significant business interruption
- Rogue trading
- Internal fraud
- Market misconduct
- Mis-selling
- Product management
- Collateral management

# Capital review

The Capital review provides an analysis of the Group's capital position and requirements.

## Capital summary

The Group's capital and leverage position is managed within the Board-approved risk appetite. We utilise capital in support of our clients, the business strategy and to meet regulatory requirements including stress testing and future loss absorption requirements. The deployment of capital is closely aligned to our strategy, which is orientated towards activities that leverage the Group's footprint and network. The Group is strongly capitalised with low leverage and high levels of loss absorbing capacity.

Capital, leverage and RWA	2016	2015
CET1 capital %	<b>13.6</b>	12.6
Tier 1 capital %	<b>15.7</b>	14.1
Total capital %	<b>21.3</b>	19.5
Leverage %	<b>5.7</b>	5.5
RWA (\$million)	<b>269,445</b>	302,925

The Common Equity Tier 1 (CET1) ratio of 13.6 per cent was above the Group's target range of 12 to 13 per cent facilitating continued execution of the strategy despite the challenging external environment.

The Group has been proactive in managing its capital and loss absorbing capacity position. This was achieved through a combination of a \$2 billion liability management exercise and the issuance of \$2 billion Additional Tier 1 (AT1) capital, \$1.25 billion Tier 2 capital and around \$4.4 billion of term senior unsecured debt from the Group's holding company. Based on its understanding of the statement of policy on the Bank of England's (BoE) approach to setting a minimum requirement for own funds and eligible liabilities (MREL), the Group believes that its holding company issuance strategy positions it well for the introduction of MREL and estimates its current MREL position to be over 26 per cent of RWA and around 10 per cent of leverage exposure.

The Group's CET1 position was ahead of both the prevailing 2016 CET1 requirement of 7.1 per cent and the expected requirement for 2019 of 9.7 per cent, comprising the Pillar 1 and 2A minimum requirements and CRD IV capital buffers that are known at this time. The Group will continue to manage its capital and MREL position in the context of current and evolving requirements as they apply to the Group.

The main movements in capital in 2016 were:

- The CET1 ratio increased to 13.6 per cent due to a \$33.5 billion reduction in RWAs offsetting a \$1.6 billion reduction in CET1 capital as described below
- CET1 capital decreased by \$1.6 billion as underlying profits were offset by restructuring charges, foreign currency translation and payments relating to Tier 1 instruments
- AT1 capital increased to \$5.7 billion due to the issuance of \$2 billion of AT1 securities which was partially offset by redemptions. The Group currently targets an AT1 stock of around 2.5 per cent of RWA
- Tier 2 capital decreased by \$1.1 billion to \$15.1 billion as the new issuance of \$1.25 billion was offset by a liability management exercise, the exercise of call options and foreign currency translation
- The total capital ratio increased to 21.3 per cent due to the combination of the factors detailed above.

The Group's leverage ratio strengthened to 5.7 per cent due to the increase in end-point Tier 1 capital of \$0.4 billion and a reduction in the exposure measure of \$11.5 billion.

Following issuance of a further \$1 billion of AT1 in January 2017 the Group's AT1 stock increased to \$6.7 billion.

**Capital ratios**

	2016	2015
CET1	13.6%	12.6%
Tier 1 capital	15.7%	14.1%
Total capital	21.3%	19.5%

**CRD IV Capital base**

	2016 \$million	2015 \$million
<b>CET1 instruments and reserves</b>		
Capital instruments and the related share premium accounts	5,597	5,596
Of which: share premium accounts	3,957	3,957
Retained earnings <sup>1</sup>	26,000	29,128
Accumulated other comprehensive income (and other reserves)	11,524	12,180
Non-controlling interests (amount allowed in consolidated CET1)	809	582
Independently reviewed interim and year-end losses	(247)	(2,194)
Foreseeable dividends net of scrip	(212)	(115)
CET1 capital before regulatory adjustments	<b>43,471</b>	45,177
<b>CET1 regulatory adjustments</b>		
Additional value adjustments (prudential valuation adjustments)	(660)	(564)
Intangible assets (net of related tax liability)	(4,856)	(4,820)
Deferred tax assets that rely on future profitability (excludes those arising from temporary differences)	(197)	(212)
Fair value reserves related to net losses on cash flow hedges	85	38
Deduction of amounts resulting from the calculation of excess expected loss	(740)	(569)
Net gains on liabilities at fair value resulting from changes in own credit risk	(289)	(631)
Defined-benefit pension fund assets	(18)	(4)
Fair value gains arising from the institution's own credit risk related to derivative liabilities	(20)	(34)
Exposure amounts which could qualify for risk weighting of 1,250%	(168)	(199)
Of which: securitisation positions	(134)	(168)
Of which: free deliveries	(34)	(31)
<b>Total regulatory adjustments to CET1</b>	<b>(6,863)</b>	(6,995)
<b>CET1 capital</b>	<b>36,608</b>	38,182
<b>Additional Tier 1 capital (AT1) instruments</b>	<b>5,704</b>	4,611
<b>AT1 regulatory adjustments</b>	<b>(20)</b>	(20)
<b>Tier 1 capital</b>	<b>42,292</b>	42,773
<b>Tier 2 capital instruments</b>	<b>15,176</b>	16,278
<b>Tier 2 regulatory adjustments</b>	<b>(30)</b>	(30)
<b>Tier 2 capital</b>	<b>15,146</b>	16,248
<b>Total capital</b>	<b>57,438</b>	59,021
<b>Total risk-weighted assets (unaudited)</b>	<b>269,445</b>	302,925

1. Retained earnings include the effect of regulatory consolidation adjustments

**Movement in total capital**

	2016 \$million	2015 \$million
<b>CET1 at 1 January</b>	<b>38,182</b>	36,013
Ordinary shares issued in the year and share premium	1	5,053
Loss for the year	(247)	(2,194)
Foreseeable dividends net of scrip deducted from CET1	(212)	(115)
Difference between dividends paid and foreseeable dividends	(116)	240
Movement in goodwill and other intangible assets	(36)	629
Foreign currency translation differences	(779)	(1,878)
Unrealised gains on available-for-sale assets	–	481
Non-controlling interests	227	(1)
Movement in eligible other comprehensive income	(579)	(298)
Deferred tax assets that rely on future profitability	15	(32)
(Increase)/decrease in excess expected loss	(171)	1,150
Additional value adjustments (prudential valuation adjustment)	(96)	(368)
Own credit adjustments	342	(464)
Exposure amounts which could qualify for risk weighting	31	–
Other	46	(34)
<b>CET1 at 31 December</b>	<b>36,608</b>	38,182
<b>AT1 at 1 January</b>	<b>4,591</b>	2,786
Issuances net of redemptions	1,010	1,987
Foreign currency translation difference	(47)	(46)
Other	130	(136)
<b>AT1 at 31 December</b>	<b>5,684</b>	4,591
<b>Tier 2 capital at 1 January</b>	<b>16,248</b>	18,300
Regulatory amortisation	(181)	(683)
Issuances net of redemptions	(697)	–
Foreign currency translation difference	(577)	(764)
Tier 2 Ineligible minority interest	374	(592)
Other	(21)	(13)
<b>Tier 2 capital at 31 December</b>	<b>15,146</b>	16,248
<b>Total capital at 31 December</b>	<b>57,438</b>	59,021

**Movements in risk-weighted assets**

RWA decreased by \$33.5 billion, or 11 per cent from 31 December 2015. This was mainly due to a \$31.5 billion decrease in credit risk RWA and a \$1.9 billion decrease in operational risk RWA. Market risk RWA remained broadly flat year-on-year.

**Corporate & Institutional Banking and Commercial Banking**

Credit risk RWA decreased by \$24 billion due to:

- \$19.1 billion reduction driven by exits from the liquidation portfolio and changes in Financial Markets and Principal Finance assets, partly offset by lower securitisation saves as a result of programme roll off
- \$2.7 billion efficiencies in Financial Markets through novation, trade compressions, improved collateral and process enhancements
- \$1.8 billion decrease in foreign currency translation due to depreciation of currencies in Nigeria, Europe, China and India
- \$0.5 billion reduction from model, methodology and policy changes driven by credit valuation adjustment (CVA) hedges offset by other rule changes

**Retail Banking**

Credit risk RWA decreased by \$4.8 billion, mainly due to:

- \$2.7 billion reduction from model methodology and policy changes mainly due to removal of PD uplifts and a change in Taiwan where mortgages moved from the standardised approach to the advanced internal ratings-based approach (IRB)
- \$1.2 billion reduction as a result of de-risking and reshaping the portfolio particularly in unsecured lending, offset by an increase in secured lending
- \$0.5 billion due to the exit from the Philippines
- \$0.5 billion decrease in foreign currency translation due to depreciation of currencies in Korea, China and Malaysia
- An increase of \$0.1 billion in credit migration in Hong Kong and Singapore

**Private Banking**

Credit risk RWA decreased by \$1.2 billion to \$5.1 billion, primarily due to declining asset balances driven by targeted client exits and de-risking actions, coupled with de-leveraging by clients.

### Central & other items

Credit risk RWA decreased by \$1.6 billion to \$41.2 billion due to:

- \$1.3 billion decrease due to EU member state exposures moving from IRB to standardised
- \$0.6 billion decrease in foreign currency translation due to depreciation of currencies in Nigeria, China and Ghana
- \$0.2 billion decrease in credit migration relating to Treasury activities of the Group
- An increase of \$0.5 billion in credit RWA due to Treasury activities and tax balances, partly offset by lower RWA balances for Investments in Associates.

### Risk-weighted assets by business

	2016			
	Credit risk \$million	Operational risk \$million	Market risk \$million	Total risk \$million
Corporate & Institutional Banking	106,834	16,703	19,228	142,765
Retail Banking	33,210	8,953	–	42,163
Commercial Banking	27,553	4,385	–	31,938
Private Banking	5,129	959	–	6,088
Central & other items	41,149	2,693	2,649	46,491
Total risk-weighted assets	213,875	33,693	21,877	269,445

	2015			
	Credit risk \$million	Operational risk \$million	Market risk \$million	Total risk \$million
Corporate & Institutional Banking	127,528	20,547	19,660	167,735
Retail Banking	38,007	9,652	–	47,659
Commercial Banking	30,825	3,803	–	34,628
Private Banking	6,302	871	–	7,173
Central & other items	42,740	737	2,253	45,730
Total risk-weighted assets	245,402	35,610	21,913	302,925

### Risk-weighted assets by geographic region

	2016 \$million	2015 \$million
Greater China & North Asia	76,665	82,070
ASEAN & South Asia	96,673	109,730
Africa & Middle East	52,849	57,566
Europe & Americas	43,487	56,815
Central & other items	(229)	(3,256)
<b>Total risk-weighted assets</b>	<b>269,445</b>	<b>302,925</b>

### Market risk

Total market risk RWA remained broadly flat at \$21.9 billion. The introduction of XVA recognition and hedging in 2016 increased internal model RWA by \$5.7 billion. This was offset by reductions of \$5.5 billion market risk RWA across asset classes, including a reduction in our position in various structured products, especially FX Target Redemption Products. Other model, methodology and policy changes contributed a reduction of \$0.2 billion RWA.

### Operational risk

Operational risk RWA decreased by \$1.9 billion to \$33.7 billion due to the change in income over a rolling three-year time horizon with lower 2015 income replacing 2012 income.

**Movement in risk-weighted assets**

	Credit risk								
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million	Total \$million	Operational risk \$million	Market risk \$million	Total risk \$million
<b>At 1 January 2015</b>	152,583	45,337	37,532	5,878	44,916	286,246	35,107	20,295	341,648
Assets (decline)/growth	(5,764)	(2,477)	(1,031)	213	(497)	(9,556)	–	–	(9,556)
Credit migration	(2,204)	22	(2,842)	–	(291)	(5,315)	–	–	(5,315)
Risk-weighted assets efficiencies	(15,730)	–	(1,699)	138	–	(17,291)	–	–	(17,291)
Model, methodology and policy changes	2,521	(843)	(142)	266	1,021	2,823	–	1,300	4,123
Net acquisitions and disposals	(1,108)	(1,615)	–	–	–	(2,723)	–	–	(2,723)
Foreign currency translation	(2,770)	(2,417)	(993)	(193)	(2,409)	(8,782)	–	–	(8,782)
Other non-credit risk movements	–	–	–	–	–	–	503	318	821
<b>At 31 December 2015</b>	<b>127,528</b>	<b>38,007</b>	<b>30,825</b>	<b>6,302</b>	<b>42,740</b>	<b>245,402</b>	<b>35,610</b>	<b>21,913</b>	<b>302,925</b>
Assets (decline)/growth	(15,860)	(1,221)	(3,221)	(1,120)	493	(20,929)	–	–	(20,929)
Credit migration	156	116	(61)	–	(179)	32	–	–	32
Risk-weighted assets efficiencies	(2,722)	–	–	–	–	(2,722)	–	–	(2,722)
Model, methodology and policy changes	(917)	(2,708)	437	–	(1,316)	(4,504)	–	5,500	996
Net acquisitions and disposals	–	(471)	–	–	–	(471)	–	–	(471)
Foreign currency translation	(1,351)	(513)	(427)	(53)	(589)	(2,933)	–	–	(2,933)
Other non-credit risk movements	–	–	–	–	–	–	(1,917)	(5,536)	(7,453)
<b>At 31 December 2016</b>	<b>106,834</b>	<b>33,210</b>	<b>27,553</b>	<b>5,129</b>	<b>41,149</b>	<b>213,875</b>	<b>33,693</b>	<b>21,877</b>	<b>269,445</b>

**Leverage ratio**

The Group's leverage ratio of 5.7 per cent was above the current minimum requirement of 3.1 per cent and the expected future requirement of 3.4 per cent from 2019 which comprises: (i) the minimum 3 per cent; (ii) a 0.35 per cent Global Systemically Important Institutions (G-SII) leverage ratio buffer; and (iii) a 0.05 per cent countercyclical leverage ratio buffer, based on currently known pending countercyclical capital buffer rates and assuming a constant proportion of exposures to the relevant

jurisdictions. The strengthening of the leverage ratio in 2016 was due to a small increase in end point Tier 1 capital and a reduction in the exposure measure.

The current calculation of the leverage ratio as well as the minimum requirement could be impacted by the Basel Committee on Banking Supervision (BCBS) consultation on revisions to the Basel III leverage ratio framework.

**Leverage ratio**

	2016 \$million	2015 \$million
Tier 1 capital (transitional)	42,292	42,773
Additional Tier 1 capital subject to phase out	(1,735)	(2,624)
<b>Tier 1 capital (end point)</b>	<b>40,557</b>	40,149
<b>Derivative financial instruments</b>	<b>65,509</b>	63,143
Derivative cash collateral	14,230	13,430
Securities financing transactions (SFTs)	44,916	36,765
Loans and advances and other assets	522,037	527,145
<b>Total-on-balance sheet assets</b>	<b>646,692</b>	640,483
Regulatory consolidation adjustments	11,950	12,826
<b>Derivatives adjustments</b>	<b>(38,737)</b>	(38,766)
Derivatives netting	(23,449)	(23,252)
Adjustments to cash collateral	7,311	8,922
Net written credit protection	49,607	58,379
Potential future exposure on derivatives	(5,268)	5,283
<b>Total derivatives adjustments</b>	<b>10,412</b>	11,299
Counterparty risk leverage exposure measure for SFTs	(6,553)	(6,331)
Regulatory deductions and other adjustments	60,535	65,660
Off-balance sheet items		
<b>Total leverage exposure (end point)</b>	<b>717,768</b>	729,220
<b>Leverage ratio (end point)</b>	<b>5.7%</b>	5.5%
<b>Quarterly average exposure measure</b>	<b>731,115</b>	N/A
<b>Quarterly average leverage ratio</b>	<b>5.6%</b>	N/A
<b>Countercyclical leverage ratio buffer</b>	<b>–</b>	N/A

## Advanced internal ratings-based models

Since 1 January 2008, the Group has been using the advanced internal ratings-based (IRB) approach for the calculation of credit risk capital requirements with the approval of our relevant regulators. For a market risk Internal Model Approach (IMA), where IMA permission has been granted by our relevant regulators, we use value at risk (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 Prudential Regulation Authority (PRA) has 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 floors based on the Foundation IRB (FIRB) approach. Such changes are likely to result in an increase in the RWA for these exposures, with the ultimate impact dependent on PRA approval of the revisions to the relevant models.

In December 2014, the BCBS released two consultative documents (CD306 and CD307) on:

- (i) the design of a capital floor framework based on standardised approaches for credit, market and operational risk;
- (ii) revisions to the standardised approach for credit risk.

In December 2015 the BCBS released a second consultation on the revisions to the standardised approaches for credit risk, significantly modifying the initial proposal following industry feedback, and in March 2016 a new consultative document (CD362) proposing additional constraints on the use of internal model approaches was published.

The proposed changes could result in an increase in the RWA calculated by such approaches, but the eventual impact will depend on the final outcome of the consultation process and the calibration of the capital floor. Regulators have expressed the expectation that the changes would not add to system-wide capital requirements.

The Group participates actively in the consultation process alongside a variety of industry associations. While the BCBS intended to publish the final standards, including their calibration and implementation arrangements, by the end of 2016, it recently communicated that it requires more time to finalise the package, with an expectation to complete this work in the near future. The extent to which the EU and/or the PRA will adopt the BCBS proposals is unknown.

## CET1 requirements

Based on the Group's understanding of the rules, its current expected CET1 requirement for 2019 is 9.7 per cent, comprising:

- A minimum Pillar 1 CET1 requirement of 4.5 per cent
- A Pillar 2A CET1 requirement of around 1.6 per cent (subject to ongoing PRA assessment) being 56 per cent of the total Pillar 2A requirement
- A capital conservation buffer of 2.5 per cent by 1 January 2019
- A G-SII buffer of 1.0 per cent by 1 January 2019
- A countercyclical capital buffer of around 0.1 per cent, effective from 1 January 2017

Any further countercyclical capital buffer applied to the Group would increase the Group's CET1 requirement. The Group's countercyclical capital buffer is determined by 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).

The Combined Buffer comprises the Group's capital conservation buffer, G-SII buffer and the countercyclical capital buffer. The

Pillar 1 and Pillar 2A CET1 requirements and Combined Buffer requirement together represent the Group's Maximum Distributable Amount threshold. The Group is expected to be subject to restrictions on discretionary distributions if the CET1 ratio goes below this threshold.

The Group expects to continue to operate with a prudent management buffer above this threshold.

## Pillar 2

At 31 December 2016 the Group's Pillar 2A requirement was equivalent to around 2.8 per cent of RWA of which at least 1.6 per cent must be held in CET1. The Group's Pillar 2A requirement is expected to vary over time.

Over time, the Group may also be subject to a PRA buffer. The PRA buffer is intended to ensure the Group remains well-capitalised during periods of stress. When setting the Group's PRA buffer, it is understood that the PRA considers results from the Bank of England (BoE) stress test, the biennial exploratory scenario, and bank-specific scenarios undertaken as part of Internal Capital Adequacy Assessment Processes (ICAAPs), as well as other relevant information. The PRA buffer is additional to the existing CRD IV buffer requirements, and is applied if and to the extent that the PRA considers the existing CRD IV buffers do not adequately address the Group's risk profile. The PRA buffer is not disclosed.

## Global Systemically Important Institutions

The Group has been designated a G-SII by the Financial Stability Board (FSB) since November 2012. The Group has been categorised with a 1.0 per cent G-SII CET1 buffer which began to be phased in from 1 January 2016 and will be fully implemented by 1 January 2019. The buffer phases in at a rate of 0.25 per cent per year.

 The Group's 2015 GSIB disclosure can be found at [sc.com/GSIBdisclosure2015.com](http://sc.com/GSIBdisclosure2015.com)

## Loss Absorbing Capacity

The Group will also be set an MREL requirement under the EU Bank Recovery and Resolution Directive. In November 2016, the BoE published its final statement of policy on MREL, which confirmed that the BoE intends to use its power to set MREL to implement the FSB's Total Loss Absorbing Capacity standard for G-SIIs. MREL will be phased in between 2019 and 2022. For G-SIIs, the transitional requirements are expected to be as follows:

- From 1 January 2019 – the higher of 16 per cent of RWAs or 6 per cent of leverage exposure
- From 1 January 2020 – the higher of two times Pillar 1 requirement and one times Pillar 2A requirement or two times the applicable leverage ratio requirement
- From 1 January 2022 – the higher of two times the sum of Pillar 1 and Pillar 2A requirement or the higher of two times the applicable leverage ratio requirement or 6.75 per cent of leverage exposure

Before the end of 2020, it is expected that the BoE will review its general approach to the calibration of MREL, and the final transition date, prior to setting end-state MRELs. The BoE has indicated that in doing so, it will have particular regard to any intervening changes in the UK regulatory framework as well as institutions' experience in issuing MREL resources to meet their interim MRELs. The BoE has also indicated it will also take into account any changes to regulatory capital requirements, including the likely changes to the capital framework arising from the work of the BCBS.

The PRA also published a supervisory statement in November 2016 on the relationship between MREL and regulatory buffers, in which the PRA set out its policy, based on key aspects of the FSB standards, that CET1 used to meet MREL cannot also be used to meet the Combined Buffer or the PRA Buffer.

On 23 November 2016, the European Commission published legislative proposals for amendments to the Capital Requirements Regulation, CRD IV, the Bank Recovery and Resolution Directive and the Single Resolution Mechanism Regulation. The proposed reforms are to be considered by the European Parliament and the Council of the European Union and remain subject to change. The final package of reforms may not include all elements of the proposals and new or amended elements may be introduced. Until the proposals are in final form it is uncertain how they will affect the Group.

Based on the methodology set out in the BoE's final statement of policy, the Group estimates its MREL position, as at 31 December 2016, to be over 26 per cent of RWA and around 10 per cent of leverage exposure. This estimate is the sum of:

- Regulatory capital with at least one year remaining to maturity, excluding some externally issued regulatory capital instruments issued under non-EEA law
- That part of subordinated debt (issued by Standard Chartered PLC) with at least one year remaining to maturity, which 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 de-recognition
- Senior liabilities issued by Standard Chartered PLC with at least one year remaining to maturity.

### **Bank of England stress test**

In 2016, the BoE adopted a stress test assuming an annual cyclical scenario approach whereby the severity of stress applied would negatively correspond to the current strength of a particular economy. Overall the 2016 stress test was more severe than the 2015 stress test.

In November 2016, the BoE released the results of the 2016 stress test. The Group met both the CET1 capital ratio and the Leverage ratio requirements after the impact of strategic management actions. The PRA Board concluded that the Group did not meet its Tier 1 risk-weighted capital requirement including Pillar 2A but determined that, in light of the steps the Group subsequently took in 2016 to strengthen its capital position, it did not require the Group to submit a revised capital plan. The Group has a strong and liquid balance sheet and the results of the 2016 stress test demonstrate its resilience to a severe global stress scenario.

The Group's stress test hurdle rates are (i) a CET1 hurdle rate comprising the Pillar 1 CET1 minimum and the Group's prevailing CET1 Pillar 2A requirement; and (ii) a Tier 1 leverage hurdle rate of 3 per cent. The Group's systemic reference points for both CET1 and leverage also include the phased component of the Group's G-SII buffer. In deciding whether a bank should take action to strengthen its capital position the PRA may also consider a bank's Tier 1 and total capital ratios under stress.

### **IFRS 9 Financial Instruments**

Note 40 of the financial statements provides an update in relation to IFRS 9.

IFRS 9 introduces new requirements for loan loss provisions to be determined based on forward-looking expected credit loss models, the adoption of which may also have a capital impact, in particular on the CET1 capital base reflecting an anticipated increase in the stock of impairment provisions under an expected credit loss model.

Other than that noted in note 40, there are no proposed changes to the overall regulatory framework in response to IFRS 9 before the effective date of 1 January 2018. On that basis the Group continues to assess the impact that IFRS 9 will have on its consolidated financial statements. At this stage it is impracticable to provide a robust and reliable estimate of the potential effect and the subsequent impact on regulatory capital.

### **Capital management and governance**

The Group seeks to maintain a strong capital base to support the development of its business and to meet regulatory capital, leverage and loss absorbing capacity requirements.

Strategic business and capital plans are drawn up covering a five-year horizon and are approved by the Board. The capital plan ensures that adequate levels of capital and an efficient mix of the different components of capital are maintained to support our strategy and business plans. Group Treasury is responsible for the ongoing assessment of the demand for capital and the updating of the Group's capital plan.

Capital planning takes the following into account:

- Current regulatory capital requirements and our assessment of future standards
- Demand for capital due to 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 our 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 committee is the Group Asset and Liability Committee (GALCO). In 2016, members of the GALCO included the Group Executive Directors, the Group Chief Risk Officer, the Group Treasurer, Regional CEOs and the heads of the Group's businesses, with additional senior attendees from Finance, Risk and the businesses. The GALCO regularly reviews the capital plan and approves capital management policies and guidelines.

Additionally the Operational Balance Sheet Committee (OBSC), focuses on ensuring that, in executing the business strategy, the Group operates within internally approved and externally required capital, loss absorbing capacity, liquidity and leverage risk appetite.

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 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 in the Risk review on pages 134 to 181.

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 stressed 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. The Group operates through branches and a number of significant subsidiaries including Standard Chartered Bank, Standard Chartered Bank (HK) Limited and Standard Chartered Bank Korea Limited. These subsidiaries are subject to local regulation and, therefore may be subject to different rules relating to capital and RWA requirements and the implementation and phasing of Basel III. The Group's 2016 Pillar 3 Disclosures provide further details on these subsidiaries.

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AND NOTES**

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AUDITOR'S  
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STATEMENT

CONSOLIDATED  
STATEMENT OF  
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# Independent auditor's report to the members of Standard Chartered PLC only

## Opinions and conclusions arising from our audit

### **1. 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 2016 set out on pages 199 to 293. 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 2016 and of the Group's loss for the year then ended
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (IFRS as adopted by the EU)
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the International Accounting Standards (IASs) Regulation

### OVERVIEW

<b>Materiality:</b> Group financial statements as a whole	\$150m (2015: \$150m) 4.3% (2015: 3.4%) of a four-year normalised average Group profit before tax
<b>Coverage</b>	92% (2015: 95%) of Group profit before tax (PBT)
<b>Risks of material misstatement</b>	<b>vs 2015</b>
Impairment on loans and advances ( <i>recurring risk</i> )	↔
Provisions and disclosure for legal and regulatory matters ( <i>event-driven risk</i> ) <sup>1</sup>	↑
Goodwill impairment ( <i>recurring risk</i> )	↑
Valuation of financial instruments held at fair value and related valuation adjustments ( <i>recurring risk</i> )	↔
Information technology <sup>1</sup> ( <i>recurring risk</i> )	↔

1. Separately set out in the auditor's report for first time in 2016

## 2. Our assessment of 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 and the flexibility and tenor of its balance sheet.

We assessed and challenged the inherent risks with reference to:

- International Monetary Fund (IMF) economic forecasts and commentary
- The perspectives of our in-country audit teams on their local economies, particularly the banking sector
- The views of our specialists in a number of areas including bank regulation, IT and tax
- The views of the Prudential Regulatory Authority (PRA) and regulators in other key geographies
- The results of the PRA's stress tests, published on 30 November 2016
- The Group's budgets, regular forecasts, internal stress testing, reporting to the Audit, Board Risk and Group Risk Committees and the many discussions we have with senior management of the Group as well as country management teams

The risks and focus areas of our audit we identified as a result are set out on the following pages.

We 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. These automated and manual controls are pervasive to all risks across the Group.

These assessments enabled us to form a judgement on going concern and to determine the key areas of financial statement risk on which our audit should be focused. Thereafter, by looking at both broad risk themes across the Group and particular concerns in specific geographies and businesses, we were then able to calibrate our work to financial statement risk more precisely.

As a result, we recalibrated our assessment of the risks of material misstatement as compared to prior year.

- We removed the provision for redundancy and other restructuring costs because the events and circumstances giving rise to the risk were related to the prior year reorganisation
- The level of regulatory change across the footprint, as well as a number of new and ongoing regulatory matters, warranted the identification of provisions and disclosure for legal and regulatory matters as one of the risks that had most significant effect on our audit
- Given the high dependence on technology and the significant daily volume of transactions processed, the Group's investment in its IT infrastructure and heightened focus on user access controls, we separately identified information technology as one of the risks that had most significant effect on our audit

In arriving at our audit opinion on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, are set out below.

<b>SUMMARY OF KEY RISKS</b>	
<b>Significant risks</b>	<b>Areas of focus</b>
<b>Impairment of loans and advances</b>	India loan exposures (Corporate & Institutional Banking and Commercial Banking clients) Indonesia loan exposures, including exposures in the Group's joint venture Diamond and jewellery exposures (Corporate & Institutional Banking and Commercial Banking clients) China loan exposures (Corporate & Institutional Banking and Commercial Banking clients) Commodities and oil and gas and related exposures (together 'commodities and related exposures') Loan exposures denominated in US dollars for counterparties operating in non-US jurisdictions (Corporate & Institutional Banking and Commercial Banking clients) Liquidation portfolio valuation Significant Early Alert and Group Special Asset Management (GSAM) loans Management judgements employed in the calculation of collective provisions Disclosures in relation to credit risk including forbearance
<b>Provisions for legal and regulatory matters</b>	Historical fines sanctioned by the US authorities Investigations by regulators, specifically in the US, UK and Hong Kong
<b>Goodwill impairment</b>	Cash-generating units with low headroom
<b>Valuation of financial instruments</b>	Valuation of level 3 financial instruments Modelling of and inputs into valuation of derivative and other instruments Appropriateness of valuation adjustments Disclosures of the fair value hierarchy
<b>Information technology</b>	Key systems at the local, regional and Group level and at the Group's shared services centres

## IMPAIRMENT OF LOANS AND ADVANCES

The carrying value of loans and advances to banks and customers held at amortised cost may be materially misstated, if impairments are not appropriately identified and estimated. The identification of impaired assets and the estimation of impairments including estimates of future cash flows, valuation of collateral and calculation of the collective provision involves significant management judgement.

*Refer to the critical accounting estimates and judgements in note 1, Audit Committee report on pages 74 to 78 and the disclosures of credit risk on pages 150 to 168.*

Corporate & Institutional Banking clients, Commercial Banking clients and Private Banking clients (collectively 'larger clients') represent 72 per cent (\$237 billion) of the Group's net loan exposure, whereas Retail clients represent 28 per cent (\$93 billion). These exposures are different in nature and require a different approach to auditing loan impairment. The larger client exposure comprises loans that are monitored individually due to size, based on the knowledge of each individual borrower. In contrast, the retail client exposure comprises much smaller value loans to a greater number of customers. Accordingly, loans are not evaluated for impairment on an individual basis, but are grouped by product into homogeneous exposures. Exposures are then monitored through delinquency statistics and impairment recorded based on projected losses, adjusted for current market conditions. Therefore, we designed our audit response to address the individual impairment provision, for the larger clients, and the collective impairment provision, for both the larger and retail clients. The Group continued to de-risk their loan book across all segments.

Areas of focus	Our response
Indian Corporate & Institutional and Commercial Banking client loan exposures due to tightening liquidity, slow regulatory reform, high debt levels, weak balance sheets and demonetisation.	Our procedures included: <ul style="list-style-type: none"><li>● <b>Manual and automated controls over individual and collective provisions:</b> Tested key controls over the credit grading, governance and monitoring process to assess if the risk grades allocated to counterparties were accurate and loans were appropriately identified and migrated through, on a timely basis, early alert or grades 12 to 14. Tested key management controls over the input of underlying data into the collective provision models</li></ul>
Indonesia Corporate & Institutional Banking and Commercial Banking loan exposures including exposures in the Group's joint venture, due to stress in the local economy.	<ul style="list-style-type: none"><li>● <b>Risk assessment:</b> We performed risk assessment to identify higher risk portfolios (discussed on the left), including an assessment of management's own portfolio stress tests and risk mitigation actions to identify areas of focus. We scoped additional loans for credit assessment (over and above the sampling criteria below), when we deemed specific counterparties high risk in light of the portfolio analysis performed</li></ul>
Diamond and jewellery-related exposures, given refinancing issues in the sector and challenges with collateral recovery.	<ul style="list-style-type: none"><li>● <b>Credit file reviews:</b> At each scoped component, performed credit file reviews for control and substantive purposes to test the accuracy of risk ratings and recoverability of loans. We critically assessed all loans with a carrying value above \$40 million in credit grades 12 to 14 (see pages 153 to 154), certain loans above \$75 million on the Group's Early Alert Report (see page 144), and a selection of loans in credit grades 1 to 11 (see pages 153 to 154) selected by component teams based on local materiality levels and specific risks. Our credit file reviews challenged the forecast of recoverable cash flows, probability of realisation, and valuation of collateral and other possible sources of repayment. We compared key assumptions against business plans and our understanding of the relevant industries and business environments, as well as to externally derived evidence such as commodity prices, business performance and real estate valuations</li></ul>
Chinese Corporate & Institutional and Commercial Banking loan exposures due to slowdown of the economy and refinancing pressure.	<ul style="list-style-type: none"><li>● <b>Liquidation portfolio:</b> This portfolio comprises selected impaired exposures and our procedures in respect of the impaired exposures involved assessing the key judgements relating to recovery, namely the likely price or underlying security valuations and expected time to sell</li></ul>
Commodities and related exposures as commodity and oil prices remain depressed.	<ul style="list-style-type: none"><li>● <b>Challenge collective impairment provision model methodology and inputs:</b> Our modelling specialists evaluated model methodology, key assumptions and management's model validation for a sample of models. We substantively tested the completeness and accuracy of key inputs (e.g. year-end balances, repayment history, risk ratings) into models and assessed the appropriateness of the emergence period for both larger clients and retail clients. We compared the model output to the Group's observed loss history and compared coverage rates to externally available industry, financial and economic data, where available</li></ul>
Corporate & Institutional and Commercial Banking loan exposures denominated in US dollars for counterparties operating in non-US jurisdictions impacted by exchange rate fluctuations.	<ul style="list-style-type: none"><li>● <b>Adequacy of specific risk overlays:</b> We critically challenged the appropriateness of management overlays to the modelled collective provision to assess if it reflects recent loss experience, current market conditions and specific risks to the exposure. We also assessed the completeness of overlays, i.e. that all material risk pockets were considered</li></ul>
Liquidation portfolio due to the judgement required to assess the price at which the Group could sell impaired loans.	<ul style="list-style-type: none"><li>● <b>Disclosures:</b> We critically assessed whether disclosures appropriately reflect the Group's exposure to credit risk, including controls over identification and disclosure of forbearance loans, collateral valuation and sensitivity of key assumptions</li></ul>
Significant Early Alert and GSAM loans due significant estimates and to judgement required to assess recoverability.	
Management judgements employed in the calculation of collective provisions.	
Disclosures related to credit risk, including those over forbearance.	

## PROVISIONS FOR LEGAL AND REGULATORY MATTERS

There are a number of pending and ongoing legal disputes and regulatory investigations involving the Group. The directors exercise significant judgement over the recognition and measurement of provisions, including when a constructive obligation arises, and the measurement and disclosure of contingent liabilities relating to these matters, which are subject to the future outcome of legal or regulatory processes.

*Refer to the critical accounting estimates and judgments in note 23, Audit Committee report on pages 74 to 78 and disclosure of legal and regulatory matters in note 25.*

Areas of focus	Our response
<p>We focused on risks arising from matters in the US, Hong Kong and UK. Our focus was driven by:</p> <ul style="list-style-type: none"> <li>● Historical fines sanctioned by US authorities (see pages 250 to 251) against the Group and other banking entities, focused on financial crime compliance</li> <li>● Investigations by regulators, specifically in the US, UK and Hong Kong (see page 251)</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>● <b>Corroborative inquiry:</b> regular meetings with regional and local management and directors, the Group's internal legal teams, the Group's external counsel in the US, the Group's general counsel, and the Group's UK regulatory bodies (who are in regular contact with US and other regulatory bodies) to understand the nature and status of legal disputes and regulatory investigations and to understand the legal position and basis of provisioning</li> <li>● <b>Review third party documentation:</b> inspected communications from regulators and legal opinions obtained from the Group's external counsel</li> <li>● <b>Challenge key assumptions:</b> challenged the adequacy of provisions recognised, or lack thereof, including whether recognition criteria are met, by critically assessing the key assumptions forming the basis of the provisioning and comparing the assumptions to available peer and historical data</li> <li>● <b>Disclosures:</b> assessed the disclosures to determine whether they were sufficiently clear regarding the inherent uncertainty associated with provisions recognised and assessing appropriateness and extent of contingent disclosures for those pending matters for which no provision has been raised</li> </ul>

## GOODWILL IMPAIRMENT

Goodwill may be misstated if the carrying value of goodwill in the balance sheet is not supported by the estimated discounted future cash flows of the underlying business. The estimation of future cash flows and the assumptions involved in calculating the discounted value of these cash flows both involve the application of management judgement.

*Refer to the critical accounting estimates and judgements in note 1, Audit Committee report on pages 74 to 78 and the disclosures of goodwill in note 17.*

Areas of focus	Our response
<p>Pre-impairment goodwill in the balance sheet is \$3.6 billion with approximately \$2.6 billion of this relating to cash-generating units (CGUs) where post-acquisition growth in cash flows provides substantial headroom over the goodwill balance and for which we identified no other indicators of impairment. We regard these as low risk from a misstatement perspective.</p> <p>Our work was therefore focused on the \$1.0 billion of goodwill from CGUs with lower headroom and for which we identified other indicators of impairment. As a result our work was focused on, but not limited to, Taiwan and Thailand. We also performed targeted procedures over the \$1.5 billion of goodwill from CGUs that are particularly sensitive to the impairment model discount rate assumptions, but that otherwise have sufficient headroom</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>● <b>Methodology review:</b> our valuation specialists assessed the appropriateness of the Group's valuation approach and discount rate calculation</li> <li>● <b>Critically assess cash flows:</b> with direct involvement of component audit teams, assessed the internal consistency of cash flow assumptions as compared to formal business plans and our knowledge of the local banking environment and compared forecasts to historical experience</li> <li>● <b>Challenge of other key assumptions:</b> challenged the Group's identification of CGUs, discount rate, growth rate, and other non-financial assumptions through comparison to external sources, and, where appropriate, those used by peer banks and other economic metrics</li> <li>● <b>Disclosures:</b> assessed whether the financial statement disclosures, including sensitivity to key assumptions, reflect the risks inherent to the valuation of goodwill</li> </ul>

## VALUATION OF FINANCIAL INSTRUMENTS HELD AT FAIR VALUE AND RELATED VALUATION ADJUSTMENTS

The valuation of financial instruments held at fair value through profit or loss or as available-for-sale may be misstated due to the application of valuation techniques which often involve the exercise of judgement and the use of assumptions and estimates.

*Refer to the critical accounting estimates and judgements in note 1, Audit Committee report on pages 74 to 78 and the disclosures of valuation risk in note 13.*

Areas of focus	Our response
Valuation of level 3 positions comprising \$2.3 billion, 1.2% of total fair value financial instruments (2015: \$3.0 billion, 1.5%), including unlisted investments in the Principal Finance business and derivatives with significant unobservable pricing inputs.	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>● <b>Valuation controls:</b> we tested the Group's controls over the identification, measurement and management of valuation risk including independent price verification control, governance over valuation models, model validation and management reporting of valuation risk</li> </ul>
Modelling of and key inputs into the valuation of derivative and other instruments.	<ul style="list-style-type: none"> <li>● <b>Modelling methodologies:</b> we assessed whether, the model valuation methodologies used for material valuation risks are appropriate, utilising our valuation specialists</li> </ul>
Appropriateness of and inputs into valuation adjustments including those relating to counterparty credit, funding and own credit risk.	<ul style="list-style-type: none"> <li>● <b>Price testwork:</b> we tested, for a selection of pricing inputs, that they were externally sourced and were correctly input into pricing models. We independently valued a selection of the Group's debt and equity securities and compared these to the Group's valuation. For a selection of derivative positions, we obtained the valuation of each position submitted by the counterparty to a common collateral platform used in the Group's collateral management process and compared these to the Group's own valuation for the same position</li> </ul>
Disclosures of the fair value hierarchy of assets and liabilities held at fair value, including the assessment of observability of pricing inputs.	<ul style="list-style-type: none"> <li>● <b>Level 3:</b> we assessed, for a selection of level 3 positions, the valuation methodology, model and assumptions used, considering potential alternatives and sensitivities to key factors. Independently vouched key pricing inputs to source data and assessed the appropriateness of assumptions used in relation to unobservable inputs. We challenged the appropriateness and completeness of the model reserves held against instruments where elements of risk could not be modelled</li> <li>● <b>Valuation adjustments:</b> utilising our valuation specialists, we assessed the appropriateness of the methodologies and models used to estimate valuation adjustments. We assessed for a selection of transactions the appropriateness of key assumptions and inputs, in particular counterparty credit risk. For a sample of counterparties agreed credit risk inputs to directly observable sources and, where proxies were used, we assessed the appropriateness of the proxy, considering the availability of alternatives</li> <li>● <b>Disclosures:</b> we tested a selection of instruments to establish the observability of key pricing inputs with reference to active markets and, where relevant, the term of the instrument. We assessed the appropriateness of the fair value hierarchy assigned to these instruments. Particularly for level 3 positions, we assessed whether the financial statement disclosures, including sensitivity to key inputs, appropriately reflect the Group's exposure to valuation risk</li> </ul>

## INFORMATION TECHNOLOGY

The Group's key financial accounting and reporting processes are highly dependent on the automated controls over the Group's information systems, such that there exists a risk that gaps in the IT control environment could result in the financial accounting and reporting records being materially misstated.

*Refer to the Audit Committee report on pages 74 to 78.*

Areas of focus	Our response
Our audit effort focused on key systems in country and at Group level and at the Group's shared services centres, with particular focus on security and access management, segregation of duties and controls over system change.	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>● <b>General IT controls:</b> we tested the governance and other higher controls operating over the information technology environment across the Group, including system access and system change management, program development and computer operations</li> <li>● We considered the appropriateness of the access rights granted to applications relevant to financial accounting and reporting systems and the operating effectiveness of controls over granting, removal and appropriateness of access rights</li> <li>● <b>Application controls:</b> we tested the design and operating effectiveness of automated controls critical to financial accounting and reporting. For any identified deficiencies, tested the design and operating effectiveness of compensating controls and, where necessary, extended the scope of our substantive audit procedures</li> </ul>

### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set with reference to a benchmark of the normalised average profit or loss before tax for the past four years (representing 4.3 per cent of the benchmark (2015: 3.4 per cent)). Absolute values of profit (2016, 2014, 2013) and loss (2015) before tax were considered after normalisation adjustments for the impairment of goodwill (2015, 2014 and 2013) as disclosed in note 17 and the Civil Penalty from the US branch (2014) as these items are discrete.

This approach mitigates undue volatility in determining our materiality, focusing on underlying profitability of the Group over the past four years.

We report to the Audit Committee any corrected or uncorrected identified misstatements affecting Group profit and loss or Group shareholders' funds exceeding \$7.5 million (2015: \$7.5 million) and affecting Group assets and liabilities exceeding \$75 million (2015: \$75 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

**Coverage and scoping:** The coverage of our audit is focused on those components which are either individually significant or contain significant risks.

**Component scoping:** Components subject to specified audit procedures (as shown in the table above) were not individually financially significant to require an audit for Group reporting purposes, but were scoped on the basis of the significant volume of liquid assets and transactions processed in those components. The components within the scope of our work account for the percentages illustrated in the 'Group total assets' and 'Group profit before tax' tables to the right.

All central processing hubs where in-scope financial reporting processes are performed were subject to specified audit procedures, primarily over transaction processing and IT controls.

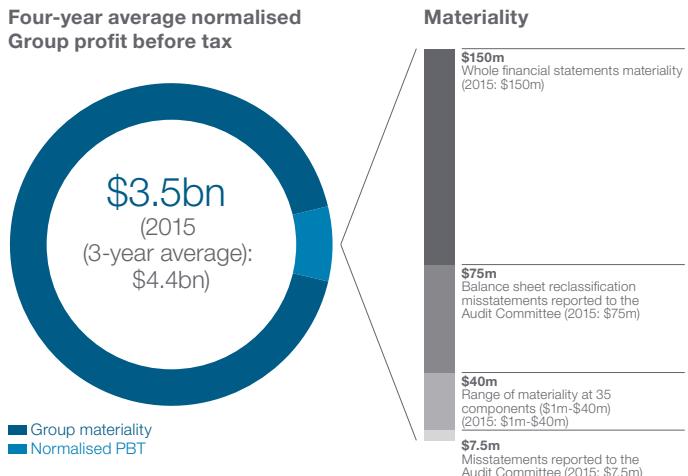
**Component materiality and coverage:** The Group team instructed component and hub auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported to the Group team. The Group team approved the component materiality levels, which ranged from \$1 million to \$40 million, having regard to the mix of size and risk profile of the Group across the components and hubs. Aside from the audit of the parent company, consolidation, valuation of financial instruments, collective impairment provision methodology and goodwill impairment, all audit work was performed by component or hub auditors. The Group team also performed quality assurance checks on loan impairment judgements made by component auditors for all loans above \$40 million in credit grades 12, 13 and 14 (see page 153 to 154) and higher risk loans above \$75 million on the Group's early alert list (see page 144).

**Group oversight:** As part of determining the scope and preparing the audit plan and strategy, the Group team led a global planning conference to discuss key audit risks and obtain input from component and hub teams. Senior audit partners oversaw the audit in each region and facilitated implementation of the audit approach over key risks.

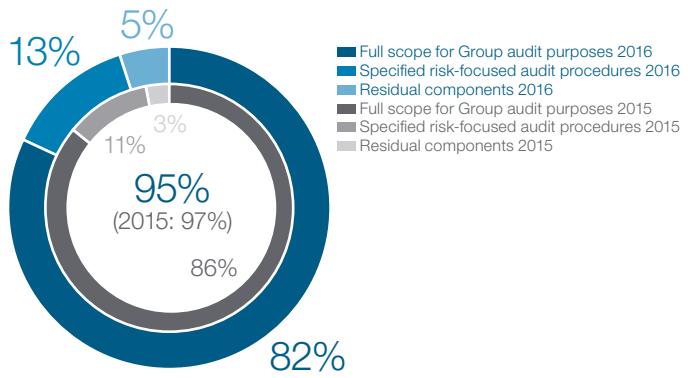
Further, the Group team visited 11 (2015: 7) component and hub locations, including China, Hong Kong, India, Indonesia, Kenya, Singapore, South Korea, Taiwan, Tanzania UAE and US. Regular conference calls were also held with these component auditors and the majority of the others that were not physically visited. At these visits and meetings, the findings reported to the Group team and any further work required by the Group team were discussed in more detail.

	Components/hubs	
	2016	2015
<b>Total Group components<sup>1</sup></b>	<b>178</b>	177
- Subject to full scope audit	<b>35</b>	33
- Subject to specified procedures	<b>4</b>	3
Hubs subject to specified audit procedures	<b>8</b>	8

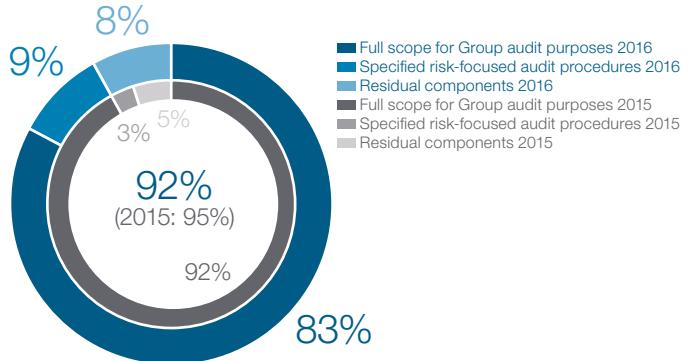
1. Component defined as reporting component within the Group's consolidation system, typically these are a branch or subsidiary of the Group



**Group total assets**



**Group profit before tax**



**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
- The information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- We have not identified material misstatements in those reports
- In our opinion, those reports have been prepared in accordance with the Companies Act 2006

**5. We have nothing to report on the disclosures of principal risks**

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- The directors' Viability statement on page 124, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group's continuing in operation over the three years to 31 December 2019
- The disclosures in 'Other disclosures' on page 124 concerning the use of the going concern basis of accounting

**6. We have nothing to report in respect of the matters on which we are required to report by exception**

Under ISAs (the 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 that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

**Scope and responsibilities**

As explained more fully in the Directors' responsibilities statement set out on page 131, 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 [frc.org.uk/auditscopeukprivate](http://frc.org.uk/auditscopeukprivate). This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [kpmg.com/uk/auditscopeukco2014a](http://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.

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 financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- The Corporate governance section of the Annual Report 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' statements, set out on page 124, in relation to going concern and longer-term viability
- The part of the Corporate governance statement on page 64 relating to the company's compliance with the 11 provisions of the 2014 UK Corporate Governance Code specified for our review

We have nothing to report in respect of the above responsibilities.

**Michelle Hinchliffe**

Senior Statutory Auditor

for and on behalf of KPMG LLP, Statutory Auditor Chartered Accountants

15 Canada Square  
London E14 5GL

24 February 2017

# Consolidated income statement

For the year ended 31 December 2016

	Notes	2016 \$million	2015 \$million
Interest income		<b>13,010</b>	14,613
Interest expense		(5,216)	(5,206)
<b>Net interest income</b>	3	<b>7,794</b>	9,407
Fees and commission income		<b>3,671</b>	4,088
Fees and commission expense		(440)	(481)
<b>Net fees and commission income</b>	4	<b>3,231</b>	3,607
Net trading income	5	<b>1,886</b>	912
Other operating income	6	<b>1,149</b>	1,363
<b>Operating income</b>		<b>14,060</b>	15,289
Staff costs		(6,303)	(7,119)
Premises costs		(797)	(831)
General administrative expenses		(2,372)	(2,559)
Depreciation and amortisation		(739)	(664)
<b>Operating expenses</b>	7	<b>(10,211)</b>	(11,173)
<b>Operating profit before impairment losses and taxation</b>		<b>3,849</b>	4,116
Impairment losses on loans and advances and other credit risk provisions	8	(2,791)	(4,976)
Other impairment			
Goodwill	9	(166)	(488)
Other	9	(446)	(367)
(Loss)/profit from associates and joint ventures	31	(37)	192
<b>Profit/(loss) before taxation</b>		<b>409</b>	(1,523)
Taxation	10	(600)	(673)
<b>Loss for the year</b>		<b>(191)</b>	(2,196)
<b>Profit/(loss) attributable to:</b>			
Non-controlling interests	28	<b>56</b>	(2)
Parent company shareholders		(247)	(2,194)
<b>Loss for the year</b>		<b>(191)</b>	(2,196)
		cents	cents
<b>Earnings per share:</b>			
Basic loss per ordinary share	12	<b>(14.5)</b>	(91.9)
Diluted loss per ordinary share	12	<b>(14.5)</b>	(91.9)

The notes on pages 207 to 293 form an integral part of these financial statements.

# Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Notes	2016 \$million	2015 \$million
<b>Loss for the year</b>		<b>(191)</b>	(2,196)
<b>Other comprehensive loss</b>			
<b>Items that will not be reclassified to income statement:</b>		<b>(445)</b>	(67)
Own credit losses on financial liabilities designated at fair value through profit or loss	13	(372)	–
Actuarial losses on retirement benefit obligations	29	(105)	(57)
Taxation relating to components of other comprehensive income	10	32	(10)
<b>Items that may be reclassified subsequently to income statement:</b>		<b>(968)</b>	(2,227)
Exchange differences on translation of foreign operations:			
Net losses taken to equity		<b>(817)</b>	(2,003)
Net gains on net investment hedges		30	90
Share of other comprehensive loss from associates and joint ventures	31	(11)	–
Available-for-sale investments:			
Net valuation gains/(losses) taken to equity		48	(57)
Reclassified to income statement		(188)	(328)
Cash flow hedges:			
Net losses taken to equity	14	(79)	(71)
Reclassified to income statement		57	107
Taxation relating to components of other comprehensive income	10	(8)	35
<b>Other comprehensive loss for the year, net of taxation</b>		<b>(1,413)</b>	(2,294)
<b>Total comprehensive loss for the year</b>		<b>(1,604)</b>	(4,490)
<b>Total comprehensive income/(loss) attributable to:</b>			
Non-controlling interests	28	<b>45</b>	(40)
Parent company shareholders		<b>(1,649)</b>	(4,450)
		<b>(1,604)</b>	(4,490)

# Consolidated balance sheet

As at 31 December 2016

	Notes	2016 \$million	2015 \$million
<b>Assets</b>			
Cash and balances at central banks	13, 34	<b>70,706</b>	65,312
Financial assets held at fair value through profit or loss	13	<b>20,077</b>	23,401
Derivative financial instruments	13, 14	<b>65,509</b>	63,143
Loans and advances to banks	13, 16	<b>72,609</b>	64,494
Loans and advances to customers	13, 16	<b>252,719</b>	257,356
Investment securities	13, 15	<b>108,972</b>	114,767
Other assets	13, 20	<b>36,940</b>	34,252
Current tax assets	10	<b>474</b>	388
Prepayments and accrued income		<b>2,238</b>	2,174
Interests in associates and joint ventures	31	<b>1,929</b>	1,937
Goodwill and intangible assets	17	<b>4,719</b>	4,642
Property, plant and equipment	18	<b>7,252</b>	7,209
Deferred tax assets	10	<b>1,294</b>	1,059
Assets classified as held for sale	13, 20	<b>1,254</b>	349
<b>Total assets</b>		<b>646,692</b>	640,483
<b>Liabilities</b>			
Deposits by banks	13	<b>36,894</b>	37,611
Customer accounts	13	<b>371,855</b>	350,633
Financial liabilities held at fair value through profit or loss	13	<b>16,598</b>	20,872
Derivative financial instruments	13, 14	<b>65,712</b>	61,939
Debt securities in issue	13, 21	<b>46,700</b>	59,880
Other liabilities	13, 22	<b>33,146</b>	31,939
Current tax liabilities	10	<b>327</b>	769
Accruals and deferred income		<b>5,223</b>	5,451
Subordinated liabilities and other borrowed funds	13, 26	<b>19,523</b>	21,852
Deferred tax liabilities	10	<b>353</b>	293
Provisions for liabilities and charges	23	<b>213</b>	215
Retirement benefit obligations	29	<b>525</b>	445
Liabilities included in disposal groups held for sale	13, 22	<b>965</b>	72
<b>Total liabilities</b>		<b>598,034</b>	591,971
<b>Equity</b>			
Share capital and share premium account	27	<b>7,091</b>	7,088
Other reserves		<b>11,524</b>	12,182
Retained earnings		<b>25,753</b>	26,934
<b>Total parent company shareholders' equity</b>		<b>44,368</b>	46,204
Other equity instruments	27	<b>3,969</b>	1,987
<b>Total equity excluding non-controlling interests</b>		<b>48,337</b>	48,191
Non-controlling interests	28	<b>321</b>	321
<b>Total equity</b>		<b>48,658</b>	48,512
<b>Total equity and liabilities</b>		<b>646,692</b>	640,483

The notes on pages 207 to 293 form an integral part of these financial statements.

These financial statements were approved by the Board of directors and authorised for issue on 24 February 2017 and signed on its behalf by:

José Viñals  
Chairman

Bill Winters  
Group Chief Executive

Andy Halford  
Group Chief Financial Officer

# Consolidated statement of changes in equity

For the year ended 31 December 2016

	Share capital and share premium account \$million	Capital and merger reserve <sup>1</sup> \$million	Own credit reserve \$million	Available- for-sale reserve \$million	Cash flow reserve \$million	Translation reserve \$million	Retained earnings \$million	Parent company shareholders' equity \$million	Other equity instruments \$million	Non- controlling interests \$million	Total \$million
At 1 January 2015	6,718	12,439	–	456	(57)	(3,148)	30,024	46,432	–	306	46,738
Loss for the year	–	–	–	–	–	–	(2,194)	(2,194)	–	(2)	(2,196)
Other comprehensive (loss)/income, net of taxation	–	–	–	(324)	11	(1,878)	(65) <sup>2</sup>	(2,256)	–	(38)	(2,294)
Distributions	–	–	–	–	–	–	–	–	–	(26)	(26)
Shares issued, net of expenses	370	4,683	–	–	–	–	–	5,053	–	–	5,053
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	1,987	–	1,987
Net own shares adjustment	–	–	–	–	–	–	(58)	(58)	–	–	(58)
Share option expense, net of taxation	–	–	–	–	–	–	148	148	–	–	148
Dividends, net of scrip <sup>3</sup>	–	–	–	–	–	–	(921)	(921)	–	–	(921)
Other movements <sup>4</sup>	–	–	–	–	–	–	–	–	–	81	81
As at 31 December 2015	<b>7,088</b>	<b>17,122</b>	–	<b>132</b>	<b>(46)</b>	<b>(5,026)</b>	<b>26,934</b>	<b>46,204</b>	<b>1,987</b>	<b>321</b>	<b>48,512</b>
Transfer of own credit adjustment, net of taxation <sup>5</sup>	–	–	<b>631</b>	–	–	–	(631)	–	–	–	–
(Loss)/profit for the year	–	–	–	–	–	–	(247)	(247)	–	56	(191)
Other comprehensive loss, net of taxation	–	–	(342)	(136)	(39)	(779)	(106) <sup>2</sup>	(1,402)	–	(11)	(1,413)
Distributions	–	–	–	–	–	–	–	–	–	(37)	(37)
Shares issued, net of expenses	<b>3</b>	<b>7</b>	–	–	–	–	–	<b>10</b>	–	–	<b>10</b>
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	1,982	–	1,982
Net own shares adjustment	–	–	–	–	–	–	(46)	(46)	–	–	(46)
Share option expense, net of taxation	–	–	–	–	–	–	80	80	–	–	80
Dividends, net of scrip <sup>3</sup>	–	–	–	–	–	–	(231)	(231)	–	–	(231)
Other movements <sup>6</sup>	–	–	–	–	–	–	–	–	–	(8)	(8)
As at 31 December 2016	<b>7,091</b>	<b>17,129</b>	<b>289</b>	<b>(4)</b>	<b>(85)</b>	<b>(5,805)</b>	<b>25,753</b>	<b>44,368</b>	<b>3,969</b>	<b>321</b>	<b>48,658</b>

1. Includes capital reserve of \$5 million and capital redemption reserve of \$13 million

2. Comprises actuarial loss, net of taxation and share from associates and joint ventures of \$106 million (2015: \$67 million)

3. Comprises dividends paid \$nil million (2015: \$755 million) and dividends on preferences shares classified as equity and Additional Tier 1 securities \$231 million (2015: \$166 million)

4. Additional investment from non-controlling interests in one of the Group's subsidiary undertakings

5. Following the Group early adopting IFRS 9 Financial Instruments to present own credit adjustments within Other comprehensive income (rather than Net trading income)

6. Predominantly due to completion of sale of business with non-controlling interest in Pakistan and issuance of shares to non-controlling interests in Angola

Note 27 includes a description of each reserve.

The notes on pages 207 to 293 form an integral part of these financial statements.

# Cash flow statement

For the year ended 31 December 2016

	Notes	Group		Company	
		2016 \$million	2015 \$million	2016 \$million	2015 \$million
<b>Cash flows from operating activities</b>					
Profit/(loss) before taxation		<b>409</b>	(1,523)	<b>192</b>	883
Adjustments for non-cash items and other adjustments included within income statement	33	<b>4,615</b>	6,949	<b>703</b>	(246)
Change in operating assets	33	<b>(8,286)</b>	36,812	<b>110</b>	209
Change in operating liabilities	33	<b>13,080</b>	(70,244)	<b>(619)</b>	(57)
Contributions to defined benefit schemes	29	<b>(98)</b>	(109)	—	—
UK and overseas taxes paid		<b>(1,287)</b>	(1,285)	<b>(12)</b>	(23)
<b>Net cash from/(used) in operating activities</b>		<b>8,433</b>	(29,400)	<b>374</b>	766
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	18	<b>(195)</b>	(130)	—	—
Disposal of property, plant and equipment		<b>23</b>	109	—	—
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired	31	<b>(238)</b>	—	<b>(5,500)</b>	(3,500)
Dividends received from associates and joint ventures	31	<b>3</b>	12	<b>204</b>	973
Disposal of subsidiaries		<b>636</b>	667	—	—
Purchase of investment securities		<b>(207,274)</b>	(209,519)	<b>(4,000)</b>	—
Disposal and maturity of investment securities		<b>210,857</b>	195,457	<b>1,300</b>	—
<b>Net cash from/(used) in investing activities</b>		<b>3,812</b>	(13,404)	<b>(7,996)</b>	(2,527)
<b>Cash flows from financing activities</b>					
Issue of ordinary and preference share capital, net of expenses		<b>10</b>	5,053	<b>10</b>	5,053
Exercise of share options		<b>5</b>	10	<b>5</b>	10
Purchase of own shares		<b>(51)</b>	(68)	<b>(51)</b>	(68)
Issue of Additional Tier 1 capital, net of expenses	27	<b>1,982</b>	1,987	<b>1,982</b>	1,987
Proceeds from issue of subordinated liabilities		<b>1,250</b>	—	<b>1,250</b>	—
Interest paid on subordinated liabilities		<b>(920)</b>	(1,082)	<b>(604)</b>	(606)
Repayment of subordinated liabilities		<b>(2,666)</b>	(5)	<b>(105)</b>	—
Proceeds from issue of senior debt		<b>5,453</b>	5,388	<b>4,385</b>	4,248
Repayment of senior debt		<b>(6,470)</b>	(6,947)	<b>(3,941)</b>	(4,548)
Interest paid on senior debt		<b>(454)</b>	(584)	<b>(365)</b>	(460)
(Investment in)/repayment from non-controlling interests		<b>(8)</b>	82	—	—
Dividends paid to non-controlling interests and preference shareholders		<b>(268)</b>	(192)	<b>(231)</b>	(166)
Dividends paid to ordinary shareholders, net of scrip		<b>—</b>	(755)	—	(755)
<b>Net cash (used in)/from financing activities</b>		<b>(2,137)</b>	2,887	<b>2,335</b>	4,695
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>10,108</b>	(39,917)	<b>(5,287)</b>	2,934
Cash and cash equivalents at beginning of the year		<b>88,428</b>	129,870	<b>20,517</b>	17,583
Effect of exchange rate movements on cash and cash equivalents		<b>(1,559)</b>	(1,525)	—	—
<b>Cash and cash equivalents at end of the year</b>	34	<b>96,977</b>	88,428	<b>15,230</b>	20,517

The notes on pages 207 to 293 form an integral part of these financial statements.

# Company balance sheet

As at 31 December 2016

	Notes	2016 \$million	2015 \$million
<b>Non-current assets</b>			
Investments in subsidiary undertakings	31	<b>33,853</b>	28,381
<b>Current assets</b>			
Derivative financial instruments	35, 38	<b>529</b>	639
Investment securities	38	<b>15,009</b>	12,309
Amounts owed by subsidiary undertakings	38	<b>15,230</b>	20,517
		<b>30,768</b>	33,465
<b>Current liabilities</b>			
Derivative financial instruments	38	<b>1,541</b>	1,438
Other creditors		<b>399</b>	387
Taxation		<b>14</b>	23
		<b>1,954</b>	1,848
<b>Net current assets</b>		<b>28,814</b>	31,617
<b>Total assets less current liabilities</b>		<b>62,667</b>	59,998
<b>Non-current liabilities</b>			
Debt securities in issue	38	<b>17,132</b>	17,293
Subordinated liabilities and other borrowed funds	26, 38	<b>14,582</b>	13,736
		<b>31,714</b>	31,029
<b>Total assets less liabilities</b>		<b>30,953</b>	28,969
<b>Equity</b>			
Share capital and share premium account	27	<b>7,091</b>	7,088
Other reserves		<b>17,129</b>	17,122
Retained earnings		<b>2,764</b>	2,772
<b>Total shareholders' equity</b>		<b>26,984</b>	26,982
Other equity instruments	27	<b>3,969</b>	1,987
<b>Total equity</b>		<b>30,953</b>	28,969

The notes on pages 207 to 293 form an integral part of these financial statements.

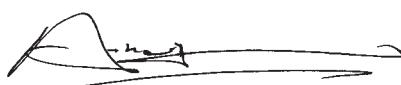
These financial statements were approved by the Board of directors and authorised for issue on 24 February 2017 and signed on its behalf by:



**José Viñals**  
Chairman



**Bill Winters**  
Group Chief Executive



**Andy Halford**  
Group Chief Financial Officer

# Company statement of changes in equity

For the year ended 31 December 2016

	Share capital and share premium account \$million	Capital and merger reserve <sup>1</sup> \$million	Retained earnings \$million	Other equity instruments \$million	Total equity \$million
At 1 January 2015	6,718	12,439	2,714	–	21,871
Profit for the year	–	–	883	–	883
Shares issued, net of expenses	370	4,683	–	–	5,053
Other equity instruments issued, net of expenses	–	–	–	1,987	1,987
Net own shares adjustment	–	–	(58)	–	(58)
Share option expense	–	–	154	–	154
Dividends, net of scrip <sup>2</sup>	–	–	(921)	–	(921)
At 31 December 2015	<b>7,088</b>	<b>17,122</b>	<b>2,772</b>	<b>1,987</b>	<b>28,969</b>
Profit for the year	–	–	189	–	189
Shares issued, net of expenses	3	7	–	–	10
Other equity instruments issued, net of expenses	–	–	–	1,982	1,982
Net own shares adjustment	–	–	(46)	–	(46)
Share option expense	–	–	80	–	80
Dividends, net of scrip <sup>2</sup>	–	–	(231)	–	(231)
At 31 December 2016	<b>7,091</b>	<b>17,129</b>	<b>2,764</b>	<b>3,969</b>	<b>30,953</b>

1 Includes capital reserve of \$5 million and capital redemption reserve of \$13 million

2. Comprises dividends paid \$nil million (2015: \$755 million) and dividends on preferences shares classified as equity and Additional Tier 1 securities \$231 million (2015: \$166 million)

Note 27 includes a description of each reserve.

The notes on pages 207 to 293 form an integral part of these financial statements.

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# Notes to the financial statements

## 1. ACCOUNTING POLICIES

### Statement of compliance

The Group financial statements consolidate Standard Chartered PLC (the Company) and its subsidiaries (together referred to as the Group) and equity account the Group's interest in associates and jointly controlled entities.

The parent company financial statements present information about the Company as a separate entity.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as endorsed by the EU. EU-endorsed IFRS may differ from IFRS published by the International Accounting Standards Board (IASB) if a standard has not been endorsed by the EU.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these financial statements.

The following pages of the Strategic report form part of these financial statements:

- Client segment reviews, pages 30 to 43
- Regional reviews, pages 44 to 53

The following parts of the Risk review form part of these financial statements:

a) From the start of Risk profile on page 150 to the end of the Strategic risk section on page 181 excluding:

- Asset backed securities, page 169
- Country cross-border risk, page 169
- Market risk changes – risks not in value at risk, page 172
- Market risk changes – backtesting, page 172
- Mapping of market risk items to the balance sheet, page 173
- Stressed coverage, liquidity coverage ratio and net stable funding ratio, page 175
- Liquidity pool, page 176
- Encumbered assets, page 177
- Readily available for encumbrance, page 178
- Operational risk, page 180
- Other risks, page 181

b) Regulatory compliance, review, request for information and investigations on page 138

c) From the start of Risk management approach on page 139 to the end of Liquidity risk – stress testing on page 147, excluding Country cross-border risk on page 145 and where indicated on page 147

d) From the start of the CRD IV capital base section on page 183 to the end of Movement in total capital section on page 184

### Basis of preparation

The consolidated and Company 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.

### 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 review and Capital review on page 144)
- Taxation (note 10)
- Fair value and impairment of financial instruments (note 13)
- Goodwill impairment (note 17)
- Provisions for liabilities and charges (note 23)
- Retirement benefit obligations (note 29)
- Impairment of investments in associates and joint arrangements (note 31)
- Structured entities (note 32)

### IFRS and Hong Kong Listing Rules

There are no significant differences between EU-endorsed IFRS and Hong Kong Financial Reporting Standards.

### Prior period re-presentation

In November 2015 the Group announced a reorganisation of its business to better align the Group's structure to client segments with clear local or global needs and to streamline the geographic regions. This approach aligns with how the client segments and regions are managed internally. These changes became effective on 1 January 2016. In accordance with IFRS 8 *Operating Segments* the Group has therefore made changes to the composition of its client segments and geographic regions. On 5 July 2016 the Group re-presented the Group's financial results to reflect these changes for the year ended 31 December 2015 and this is available at [investors.sc.com/en/releases.cfm](http://investors.sc.com/en/releases.cfm). This representation has not resulted in any changes to the reported income or balances in total at a Group level and now is the basis upon which the Group reports.

### Comparatives

Certain comparatives have been changed to comply with current year disclosures. Details of these changes are set out in the relevant notes below:

- Note 13 Financial instruments
- Note 24 Contingent liabilities and commitments
- Note 32 Structured entities
- Liquidity risk (page 180)
- Credit risk (pages 150 to 167)

These changes have not resulted in any amendments to the reported income statement or balance sheet of the Group.

### New accounting standards adopted by the Group

The requirements for the classification and measurement of financial liabilities are specified in IAS 39, including the ability to designate financial liabilities as fair value through profit or loss. Following the EU Adoption of IFRS 9 *Financial Instruments* in November 2016, the Group elected to early apply the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss relating to own credit in other comprehensive income rather than net trading income (without applying the other requirements in IFRS 9). The own credit amounts are accounted for as a separate category of equity. Opening retained earnings has been adjusted to reclassify the cumulative own credit adjustment component of the cumulative fair value adjustment on financial liabilities designated at fair value through profit or loss. These amounts will not be recycled to the income statement but will be recycled to retained earnings on derecognition of the applicable instruments. IFRS 9 does not permit the prior year to be restated as discussed below.

## 1. ACCOUNTING POLICIES continued

The reporting of fair value changes relating to own credit in Other comprehensive income is only permitted where this does not create or enlarge an accounting mismatch. Where an accounting mismatch arises, the fair value changes are reported in the income statement. The Group currently designates financial liabilities at fair value through profit or loss only on the basis that they contain a bifurcated embedded derivative and not as a result of an accounting mismatch. There is no economic offset between fair value changes in own credit and the fair value changes in financial assets measured at fair value.

**The accounting policies used by the Group are detailed in the relevant note to the financial statements, except those set out below. All have been applied consistently across the Group and to all years presented in these financial statements.**

### Foreign currencies

Items included in the Group financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency of that entity). Both the Group and Company financial statements are presented in 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.

### New accounting standards in issue but not yet effective

The following new standards are effective for periods beginning after 1 January 2017 and have not been applied in preparing these consolidated financial statements:

#### IFRS 9 Financial Instruments

IFRS 9 was issued in July 2014 and has an effective date of 1 January 2018. It was endorsed by the EU in November 2016. IFRS 9 replaces a number of elements of IAS 39 *Financial Instruments: Recognition and Measurement*; introducing new requirements for the classification and measurement of financial instruments; the recognition and measurement of credit impairment provisions; and providing for a simplified approach to hedge accounting.

The changes in measures arising on initial application of IFRS 9 will be incorporated through an adjustment to the opening reserves and retained earnings position as at 1 January 2018. Although IFRS 9 will be retrospectively applied, the Group is only permitted to restate comparatives if, and only if, it is possible without the use of hindsight. The Group does not consider it possible to restate comparatives for impairment without the use of hindsight. If comparatives were to be restated, they must incorporate all of the requirements of IFRS 9. For further details on the effect and implementation of IFRS 9 refer to note 40.

#### IFRS 15 Revenue from Contracts with Customers

The effective date of IFRS 15 is 1 January 2018 with early adoption permitted. The standard has 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 or when they are satisfied. The standard may either be applied fully retrospectively or can be applied on a 'modified retrospective' basis whereby recognition, measurement and disclosure requirements are applied from 1 January 2018, subject to a cumulative catch-up adjustment to opening retained earnings on this date in respect of open contracts in scope of the standard.

It is expected that revenue in scope of IFRS 15 will predominantly be fees and commission income and the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 15 in these financial statements. We intend to provide a more comprehensive update in the 2017 Half Year Report.

#### IFRS 16 Leases

The effective date of IFRS 16 is 1 January 2019 with early adoption permitted if IFRS 15 is also adopted at or before application of IFRS 16. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements. The standard has yet to be endorsed by the EU.

## 2. SEGMENTAL INFORMATION

The Group's segmental reporting is in accordance with IFRS 8 *Operating Segments* and is reported consistently with the internal performance framework and as presented to the Group's Management Team. The four client segments are Corporate & Institutional Banking, Private Banking, Commercial Banking and Retail Banking. The four geographic regions are Greater China & North Asia, ASEAN & South Asia, Africa & Middle East, and Europe & America. Activities not directly related to a client segment and/or geographic region is included in Central & other items. This mainly includes Corporate Centre costs, Asset and Liability Management, treasury activities, certain strategic investments and the UK bank levy. The following should also be noted:

- Transactions and funding between the segments are carried out on an arm's-length basis
- Corporate Centre costs represent stewardship and central management services roles and activities that are not directly attributable to business or country operations
- Asset and Liability Management, joint ventures and associate investments are managed in the regions and are included within the applicable region. However, they are not managed directly by a client segment and therefore included in the Central & other items segment
- In addition to treasury activities, Corporate Centre costs and other Group related functions, Central & other items for regions includes globally run businesses or activities that are managed by the client segments but not directly by geographic management. These include Principal Finance and Portfolio Management
- The Group allocates central costs (excluding Corporate Centre costs) relating to client segments and geographic regions using appropriate business drivers and these are reported within operating expenses.

An analysis of the Group's performance by client segment and region is set out on pages 30 and 53.

### Basis of preparation

The analysis reflects how the client segments and geographic regions are managed internally. This is described as the Management View and is principally the location from which a client relationship is managed, which may differ from where it is financially booked and may be shared between businesses and/or regions. In certain instances this approach is not appropriate and a Financial View is disclosed, that is, the location in which the transaction or balance was booked. Typically the Financial View is used in areas such as the Market and Liquidity Risk reviews where actual location is more important for an assessment. Segmental information is therefore on a Management View unless otherwise stated.

### Restructuring items excluded from underlying results

Income, costs and impairment relating to identifiable business units, products or portfolios from the date that have been approved for restructuring, disposal, wind down or redundancy as a consequence of the Strategy Review announced 3 November 2015 are presented as restructuring and excluded from the underlying results of the Group. This includes realised and unrealised gains and losses from management's decisions to dispose of assets as well as residual income, direct costs and impairment of related legacy assets of those identifiable business units, products or portfolios.

### Additional segmental information (statutory)

	2016				
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & Other Items \$million
Net interest income	3,051	2,977	782	287	697
Other income	3,437	1,692	511	209	417
<b>Operating income</b>	<b>6,488</b>	<b>4,669</b>	<b>1,293</b>	<b>496</b>	<b>1,114</b>
					Total \$million
					14,060
	2015				
	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & Other Items \$million
Net interest income	3,991	3,218	924	297	977
Other income	2,327	1,889	681	237	748
<b>Operating income</b>	<b>6,318</b>	<b>5,107</b>	<b>1,605</b>	<b>534</b>	<b>1,725</b>
					Total \$million
					15,289

**2. SEGMENTAL INFORMATION** continued

	2016					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other Items \$million	Total \$million
Net interest income	2,684	2,485	1,566	744	315	7,794
Other income	2,698	1,557	1,171	911	(71)	6,266
<b>Operating income</b>	<b>5,382</b>	<b>4,042</b>	<b>2,737</b>	<b>1,655</b>	<b>244</b>	<b>14,060</b>

	2015					
	Greater China & North Asia \$million	ASEAN & South Asia \$million	Africa & Middle East \$million	Europe & Americas \$million	Central & other Items \$million	Total \$million
Net interest income	3,194	2,884	1,768	969	592	9,407
Other income	3,100	1,369	1,091	908	(586)	5,882
<b>Operating income</b>	<b>6,294</b>	<b>4,253</b>	<b>2,859</b>	<b>1,877</b>	<b>6</b>	<b>15,289</b>

	2016							
	Hong Kong \$million	Korea \$million	China \$million	Singapore \$million	India \$million	UAE \$million	UK \$million	US \$million
Net interest income	1,375	586	505	817	680	392	451	179
Other income	1,959	295	187	683	275	357	331	482
<b>Operating income</b>	<b>3,334</b>	<b>881</b>	<b>692</b>	<b>1,500</b>	<b>955</b>	<b>749</b>	<b>782</b>	<b>661</b>

	2015							
	Hong Kong \$million	Korea \$million	China \$million	Singapore \$million	India \$million	UAE \$million	UK \$million	US \$million
Net interest income	1,540	737	670	946	844	455	594	278
Other income	2,123	379	249	634	153	346	291	521
<b>Operating income</b>	<b>3,663</b>	<b>1,116</b>	<b>919</b>	<b>1,580</b>	<b>997</b>	<b>801</b>	<b>885</b>	<b>799</b>

**3. NET INTEREST INCOME****Accounting policy**

Interest income and expense on available-for-sale assets and financial assets and liabilities held at amortised cost, is recognised using the effective interest method.

Contractual interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instruments original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### 3. NET INTEREST INCOME continued

	2016 \$million	2015 \$million
Balances at central banks	213	238
Treasury bills	593	647
Loans and advances to banks	1,282	1,020
Loans and advances to customers	8,461	10,266
Listed debt securities	604	712
Unlisted debt securities	1,569	1,623
Accrued on impaired assets (discount unwind)	288	107
<b>Interest income</b>	<b>13,010</b>	14,613
Deposits by banks	494	396
Customer accounts	3,187	3,472
Debt securities in issue	700	773
Subordinated liabilities and other borrowed funds	835	565
<b>Interest expense</b>	<b>5,216</b>	5,206
<b>Net interest income</b>	<b>7,794</b>	9,407
Of which from financial instruments held at:		
Amortised cost	10,056	11,808
Available-for-sale	2,291	2,425
Fair value through profit or loss	663	380
<b>Interest income</b>	<b>13,010</b>	14,613
Of which from financial instruments held at:		
Amortised cost	5,107	5,073
Fair value through profit or loss	109	133
<b>Interest expense</b>	<b>5,216</b>	5,206
<b>Net interest income</b>	<b>7,794</b>	9,407

### 4. NET FEES AND COMMISSION

#### Accounting policy

Fees and commissions charged for services provided or received by the Group are recognised on an accrual basis when the service has been provided or significant act performed.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself, or retained a part at the same effective interest rate as for the other participants.

The Group can act as trustee or in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets and income of the Group.

	2016 \$million	2015 <sup>1</sup> \$million
Fees and commissions income	3,671	4,088
Fees and commissions expense	(440)	(481)
<b>Net fees and commission</b>	<b>3,231</b>	3,607
Transaction Banking	1,194	1,302
Financial Markets	(62)	(73)
Corporate Finance	521	552
Wealth Management	1,089	1,210
Retail Products	464	557
Asset and Liability Management	(22)	(29)
Lending and Portfolio Management	50	66
Principal Finance	3	4
Others	(6)	18
<b>Net fees and commission</b>	<b>3,231</b>	3,607

1. The 2015 comparatives have been represented to reflect the reorganisation of the Group's client segments and products. Refer to note 1 for details

**4. NET FEES AND COMMISSION** continued

Total fee income arising from financial instruments that are not fair valued through profit or loss is \$1,035 million (2015: \$1,190 million) and arising from trust and other fiduciary activities of \$115 million (2015: \$156 million).

Total fee expense arising from financial instruments that are not fair valued through profit or loss is \$56 million (2015: \$40 million) and arising from trust and other fiduciary activities of \$17 million (2015: \$25 million).

**5. NET TRADING INCOME****Accounting policy**

Gains and losses arising from changes in the fair value of financial instruments held at fair value through profit or loss are included in the income statement in the period in which they arise.

Income is recognised from the sale and purchase of trading positions, margins on market making and customer business and fair value changes.

**Change in policy:** In 2016 the Group early adopted the IFRS 9 *Financial Instruments* requirement to present own credit adjustments within other comprehensive income (rather than net trading income). IFRS 9 does not permit the prior year to be restated. Refer to note 1 for further details.

	2016 \$million	2015 \$million
Trading income <sup>1</sup>	<b>1,886</b>	417
Own credit adjustment <sup>2</sup>	–	495
	<b>1,886</b>	912

1. 2015 Trading income includes \$863 million valuation losses relating to the change in the methodology of calculating the CVA and FVA (see note 13)

2. 2016 balance reported in other comprehensive income

Significant items within net trading income include:

- Gains of \$2,106 million (2015: \$760 million) on instruments held for trading
- Losses of \$73 million (2015: \$118 million) on financial assets designated at fair value through profit or loss and losses of \$178 million (2015: \$391 million) on financial liabilities designated at fair value

**6. OTHER OPERATING INCOME****Accounting policy**

Operating lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Dividends on equity instruments are recognised when the Group's right to receive payment is established.

On disposal of available for sale financial instruments, the cumulative gain or loss recognised in other comprehensive income is recycled to the profit or loss in other operating income/expense.

When the Group loses control of the subsidiary or disposal group, the difference between the consideration received and the carrying amount of the subsidiary or disposal group is recognised as a gain or loss on sale of the business.

	2016 \$million	2015 \$million
Other operating income includes:		
Rental income from operating lease assets	<b>561</b>	550
Gains less losses on disposal of financial instruments:		
Available-for-sale	<b>192</b>	336
Loans and receivables	–	4
Net gain on sale of businesses	<b>284</b>	222
Dividend income	<b>52</b>	111
Other	<b>60</b>	144
	<b>1,149</b>	1,363

## 7. OPERATING EXPENSES

### Accounting policy

Short-term employee benefits: salaries and social security expenses are recognised over the period in which the employees provide the service. Variable compensation is included within share-based payments costs and wages and salaries. Further details are disclosed in the Directors' remuneration report on pages 93 to 123.

Pension costs: contributions to defined contribution pension schemes are recognised in profit or loss when payable. For defined benefit plans net interest expense, service costs and expenses are recognised to the income statement. Further details are provided in note 29.

Share based compensation: the Group operates equity-settled and cash-settled share-based payment compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Further details are provided in note 30.

	2016 \$million	2015 \$million
Staff costs:		
Wages and salaries	4,713	4,924
Social security costs	145	154
Other pension costs (note 29)	316	299
Share-based payment costs (note 30)	100	146
Other staff costs	1,029	1,596
	<b>6,303</b>	7,119

Other staff costs include redundancy and other restructuring expenses of \$236 million (2015: \$695 million) due to the Strategic Review. Other costs include training, travel costs and other staff related costs.

The following tables summarise the number of employees within the Group:

	2016		
	Business	Support services	Total
At 31 December	43,286	43,407	86,693
Average for the year	42,605	42,311	84,916
2015			
	Business	Support services	Total
At 31 December	42,036	42,040	84,076
Average for the year	45,207	42,111	87,318

The Company employed nil staff at 31 December 2016 (2015: nil) and it incurred costs of \$3 million (2015: \$4 million).

Details of directors' pay and benefits and interests in shares are disclosed in the Directors' remuneration report on pages 93 to 123.

Transactions with directors, officers and other related parties are disclosed in note 35.

	2016 \$million	2015 \$million
Premises and equipment expenses		
Rental of premises	400	433
Other premises and equipment costs	379	376
Rental of computers and equipment	18	22
	<b>797</b>	831
General administrative expenses		
UK bank levy <sup>1</sup>	383	440
Other general administrative expenses	1,989	2,119
	<b>2,372</b>	2,559
Depreciation and amortisation		
Property, plant and equipment (note 18):		
Premises	98	91
Equipment	84	88
Operating lease assets	271	258
	<b>453</b>	437
Intangibles (note 17):		
Software	272	205
Acquired intangibles	14	22
	<b>739</b>	664

<sup>1</sup> The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting. The rate of the levy for 2016 is the blended rate of 0.18 per cent for chargeable short-term liabilities, with a lower rate of 0.09 per cent generally applied to chargeable equity and long-term liabilities (i.e. liabilities with a remaining maturity greater than one year). The rates will be gradually reduced over the next five years: from 1 January 2021, they will be 0.10 per cent for short-term liabilities and 0.05 per cent for long-term liabilities. In addition, the scope of the bank levy will be restricted to the balance sheet of the UK operations only from that date.

## 8. IMPAIRMENT LOSSES ON LOANS AND ADVANCES AND OTHER CREDIT RISK PROVISIONS

### Accounting policy

#### Significant accounting estimates and judgements

The calculation of impairment involves key judgements to be made by the credit risk management team.

- For individually significant financial assets, Group Special Asset Management (GSAM) will consider all judgements that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geo-political climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/forbearance options
- The difference between the loan carrying amount and the discounted expected future cash flows will result in the impairment amount. The future cash flow calculation involves significant judgements and estimates. As new information becomes available and further negotiations/forbearance measures are taken the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis
- For financial assets which are not individually significant, such as the Retail portfolio or small business loans, which comprise a large number of homogenous loans that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis. These techniques use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgement is required to analyse the available information provided and selects the appropriate model or combination of models to use. Further judgement is required to determine overlays on the models (described below in Retail) with the aim of reasonable and supportable impairment allowance for the portfolio being provided

### Objective evidence of impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group considers the following factors in assessing objective evidence of impairment:

- Whether the counterparty is in default of principal or interest payments
- When a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation
- Where the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation
- Where the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments
- Where the Group sells a credit obligation at a material credit-related economic loss; or where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets

### Assets at amortised cost

#### Corporate & Institutional Banking and Commercial Banking

The assessment of the credit risk of corporate and commercial loans is done by the Credit Risk department, based upon counterparty information they receive from various sources including relationship managers and on external market information.

Once a loan starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and when it is classified as Credit Grade (CG) 12, the credit assessment and oversight of the loan will normally be performed by Group Special Assets Management (GSAM).

Where GSAM's assessment indicates that a loan is impaired, GSAM will calculate an Individual Impairment Provision (IIP) based on estimated cash flows revised to reflect anticipated recoveries.

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The 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 cost for obtaining and selling the collateral, whether or not foreclosure is probable.

Further details on collateral held by the Group are discussed in the Risk review and Capital review on page 162.

In cases where the impairment assessment indicates that there will be a loss of principal, the loan is graded a CG14 while other impaired loans will be graded CG13. Loans graded CG13-CG14 are classified as Non Performing Loans.

The performing loan portfolio is subject to a Portfolio Impairment Provision (PIP) to cover latent losses i.e. those that are not specifically identified but are known, by experience, to be present in any performing portfolio. The PIP is based on models using risk sizing (including probability of default and loss given default), environmental parameters and adjustment overlays. The calculation of the PIP uses regulatory expected credit loss (ECL) models; however as the regulatory ECL models are more punitive than the incurred loss model under IAS 39, adjustments are made to align the calculation with IFRS.

## 8. IMPAIRMENT LOSSES ON LOANS AND ADVANCES AND OTHER CREDIT RISK PROVISIONS continued

### Retail Banking

An Individual Impairment Provision (IIP) is recognised for Retail Banking when an account meets a defined threshold condition in terms of overdue payments ('contractual impairment') or meets other objective conditions as described above in the assessment factors. The threshold conditions are set at the point where empirical evidence suggests that the client is unlikely to meet their contractual obligations or a loss of principal is expected.

A credit obligation in Retail Banking clients portfolio that is more than 150 Days Past Due (DPD) or, a credit obligation secured by Wealth Management products that is 90 Days Past Due, is recognized as 'impaired' and IIP is provided for accordingly. In addition, the credit account is recognised as 'impaired' immediately if the borrower files for bankruptcy or other equivalent forbearance programme, or the borrower is deceased, or the business is closed in case of small business clients, or the borrower's other credit accounts with Standard Chartered Bank are impaired.

Retail Banking PIP is computed on performing loans (no contractual impairment), using Expected Loss (EL) rates, to determine latent losses in the portfolio (the EL utilises probability of default and loss given default inherent within the portfolio of impaired loans or receivables and the historical loss experience for assets with credit risk characteristics similar to those in the Group). For defaulted yet non-impaired accounts (greater than 90 days past due) full EL is used, while for non-defaulted accounts, a three-month emergence period is applied. An adjustment is added to PIP calculation to take into the account instances where the EL-based PIP is deemed imprecise due to under-prediction or over-prediction of EL by underlying models. An overlay in the form of Special Risk adjustment (SRA) is added to the EL-based PIP calculation to take into account instances where EL-based PIP is deemed insufficient to incorporate the impact of a specific credit event. An overlay in the form of Business Cycle Adjustment (BCA) is taken to account for the impact of cyclical volatility in operating environment, which is not adequately covered in the underlying models.

### Write-off and reversal of impairment

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement during the period.

### Forborne loans

A forborne loan is where a concession has been made to the contractual terms of a loan in response to a customer's financial difficulties.

In certain circumstances, the Group may renegotiate client loans. Loans that are renegotiated for commercial reasons, such as when a client had a credit rating upgrade, are not included as part of forborne loans because they are not indicative of any credit stress or event.

Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Group or a third party (including government-sponsored programmes or a conglomerate of credit institutions) and includes debt restructuring such as a new repayment schedule, payment deferrals, tenor extensions and interest only payments.

Loans that are renegotiated on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared to the original terms of the loans, are considered for impairment. If the terms of the renegotiation are such that, where the present value of the new cash flows is lower than the present value of the original cash flows, the loan would be considered to be impaired and, at a minimum, a discount provision would be raised and the loan is disclosed as 'Loans subject to forbearance – impaired', which is a sub set of impaired loans. All other loans that have been subject to a forbearance contract amendment, but which are not considered impaired (not classified as CG 13 or 14), are classified as "Forborne – not impaired" (previously disclosed as 'other renegotiated loans').

If a loan enters the forbearance process and the terms are substantially modified, the original loan will be derecognised, and a new loan will be recognised. Once a loan is subject to forbearance, the loan continues to be reported as such, until the loan is repaid or written off.

For Retail Banking clients, all forborne loans are managed within a separate portfolio. If such loans subsequently become past due, charge-off and IIP is accelerated to 90 days past due for unsecured loans and automobile finance or 120 days past due for secured loans. The accelerated loss rates applied to this portfolio are derived from experience with other forborne loans, rather than the Retail Banking clients portfolio as a whole, to recognise the greater degree of inherent risk.

For Corporate & Institutional Banking, Commercial Banking and Private Banking clients, forbearance is applied on a case-by-case basis and is not subject to business-wide programmes. In some cases, the asset is derecognised and a new loan is granted as part of the restructure. In others, the contractual terms and repayment of the existing loans are changed or extended (for example, interest only for a period). Loans classified as subject to forbearance are managed by GSAM and are kept under close review to assess the client's ability to adhere to the restructured repayment strategy and to identify any events that could result in a deterioration in the client's ability to repay.

Forborne loans are disclosed by client segments on pages 153 to 155.

Further details on the application of these policies are set out in the Risk review on page 155.

**8. IMPAIRMENT LOSSES ON LOANS AND ADVANCES AND OTHER CREDIT RISK PROVISIONS** continued

The following table reconciles the charge for impairment provisions on financial assets to the total impairment charge and other credit risk provision.

	2016 \$million	2015 \$million
Net charge against profit on loans and advances:		
Individual impairment charge	<b>2,553</b>	4,820
Portfolio impairment charge/(release)	<b>52</b>	(4)
	<b>2,605</b>	4,816
Impairment charges related to credit commitments	<b>45</b>	94
Impairment charges relating to debt securities classified as loans and receivables	<b>97</b>	66
Impairment charges relating to credit risk mitigation instruments	<b>44</b>	–
Total impairment losses and other credit risk provisions on loans and advances	<b>2,791</b>	4,976

**Impairment charges relating to credit risk mitigation instruments**

The Group executed funded credit mitigation transactions related to the Liquidation Portfolio, which did not achieve derecognition and are recorded as liabilities on an amortised cost basis. The liability balances are adjusted for revisions to the impairment estimates for the loans referenced in the transactions. Both impairment losses on the referenced loans and the related impairment on these credit mitigation transactions are recorded in total impairment losses and other credit risk provisions on loans and advances.

An analysis of impairment provisions on loans and advances by client segment is set out within the Risk review on page 161.

**9. OTHER IMPAIRMENT****Accounting policy****Available-for-sale assets**

Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is reclassified from equity and recognised in the income statement.

Available-for-sale debt securities are assessed for impairment in the same way as assets carried at amortised cost (see note 8 – Objective evidence of impairment, for impairment ‘trigger’ events).

Further the extent, observability and depth of market price decreases and collateral rights are considered when assessing objective evidence of listed impairment for available-for-sale instruments.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

For equity securities, a significant or prolonged decline in the fair value of an equity security below its cost is considered, among other factors, in assessing objective evidence of impairment. In assessing significance, the decline in fair value is evaluated against the original fair value of the asset upon recognition.

In assessing prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its initial recognition amount. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Refer to the below referenced notes for the remaining relevant accounting policy.

	2016 \$million	2015 \$million
Impairment of goodwill (note 17)	<b>166</b>	488
Other impairment		
Impairment of fixed assets (note 18)	<b>131</b>	149
Impairment losses on available-for-sale financial assets (note 13):		
– Debt securities	<b>54</b>	5
– Equity shares	<b>246</b>	142
Impairment of investment in associates (note 31)	–	46
Impairment of acquired intangible assets (note 17)	–	1
Other	<b>15</b>	42
Recovery of impairment on disposal of instruments <sup>1</sup>	–	(18)
	<b>446</b>	367
Total other impairment	<b>612</b>	855

1. Relates to private equity instruments sold that had impairment provisions raised against them in prior years

## 10. TAXATION

### Accounting policy

Income tax payable on profits is based on the applicable tax law in each jurisdiction and is recognised as an expense in the period in which profits arise.

Deferred tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted as at the balance sheet date, and that are expected to apply when the related deferred 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. Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the current or deferred gain or loss.

### Significant accounting estimates and judgements

- Determining the Group's tax charge for the year involves estimation and judgement on the potential outcome, which includes an interpretation of local tax laws and an assessment of whether the tax authorities will accept the position taken. These judgements take account of external advice where appropriate, and the Group's view on settling with tax authorities
- The Group provides for current tax liabilities at the best estimate of the amount that is expected to be paid to the tax authorities where an outflow is probable
- The recoverability of the Group's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax assets will be utilised

The following table provides analysis of taxation charge in the year.

	2016 \$million	2015 \$million
The charge for taxation based upon the profit/(loss) for the year comprises:		
<b>Current tax:</b>		
UK corporation tax at 20.0 per cent (2015: 20.25 per cent):		
Current tax charge/(credit) on income for the year	10	(15)
Adjustments in respect of prior years (including double taxation relief)	(74)	57
Double taxation relief	-	(4)
Foreign tax:		
Current tax charge on income for the year	786	1,084
Adjustments in respect of prior years	84	49
	<b>806</b>	<b>1,171</b>
<b>Deferred tax:</b>		
Origination/reversal of temporary differences	(136)	(526)
Adjustments in respect of prior years	(70)	28
	<b>(206)</b>	<b>(498)</b>
Tax on profit/(loss) on ordinary activities	<b>600</b>	673
Effective tax rate	<b>nm<sup>1</sup></b>	nm <sup>1</sup>

1. Not meaningful

Foreign taxation includes current taxation on Hong Kong profits of \$109 million (31 December 2015: \$131 million) on the profits assessable in Hong Kong.

Deferred taxation includes origination or reversal of temporary differences in Hong Kong profits of \$(4) million (2015: \$(12) million) provided at a rate of 16.5 per cent (2015: 16.5 per cent) on the profits assessable to Hong Kong.

The tax charge for the year of \$600 million (2015: \$673 million) on a profit before taxation of \$409 million (2015: loss before taxation of \$1,523 million) reflects the impact of deferred tax assets not recognised relating to UK tax losses, non-deductible expenses and the impact of countries with tax rates higher or lower than the UK, the most significant of which is India. In addition, the impact of non-taxable losses on investments increased due to losses on Principal Finance investments.

## 10. TAXATION continued

**Taxation rate:** The taxation charge for the year is higher than the charge at the rate of corporation tax in the UK, 20.0 per cent. The differences are explained below:

	2016 \$million	2015 \$million
Profit/(loss) on ordinary activities before taxation	<b>409</b>	(1,523)
Tax at 20.0 per cent (2015: 20.25 per cent)	<b>82</b>	(308)
Lower tax rates on overseas earnings	<b>(5)</b>	(42)
Higher tax rates on overseas earnings	<b>269</b>	230
Tax free income	<b>(117)</b>	(131)
Share of associates and joint ventures	<b>13</b>	(30)
Non-deductible expenses	<b>201</b>	201
Bank levy	<b>77</b>	89
Non-taxable losses on investments	<b>120</b>	36
Non-taxable gains on disposals of businesses	<b>(41)</b>	(44)
Goodwill impairment	<b>33</b>	99
Deferred tax not recognised	<b>93</b>	314
Adjustments to tax charge in respect of prior years	<b>(60)</b>	134
Other items	<b>(65)</b>	125
Tax on profit/(loss) on ordinary activities	<b>600</b>	673

**Factors affecting the tax charge in future years:** The Group's tax charge, and effective tax rate in future years could be affected by several factors including acquisitions, disposals and restructuring of our businesses, the mix of profits across jurisdictions with different statutory tax rates, changes in tax legislation and tax rates and resolution of uncertain tax positions.

The Group does not currently consider that assumptions made in assessing tax liabilities have a significant risk of resulting in a material adjustment within the next financial year.

	2016			2015		
	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	<b>10</b>	<b>(1)</b>	<b>9</b>	2	58	60
Cash flow hedges	–	<b>(17)</b>	<b>(17)</b>	–	(25)	(25)
Own credit adjustment	<b>29</b>	<b>1</b>	<b>30</b>	–	–	–
Retirement benefit obligations	–	<b>2</b>	<b>2</b>	–	(10)	(10)
	<b>39</b>	<b>(15)</b>	<b>24</b>	2	23	25
Other tax recognised in equity – share-based payments	–	–	–	–	(6)	(6)
Total tax credit/(charge) recognised in equity	<b>39</b>	<b>(15)</b>	<b>24</b>	2	17	19

	2016 \$million	2015 \$million
Current tax assets	<b>388</b>	362
Current tax liabilities	<b>(769)</b>	(891)
Net current tax balance as at 1 January	<b>(381)</b>	(529)
Movements in income statement	<b>(806)</b>	(1,171)
Movements in other comprehensive income	<b>39</b>	2
Taxes paid	<b>1,287</b>	1,285
Other movements	<b>8</b>	32
Net current tax balance as at 31 December	<b>147</b>	(381)
Current tax assets	<b>474</b>	388
Current tax liabilities	<b>(327)</b>	(769)
Total	<b>147</b>	(381)

## 10. TAXATION continued

**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 2016 \$million	Exchange and other adjustments \$million	(Charge)/ credit to profit \$million	(Charge)/ credit to equity \$million	As at 31 December 2016 \$million
<b>Deferred taxation comprises:</b>					
Accelerated tax depreciation	(319)	7	(87)	–	(399)
Impairment provisions on loans and advances	767	(22)	189	–	934
Tax losses carried forward	396	1	(1)	–	396
Available-for-sale assets	(29)	1	2	(1)	(27)
Cash flow hedges	2	1	19	(17)	5
Retirement benefit obligations	71	2	1	2	76
Share-based payments	26	–	(10)	–	16
Other temporary differences	(148)	(6)	93	1	(60)
<b>Net deferred tax assets</b>	<b>766</b>	<b>(16)</b>	<b>206</b>	<b>(15)</b>	<b>941</b>

	At 1 January 2015 \$million	Exchange and other adjustments \$million	(Charge)/ credit to profit \$million	(Charge)/ credit to equity \$million	As at 31 December 2015 \$million
<b>Deferred taxation comprises:</b>					
Accelerated tax depreciation	(289)	7	(37)	–	(319)
Impairment provisions on loans and advances	314	(21)	474	–	767
Tax losses carried forward	325	(9)	80	–	396
Available-for-sale assets	(92)	3	2	58	(29)
Cash flow hedges	29	(2)	–	(25)	2
Retirement benefit obligations	79	(2)	4	(10)	71
Share-based payments	42	(2)	(8)	(6)	26
Other temporary differences	(136)	5	(17)	–	(148)
<b>Net deferred tax assets</b>	<b>272</b>	<b>(21)</b>	<b>498</b>	<b>17</b>	<b>766</b>

Deferred taxation comprises assets and liabilities as follows.

	2016			2015		
	Total \$million	Asset \$million	Liability \$million	Total \$million	Asset \$million	Liability \$million
<b>Deferred taxation comprises:</b>						
Accelerated tax depreciation	(399)	13	(412)	(319)	18	(337)
Impairment provisions on loans and advances	934	914	20	767	765	2
Tax losses carried forward	396	217	179	396	253	143
Available-for-sale assets	(27)	(10)	(17)	(29)	(9)	(20)
Cash flow hedges	5	–	5	2	–	2
Retirement benefit obligations	76	76	0	71	59	12
Share-based payments	16	16	0	26	22	4
Other temporary differences	(60)	68	(128)	(148)	(49)	(99)
	<b>941</b>	<b>1,294</b>	<b>(353)</b>	<b>766</b>	<b>1,059</b>	<b>(293)</b>

At 31 December 2016, the Group has net deferred tax assets of \$941 million (2015: \$766 million). The recoverability of the Group's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax assets will be utilised.

Of the Group's total deferred tax assets, \$396 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.

- \$177 million of the deferred tax assets relating to losses has arisen in Ireland, where there is no expiry date for unused tax losses. These losses relate to aircraft leasing and are expected to be fully utilised over the useful economical life of the assets being up to 18 years
- \$42 million of the deferred tax assets relating to losses has arisen in Korea. Management forecasts show that \$13 million of the deferred tax asset relating to losses are expected to be fully utilised over a period of three years. These tax losses expire after 10 years. There is a defined profit stream against which the remaining \$29 million of deferred tax assets relating to losses which have no expiry date, are forecast to be utilised
- \$83 million of the deferred tax assets relating to losses has arisen in the US. Management forecasts show that the losses are expected to be fully utilised over a period of nine years. The tax losses expire after 20 years
- \$31 million of the deferred tax assets relating to losses has arisen in Taiwan. Management forecasts show that the losses are expected to be fully utilised over a period of four years. The tax losses expire after 10 years

**10. TAXATION** continued

The remaining deferred tax assets relating to losses has arisen in other jurisdictions and is expected to be recovered in less than 10 years

	2016 \$million	2015 \$million
<b>No account has been taken of the following potential deferred taxation (liabilities)/assets:</b>		
Withholding tax on unremitted earnings from overseas subsidiaries and branches	(333)	(237)
Foreign exchange movements on investments in branches	(263)	(241)
Tax losses <sup>1</sup>	1,197	499
Held over gains on incorporation of overseas branches	(417)	(468)
Other temporary differences	53	38

1. During the period a tax ruling in Korea allowed for the offset of previously expired losses. The potential deferred tax asset in relation to these losses is \$775 million

**11. DIVIDENDS****Accounting policy**

Dividends on ordinary shares and preference shares classified as equity are recognised in equity in the year in which they are declared.

In determining if dividends are distributed, and the level of dividends declared, the Board considers a number of factors which include but are not limited to:

- The amount of distributable reserves (see note 27)
- The capital requirements of the Group (see Capital ratios on page 183)
- The level of cash investment projections to achieve the Group's strategy

**Ordinary equity shares**

	2016		2015	
	Cents per share	\$million	Cents per share	\$million
2015/2014 final dividend declared and paid during the year	-	-	54.44	1,412
2016/2015 interim dividend declared and paid during the year	-	-	13.71	366
		-		1,778

**Preference shares and Additional Tier 1 securities**

Dividends on these preference shares and securities classified as equity are recorded in the year in which they are declared.

	2016 \$million		2015 \$million	
	Cents per share	\$million	Cents per share	\$million
Non-cumulative redeemable preference shares:				
7.014 per cent preference shares of \$5 each	53	53		
6.409 per cent preference shares of \$5 each	48	48		
	101	101		
Additional Tier 1 securities: \$2 billion fixed rate resetting perpetual subordinated contingent convertible securities	130	65		
	231	166		
Dividends on these preference shares are treated as interest expense and accrued accordingly.				
Non-cumulative irredeemable preference shares:				
7 <sup>3/8</sup> per cent preference shares of £1 each	10	11		
8 <sup>1/4</sup> per cent preference shares of £1 each	11	13		
	21	24		

The amounts in the table above reflect the actual dividend per share declared and paid to shareholders in 2016 and 2015. Dividends on ordinary equity shares are recorded in the year in which they are declared and, in respect of the final dividend, have been approved by the shareholders. Accordingly, the final ordinary equity share dividends set out above relate to the respective prior years.

## 12. EARNINGS PER ORDINARY SHARE

### Accounting policy

The Group measures earnings per share on an underlying basis. This differs from earnings defined in IAS 33 *Earnings per share*. Underlying earnings is profit/(loss) attributable to ordinary shareholders adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.

The table below provides the basis of underlying earnings.

	2016 \$million	2015 \$million
<b>Loss for the year attributable to equity holders</b>	<b>(191)</b>	<b>(2,196)</b>
Non-controlling interest	(56)	2
Dividends payable on preference shares and AT1 classified as equity	(231)	(166)
<b>Loss for the year attributable to ordinary shareholders</b>	<b>(478)</b>	<b>(2,360)</b>
Items normalised:		
Restructuring	855	1,845
Gains arising on repurchase of subordinated liabilities	(84)	–
Goodwill impairment (Included within Other impairment)	166	362
Net gain on business disposed/held for sale (Included within Other operating income)	(253)	(218)
Other items	–	13
Tax on normalised items (included within Taxation) <sup>1</sup>	(95)	(179)
Credit and funding valuation methodology adjustment (included within Net trading income)	–	863
Own credit adjustment (included within net trading income)	–	(495)
<b>Underlying profit/(loss)</b>	<b>111</b>	<b>(169)</b>
Basic – Weighted average number of shares (millions)	3,291	2,568
Diluted – Weighted average number of shares (millions)	3,305	2,568
<b>Basic loss per ordinary share (cents)</b>	<b>(14.5)</b>	<b>(91.9)</b>
<b>Diluted loss per ordinary share (cents)<sup>2</sup></b>	<b>(14.5)</b>	<b>(91.9)</b>
<b>Underlying basic earnings/(loss) per ordinary share (cents)</b>	<b>3.4</b>	<b>(6.6)</b>
<b>Underlying diluted earnings/(loss) per ordinary share (cents)</b>	<b>3.4</b>	<b>(6.6)</b>

1. No tax is included in respect of the impairment of goodwill as no tax relief is available

2. The impact of any diluted options has been excluded from this amount as required by IAS 33 Earnings per share

## 13. FINANCIAL INSTRUMENTS

### Classification and measurement

#### Accounting policy

The Group classifies its financial assets into the following measurement categories: financial assets held at fair value through profit or loss; loans and receivables; held-to-maturity; or available-for-sale.

Financial liabilities are classified as either held at fair value through profit or loss or at amortised cost.

Management determines the classification of its financial assets and liabilities at initial recognition.

The following details the approach for the categories:

a) Financial assets and liabilities held at fair value through profit or loss: This category has two sub-categories:

- Financial assets and liabilities held for trading. A financial asset or liability is classified as held for trading if acquired principally for the purpose of selling in the short term, or forms part of a portfolio of financial instruments which are managed together and for which there is evidence of short-term profit taking or is a derivative (excluding qualifying hedging relationships)
- Designated at fair value through profit or loss. Financial assets and liabilities may be designated at fair value through profit or loss when:
  - The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis (for example, the Group may designate certain fixed rate loans and receivables that are managed with derivative interest rate swaps)
  - A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis (for example, the Group may designate issued debt to fund a portfolio of trading assets and liabilities that are all managed on a fair value basis)
  - The assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately

b) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that apart from credit deterioration substantially all of the initial investment will be recovered.

**13. FINANCIAL INSTRUMENTS** continued

- c) Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.
- d) Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.
- e) Financial liabilities held at amortised cost. Financial liabilities, which include borrowings not classified as held at fair value through profit or loss, are classified as amortised cost instruments. Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholders, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

A financial guarantee issued is a special case of financial liability. Under a financial guarantee contract the Group, in return for a fee, undertakes to meet customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract measured in accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. Amortisation is calculated so as to recognise fees receivable in profit or loss over the period of the guarantee.

**Initial recognition of financial instruments**

All financial instruments are initially recognised at fair value, which is normally the transaction price plus, for those financial assets and liabilities not carried at fair value through profit or loss, directly attributable transaction costs.

In certain circumstances the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based primarily on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated.

Regular way purchases and sales of financial assets and liabilities held at fair value through profit or loss, and financial assets classified as held-to-maturity and available-for-sale, are initially recognised on the trade date (the date on which the Group commits to purchase or sell the asset). Regular way loans are recognised on settlement date when cash is advanced to the borrowers.

**Subsequent measurement**

Financial assets and liabilities held at fair value through profit or loss are carried at fair value, with gains and losses arising from changes in fair value taken directly to the net trading income line in the income statement, except for changes in fair value on financial liabilities designated at fair value attributable to the Group's own credit presented directly within other comprehensive income.

Available-for-sale financial assets are carried at fair value, with gains and losses arising from changes in fair value taken to the available-for-sale reserve within equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables are carried at amortised cost using the effective interest method.

Held-to-maturity financial assets are carried at amortised cost using the effective interest method.

Financial liabilities are stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

In addition to these instruments, the carrying value of a financial instrument carried at amortised cost that is the hedged item in a qualifying fair value hedge relationship is adjusted by the fair value gain or loss attributable to the hedged risk.

**Reclassification of financial instruments:**

Reclassifications of financial assets or financial liabilities between measurement categories are not permitted following initial recognition, other than:

- Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity
- Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity

### 13. FINANCIAL INSTRUMENTS continued

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	Non-financial assets \$million		
Cash and balances at central banks		-	-	-	-	70,706	-	-	70,706	
<b>Financial assets held at fair value through profit or loss</b>										
Loans and advances to banks <sup>1</sup>		267	-	1,793	-	-	-	-	2,060	
Loans and advances to customers <sup>1</sup>		936	-	2,241	-	-	-	-	3,177	
Debt securities	13	12,025	-	354	-	-	-	-	12,379	
Equity shares	13	425	-	751	-	-	-	-	1,176	
Treasury bills	13	1,285	-	-	-	-	-	-	1,285	
		14,938	-	5,139	-	-	-	-	20,077	
Derivative financial instruments	14	64,433	1,076	-	-	-	-	-	65,509	
Loans and advances to banks <sup>1</sup>	16	-	-	-	-	72,609	-	-	72,609	
Loans and advances to customers <sup>1</sup>	16	-	-	-	-	252,719	-	-	252,719	
<b>Investment securities</b>										
Debt securities	15	-	-	-	69,204	3,106	170	-	72,480	
Equity shares	15	-	-	-	1,388	-	-	-	1,388	
Treasury bills	15	-	-	-	35,104	-	-	-	35,104	
		-	-	-	105,696	3,106	170	-	108,972	
Other assets	20	-	-	-	-	33,942	-	2,998	36,940	
Assets held for sale	20	-	-	-	-	1,102	-	152	1,254	
Total at 31 December 2016		79,371	1,076	5,139	105,696	434,184	170	3,150	628,786	

1. Further analysed in Risk review on pages 150 to 168

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	Non-financial assets \$million		
Cash and balances at central banks		-	-	-	-	65,312	-	-	65,312	
<b>Financial assets held at fair value through profit or loss</b>										
Loans and advances to banks <sup>1</sup>		92	-	2,183	-	-	-	-	2,275	
Loans and advances to customers <sup>1</sup>		3,008	-	1,039	-	-	-	-	4,047	
Debt securities	13	12,896	-	389	-	-	-	-	13,285	
Equity shares	13	2,237	-	698	-	-	-	-	2,935	
Treasury bills	13	859	-	-	-	-	-	-	859	
		19,092	-	4,309	-	-	-	-	23,401	
Derivative financial instruments	14	61,812	1,331	-	-	-	-	-	63,143	
Loans and advances to banks <sup>1</sup>	16	-	-	-	-	64,494	-	-	64,494	
Loans and advances to customers <sup>1</sup>	16	-	-	-	-	257,356	-	-	257,356	
<b>Investment securities</b>										
Debt securities	15	-	-	-	77,684	2,700	210	-	80,594	
Equity shares	15	-	-	-	1,720	-	-	-	1,720	
Treasury bills	15	-	-	-	32,453	-	-	-	32,453	
		-	-	-	111,857	2,700	210	-	114,767	
Other assets	20	-	-	-	-	32,408	-	1,844	34,252	
Assets held for sale <sup>2</sup>	20	-	-	-	-	-	-	349	349	
Total at 31 December 2015		80,904	1,331	4,309	111,857	422,270	210	2,193	623,074	

1. Further analysed in Risk review on pages 150 to 168

2. Previously included within Other assets

3. \$1.9 billion of Loans and advances to banks presented as 'Trading' in 2015 has been re-categorised to 'Designated at fair value through profit or loss'. These loans were designated at inception as fair value through profit or loss and have always been measured at fair value. There is no change in measurement or classification on the balance sheet. There was no impact to the relevant income statement disclosures

**13. 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		
<b>Financial liabilities held at fair value through profit or loss</b>									
Deposits by banks		—	—	718	—	—	—	718	
Customer accounts		—	—	6,447	—	—	—	6,447	
Debt securities in issue	21	—	—	5,670	—	—	—	5,670	
Short positions		3,763	—	—	—	—	—	3,763	
		3,763	—	12,835	—	—	—	16,598	
Derivative financial instruments	14	62,917	2,795	—	—	—	—	65,712	
Deposits by banks		—	—	—	36,894	—	—	36,894	
Customer accounts		—	—	—	371,855	—	—	371,855	
Debt securities in issue	21	—	—	—	46,700	—	—	46,700	
Other liabilities	22	—	—	—	32,958	188	33,146		
Subordinated liabilities and other borrowed funds	26	—	—	—	19,523	—	—	19,523	
Liabilities included in disposal groups held for sale	22	—	—	—	958	7	965		
Total at 31 December 2016		66,680	2,795	12,835	508,888	195	591,393		

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		
<b>Financial liabilities held at fair value through profit or loss</b>									
Deposits by banks		—	—	637	—	—	—	637	
Customer accounts		—	—	8,494	—	—	—	8,494	
Debt securities in issue	21	—	—	8,917	—	—	—	8,917	
Short positions		2,824	—	—	—	—	—	2,824	
		2,824	—	18,048	—	—	—	20,872	
Derivative financial instruments	14	59,390	2,549	—	—	—	—	61,939	
Deposits by banks		—	—	—	37,611	—	—	37,611	
Customer accounts		—	—	—	350,633	—	—	350,633	
Debt securities in issue	21	—	—	—	59,880	—	—	59,880	
Other liabilities	22	—	—	—	31,525	414	31,939		
Subordinated liabilities and other borrowed funds	26	—	—	—	21,852	—	—	21,852	
Liabilities included in disposal groups held for sale <sup>1</sup>	22	—	—	—	—	72	72		
Total at 31 December 2015		62,214	2,549	18,048	501,501	486	584,798		

1. Previously included within Other liabilities

### 13. FINANCIAL INSTRUMENTS continued

#### Debt securities, equity shares and treasury bills held at fair value through profit or loss

	2016			
	Debt Securities \$million	Equity Shares \$million	Treasury bills \$million	Total \$million
Issued by public bodies:				
Government securities	7,343			
Other public sector securities	77			
	<b>7,420</b>			
Issued by banks:				
Certificates of deposit	406			
Other debt securities	1,546			
	<b>1,952</b>			
Issued by corporate entities and other issuers:				
Other debt securities	3,007			
Total debt securities	<b>12,379</b>			
Of which:				
Listed on a recognised UK exchange	164	—	—	164
Listed elsewhere	7,595	44	504	8,143
Unlisted	4,620	1,132	781	6,533
	<b>12,379</b>	<b>1,176</b>	<b>1,285</b>	<b>14,840</b>
Market value of listed securities	<b>7,759</b>	<b>44</b>	<b>504</b>	<b>8,307</b>

	2015			
	Debt Securities \$million	Equity Shares \$million	Treasury bills \$million	Total \$million
Issued by public bodies:				
Government securities	8,091			
Other public sector securities	88			
	<b>8,179</b>			
Issued by banks:				
Certificates of deposit	87			
Other debt securities	1,327			
	<b>1,414</b>			
Issued by corporate entities and other issuers:				
Other debt securities	3,692			
Total debt securities	<b>13,285</b>			
Of which:				
Listed on a recognised UK exchange	116	—	—	116
Listed elsewhere	8,516	1,648	282	10,446
Unlisted	4,653	1,287	577	6,517
	<b>13,285</b>	<b>2,935</b>	<b>859</b>	<b>17,079</b>
Market value of listed securities	<b>8,632</b>	<b>1,648</b>	<b>282</b>	<b>10,562</b>

#### Reclassification of financial assets

In 2008, the Group reclassified certain eligible financial assets from trading and available for sale, to loans and receivables where the Group had the intent and ability to hold the reclassified assets for the foreseeable future or until maturity. This reclassification was made possible through the circumstances of the credit crisis in financial markets which significantly impacted the liquidity in certain markets. The carrying value and fair value of securities reclassified into loans and receivables is \$79 million (2015: \$123 million) and \$80 million (2015: \$120 million) respectively. If the reclassifications had not been made, the Group's income statement for 2016 would have included a net gain on the reclassified trading assets of \$1 million (2015: gain of \$1 million). There have been no reclassifications since 2008.

#### Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In practice, for credit mitigation, the Group is able to offset assets and liabilities which do not meet the IAS 32 netting criteria set out above. Such arrangements include master netting arrangements for derivatives and global master repurchase agreements for repurchase and reverse repurchase transactions. These agreements generally allow that all outstanding transactions with a particular counterparty can be offset but only in the event of default or other predetermined events.

In addition the Group also receives and pledges readily realisable collateral for derivative transactions to cover net exposure in the event of a default. Under repurchase and reverse repurchase agreements the Group pledges (legally sells) and obtains (legally purchases) respectively, highly liquid assets which can be sold in the event of a default.

### 13. FINANCIAL INSTRUMENTS continued

The following tables set out the impact of netting on the balance sheet. This comprises derivative transactions settled through an enforceable netting agreement where we have the intent and ability to settle net and which are offset on the balance sheet.

	2016					
	Gross amounts of recognised financial instruments \$million	Impact of offset in the balance sheet \$million	Net amounts of financial instruments presented in the balance sheet \$million	Related amount not offset in the balance sheet		
				Financial instruments \$million	Financial collateral \$million	Net amount \$million
<b>Assets</b>						
Derivative financial instruments	73,822	(8,313)	65,509	(40,391)	(9,624)	15,494
Reverse repurchase agreements	42,389	–	42,389	–	(42,389)	–
As at 31 December 2016	116,211	(8,313)	107,898	(40,391)	(52,013)	15,494
<b>Liabilities</b>						
Derivative financial instruments	74,025	(8,313)	65,712	(40,391)	(14,230)	11,091
Sale and repurchase liabilities	37,692	–	37,692	–	(37,692)	–
As at 31 December 2016	111,717	(8,313)	103,404	(40,391)	(51,922)	11,091

	2015					
	Gross amounts of recognised financial instruments \$million	Impact of offset in the balance sheet \$million	Net amounts of financial instruments presented in the balance sheet \$million	Related amount not offset in the balance sheet		
				Financial instruments \$million	Financial collateral \$million	Net amount \$million
<b>Assets</b>						
Derivative financial instruments	69,872	(6,729)	63,143	(38,934)	(10,074)	14,135
Reverse repurchase agreements	32,637	–	32,637	–	(32,637)	–
As at 31 December 2015	102,509	(6,729)	95,780	(38,934)	(42,711)	14,135
<b>Liabilities</b>						
Derivative financial instruments	68,668	(6,729)	61,939	(38,934)	(13,430)	9,575
Sale and repurchase liabilities	20,606	–	20,606	–	(20,606)	–
As at 31 December 2015	89,274	(6,729)	82,545	(38,934)	(34,036)	9,575

Related amounts not offset in the balance sheet comprise:

- 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 repo and repo agreements respectively and excludes the effect of over-collateralisation

#### Loans and advances designated at fair value through profit or loss

The maximum exposure to credit risk for loans designated at fair value through profit or loss was \$4,034 million (2015: \$3,222 million). The net fair value gain on loans and advances to customers designated at fair value through profit or loss was \$17 million (2015: \$2 million). Of this, \$1 million (2015: \$ nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was \$2 million (2015: \$3 million). Further details of the Group's valuation technique is described on page 227.

#### Financial liabilities designated at fair value through profit or loss

	2016 \$million	2015 \$million
Carrying balance aggregate fair value	12,835	18,048
Amount contractually obliged to repay at maturity	12,941	18,404
Difference between aggregate fair value and contractually obliged to repay at maturity	(106)	(356)
Cumulative change in FV accredited to credit risk difference <sup>1</sup>	331	703

1. The Group has early adopted IFRS 9 Financial Instruments to present own credit adjustments within other comprehensive income

The net fair value loss on financial liabilities designated at fair value through profit or loss was \$178 million for the year (2015: net gain of \$104 million). The amount includes \$nil million (2015: gain of \$495 million) related to change in credit risk.

Further details of the Group's own credit adjustment (OCA) valuation technique is described on page 229.

## 13. FINANCIAL INSTRUMENTS continued

### Valuation of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in the absence of this, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects the Group's non-performance risk. The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risks or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments held by the Group. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use nonmarket 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.

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 determining the valuations incorporated into the financial statements are validated independent of the business area responsible for the product. The Valuation Control function has oversight of the fair value adjustments to ensure the financial instruments are priced to exit. These are key controls in ensuring the material accuracy of the valuations incorporated in the financial statements. The market data used for price verification may include 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 the instruments trade in. To determine the quality of the market data inputs, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are taken into consideration.

Formal committees for the business clusters, consisting of representatives from Group Market Risk, Product Control, Valuation Control and the business meet monthly to discuss and approve the valuations of the inventory. The Principal Finance valuation committee meetings are held on a quarterly basis. The business cluster valuation committees fall under the Valuation Benchmarks Committee (VBC) as part of the valuation governance structure.

### Significant accounting estimates and judgements

The Group evaluates the significance of financial instruments and material accuracy of the valuations incorporated in the financial statements as they involve a high degree of judgement and estimation uncertainty in determining the carrying values of financial assets and liabilities at the balance sheet date.

- Fair value of financial instruments are determined using valuation techniques (see below) which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Changes in the observability of significant valuation inputs can materially affect the fair values of financial instruments
- When establishing the exit price of a financial instrument using a valuation technique, the Group considers valuation adjustments in determining the fair value (see page 229)
- In determining the valuation of financial instruments, the Group makes judgements on the amounts reserved to cater for model and valuation risks, which cover both Level 2 and Level 3 assets, and the significant valuation judgements in respect of Level 3 instruments (see page 230)
- Where the measurement of fair value is more judgemental in respect of Level 3 assets, these are valued based on models that use a significant degree of non-market-based unobservable inputs

### Valuation techniques

Refer to page 230 for an explanation of the Fair value hierarchy – Levels 1, 2 and 3.

#### ● Financial instruments held at fair value

- **Loans and advances:** These include loans in the global syndications business which were not syndicated as of the balance sheet date and other financing transactions within Financial Markets. These loans are generally bilateral in nature and, where available, their valuation is based on market observable credit spreads. If observable credit spreads are not available, proxy spreads based on comparable loans with similar credit grade, sector, and region, are used. Where observable credit spreads and market standard proxy methods are available, these loans are classified as Level 2. Where there are no recent transactions or comparable loans, these loans are classified as Level 3.
- **Debt securities – asset backed securities:** Asset backed securities are priced based on external prices obtained from consensus pricing providers, broker quotes, recent trades, arrangers' quotes, etc. Where an observable price is available for a given security, it is classified as Level 2. In instances where third party prices are not available or reliable, the security is classified as Level 3. The fair value of Level 3 securities is estimated using market standard cash flow models with input parameter assumptions which include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type, and credit ratings. Therefore, once external pricing has been verified, an assessment is made whether each security is traded with significant liquidity based on its credit rating and sector. If a security is of high credit rating and is traded in a liquid sector, it will be classified as Level 2, otherwise it will be classified as Level 3.

## 13. FINANCIAL INSTRUMENTS continued

- **Other debt securities:** These debt securities include convertible bonds, corporate bonds, credit and structured notes. Where quoted prices are available through pricing vendors, brokers or observable trading activities from liquid markets, these are classified as Level 2 and valued using such quotes. Where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product, these are classified as Level 3. The valuations of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets
- **Equity shares – private equity:** The majority of private equity unlisted investments are valued based on earning multiples – Price-to-Earnings (P/E) or enterprise value to earnings before income tax, depreciation and amortisation (EV/EBITDA) ratios – of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. 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 earnings 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, OTC prices) are classified as Level 3 on the basis that the valuation methods involve judgments ranging from determining comparable companies to discount rates where the discounted cash flow method is applied
- **Derivatives:** Derivative products are classified as Level 2 if the valuation of the product is based upon input parameters which are observable from independent and reliable market data sources. Derivative products are classified as Level 3 if there are significant valuation input parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying variable. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. 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. Where independent market data is available through pricing vendors and broker sources these positions are classified as Level 2. Where such liquid external prices are not available, valuation of these debt securities are implied using input parameters such as bond spreads and credit spreads, and are classified as Level 3. These input parameters are determined with reference to the same issuer (if available) or proxies from comparable issuers or assets

### • Financial instruments held at amortised cost

The following sets out the Group's basis of establishing fair values of amortised cost financial instruments and their classification between Levels 1, 2 and 3. As certain categories of financial instruments are not traded, there is a significant level of management judgement involved in calculating the fair values

- **Cash and balances at central banks:** The fair value of cash and balances at central banks is their carrying amounts
- **Loans and advances to banks and customers:** For loans and advances to banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity. The Group's loans and advances to customers' portfolio is well diversified by geography and industry. Approximately a quarter of the portfolio re-prices within one month, and approximately half re-prices within 12 months. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value, 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 proxies from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or inputs proxies from a different underlying (for example, a similar bond but using spreads for a particular sector and rating). Certain instruments cannot be proxies as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relate to asset backed securities. The fair value for such instruments is usually proxies 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 discounted 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

## 13. FINANCIAL INSTRUMENTS continued

### Fair value adjustments

When establishing the exit price of a financial instrument using a valuation technique, the Group considers adjustments to the modelled price which market participants would make when pricing that instrument. The main valuation adjustments in determining fair value for financial assets and financial liabilities are as follows:

#### Valuation adjustments

	2016 \$million	2015 \$million
Bid-offer	106	72
Credit <sup>1</sup>	443	815
Own credit	331	703
Model	6	13
Funding	248	366
Others (including day one)	132	169
Total	<b>1,266</b>	2,138

1. Includes debit valuation adjustments on derivatives

- **Bid-offer valuation adjustment:** Where market parameters are marked on a mid market basis in the revaluation systems, a bid offer valuation adjustment is required to quantify the expected cost of neutralising the business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. The methodology to calculate the bid-offer adjustment for a derivative portfolio involves netting between long and short positions and the grouping of risk by strike and tenor based on the hedging strategy where long positions are marked to bid and short positions marked to offer in the systems
- **Credit valuation adjustment (CVA):** The Group makes CVA adjustments against the fair value of derivative products. CVA is an adjustment to the fair value of the transactions to reflect the possibility that our counterparties may default and we may not receive the full market value of the outstanding transactions. It represents an estimate of the adjustment a market participant would include when deriving a purchase price to acquire our exposures. CVA is calculated for each subsidiary, and within each entity for each counterparty to which the entity has exposure and takes account of any collateral we may hold. The Group calculates the CVA by applying the probability of default (PD) on the potential estimated future positive exposure of the counterparty using market-implied PD. Where market-implied data is not readily available, we use market based proxies to estimate the PD. The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk arises when the underlying value of the derivative prior to any CVA is positively correlated to the probability of default by the counterparty. The Group continues to include 'wrong-way risk' in its Prudential Valuation Adjustments

In 2015 the Group enhanced its methodology for estimating the CVA for derivatives. Prior to 2015 the CVA was based on an expected counterparty loss calculation using historical default probabilities whereas the enhanced methodology uses market-implied default probabilities. In addition, the funding valuation adjustment (FVA) was also enhanced moving from bank internal funding rates to market-based rates. The net effect of the changes in estimates in 2015 was to reduce net trading income by \$863 million

- **Debit valuation adjustment (DVA):** The Group calculates DVA adjustments to reflect changes in its own credit standing. The Group's DVA adjustments are calculated on its derivative liabilities. The Group's DVA adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. The Group's DVA adjustments will reverse over time as its derivatives mature. For derivative liabilities, a DVA adjustment is determined by applying the Group's probability of default to the Group's negative expected exposure against the counterparty. The Group's probability of default and loss expected in the event of default is derived based on internally assessed credit ratings and market standard recovery levels. The expected exposure is modelled based on simulation methodology and is generated through simulation of underlying risk factors over the life of the deal booked against the particular counterparty. This simulation methodology incorporates the collateral posted by the Group and the effects of master netting agreements. The methodology used to determine a DVA adjustment on derivative liabilities is consistent with the methodology used to determine CVA on derivative assets

- **Own credit adjustment (OCA):** The Group calculates OCA adjustments to reflect changes in its own credit standing. The Group's OCA adjustments are calculated on its issued debt designated at fair value, including structured notes. The Group's OCA adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. The Group's OCA adjustments will reverse over time as its liabilities mature. For issued debt and structured notes designated at fair value, an OCA adjustment is determined by discounting the contractual cash flows using a yield curve adjusted for market observed secondary senior debt issuance spreads above average interbank rates

In December 2016, the Group refined its calculation of OCA by incorporating a more accurate calculation of the expected maturity of callable structured notes. This calculation change is treated as a change in estimate and resulted in a decrease in the OCA balance of \$141 million

- **Model valuation adjustment:** Valuation models may have pricing deficiencies or limitations that require a valuation adjustment. These pricing deficiencies or limitations arise due to the choice, implementation and calibration of the pricing model

- **Funding valuation adjustment (FVA):** The Group makes FVA adjustments against derivative products. FVA reflects an estimate of the adjustment to its fair value that a market participant would make to incorporate funding costs that could arise in relation to the exposure. FVA is calculated by determining the net expected exposure at a counterparty level and then applying a funding rate to those exposures that reflect the market cost of funding. The FVA for collateralised derivatives is based on discounting the expected future cash flows at the relevant overnight indexed swap (OIS) rate after taking into consideration the terms of the underlying collateral agreement with the counterparty. The FVA for uncollateralised (including partially collateralised) derivatives incorporates the estimated present value of the market funding cost or benefit associated with funding these transactions. The FVA calculation was previously based on the Group's internal funding rates. As at 31 December 2015, the calculation was revised to use market based rates. The change in estimate reduced net trading income by \$151 million

- **Day one profit or loss:** In certain circumstances the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based primarily on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated

**13. FINANCIAL INSTRUMENTS** continued**Fair value hierarchy – Financial instruments held at fair value**

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the observability of the significant inputs used to determine the fair values. Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Group recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

- **Level 1:** Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities
- **Level 2:** Fair value measurements are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable
- **Level 3:** Fair value measurements are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data

The following tables show the classification of financial instruments held at fair value into the valuation hierarchy.

<b>Assets</b>	<b>Level 1 \$million</b>	<b>Level 2 \$million</b>	<b>Level 3 \$million</b>	<b>Total \$million</b>
<b>Financial instruments held at fair value through profit or loss</b>				
Loans and advances to banks	–	2,060	–	2,060
Loans and advances to customers	–	2,998	179	3,177
Treasury bills	795	490	–	1,285
Debt securities	3,454	8,921	4	12,379
Of which:				
Government bonds	3,249	3,752	–	7,001
Issued by corporates other than financial institutions	77	2,467	3	2,547
Issued by financial institutions	128	2,702	1	2,831
Equity shares	181	–	995	1,176
Derivative financial instruments	513	64,636	360	65,509
Of which:				
Foreign exchange	52	53,706	324	54,082
Interest rate	14	9,858	6	9,878
Commodity	447	879	–	1,326
Credit	–	171	–	171
Equity and stock index	–	22	30	52
<b>Investment securities</b>				
Treasury bills	29,602	5,367	135	35,104
Debt securities	28,945	40,195	64	69,204
Of which:				
Government bonds	17,400	9,124	38	26,562
Issued by corporates other than financial institutions	6,928	7,741	24	14,693
Issued by financial institutions	4,617	23,330	2	27,949
Equity shares	798	41	549	1,388
Total as at 31 December 2016	64,288	124,708	2,286	191,282
<b>Liabilities</b>				
<b>Financial instruments held at fair value through profit or loss</b>				
Deposits by banks	–	718	–	718
Customer accounts	–	6,447	–	6,447
Debt securities in issue	–	5,140	530	5,670
Short positions	1,845	1,918	–	3,763
Derivative financial instruments	547	64,849	316	65,712
Of which:				
Foreign exchange	52	53,838	233	54,123
Interest rate	25	9,911	25	9,961
Commodity	470	628	–	1,098
Credit	–	442	30	472
Equity and stock index	–	30	28	58
Total as at 31 December 2016	2,392	79,072	846	82,310

There have been no significant changes to valuation or levelling approaches in 2016.

There are no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during the year.

### 13. FINANCIAL INSTRUMENTS continued

Assets	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
<b>Financial instruments held at fair value through profit or loss</b>				
Loans and advances to banks	–	2,275	–	2,275
Loans and advances to customers	–	3,815	232	4,047
Treasury bills	810	49	–	859
Debt securities	4,492	8,537	256	13,285
Of which:				
Government bonds	4,181	3,993	12	8,186
Issued by corporates other than financial institutions	21	2,555	141	2,717
Issued by financial institutions	290	1,989	103	2,382
Equity shares	2,122	–	813	2,935
Derivative financial instruments	736	61,929	478	63,143
Of which:				
Foreign exchange	67	46,901	291	47,259
Interest rate	1	11,735	9	11,745
Commodity	668	2,838	–	3,506
Credit	–	303	35	338
Equity and stock index	–	152	143	295
<b>Investment securities</b>				
Treasury bills	28,978	3,393	82	32,453
Debt securities	34,868	42,559	257	77,684
Of which:				
Government bonds	20,435	10,356	53	30,844
Issued by corporates other than financial institutions	10,005	8,818	204	19,027
Issued by financial institutions	4,428	23,385	–	27,813
Equity shares	872	7	841	1,720
Total as at 31 December 2015	72,878	122,564	2,959	198,401

### Liabilities

Financial instruments held at fair value through profit or loss	–	637	–	637
Deposits by banks	–	8,493	1	8,494
Customer accounts	–	8,422	495	8,917
Debt securities in issue	–	1,222	1,602	2,824
Short positions				
Derivative financial instruments	695	60,925	319	61,939
Of which:				
Foreign exchange	86	47,681	246	48,013
Interest rate	–	11,913	38	11,951
Commodity	609	818	–	1,427
Credit	–	300	14	314
Equity and stock index	–	213	21	234
Total as at 31 December 2015	1,917	80,079	815	82,811

There were no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during 2015.

**13. FINANCIAL INSTRUMENTS** continued**Fair value hierarchy – financial instruments measured at amortised cost**

The following table shows the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. These fair values may be different from the actual amount that will be received or paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

	Carrying value \$million	<b>Fair value</b>			
	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million	
<b>Assets</b>					
Cash and balances at central banks <sup>1</sup>	70,706	–	70,706	–	70,706
Loans and advances to banks	72,609	–	72,545	–	72,545
Loans and advances to customers	252,719	–	7,762	244,662	252,424
Investment securities	3,276	–	3,252	6	3,258
Other assets <sup>1</sup>	33,942	–	33,942	–	33,942
Assets held for sale	1,102	–	–	1,102	1,102
At 31 December 2016	434,354	–	188,207	245,770	433,977
<b>Liabilities</b>					
Deposits by banks	36,894	–	36,762	–	36,762
Customer accounts	371,855	–	371,823	–	371,823
Debt securities in issue	46,700	17,132	29,568	–	46,700
Subordinated liabilities and other borrowed funds	19,523	18,655	177	–	18,832
Other liabilities <sup>1</sup>	32,958	–	32,958	–	32,958
Liabilities included in disposal groups held for sale	958	–	958	–	958
At 31 December 2016	508,888	35,787	472,246	–	508,033

	Carrying value \$million	<b>Fair value</b>			
	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million	
<b>Assets</b>					
Cash and balances at central banks <sup>1</sup>	65,312	–	65,312	–	65,312
Loans and advances to banks	64,494	–	64,522	161	64,683
Loans and advances to customers	257,356	–	6,547	250,334	256,881
Investment securities	2,910	–	2,836	71	2,907
Other assets <sup>1</sup>	32,408	–	32,409	–	32,409
At 31 December 2015	422,480	–	171,626	250,566	422,192
<b>Liabilities</b>					
Deposits by banks	37,611	–	38,058	–	38,058
Customer accounts	350,633	–	350,614	–	350,614
Debt securities in issue	59,880	17,612	42,230	–	59,842
Subordinated liabilities and other borrowed funds	21,852	20,495	426	–	20,921
Other liabilities <sup>1</sup>	31,525	–	31,525	–	31,525
At 31 December 2015	501,501	38,107	462,853	–	500,960

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

**By Client segment**

	2016				
	Carrying Value			Fair value	
	Impaired \$million	Not impaired \$million	Total \$million	Impaired \$million	Not impaired \$million
Corporate & Institutional Banking	2,500	116,601	119,101	2,481	116,501
Retail Banking	458	93,030	93,488	460	92,786
Commercial Banking	751	23,215	23,966	736	23,306
Private Banking	289	11,619	11,908	289	11,609
Central & other items	–	4,256	4,256	–	4,256
At 31 December 2016	3,998	248,721	252,719	3,966	248,458
					252,424

### 13. FINANCIAL INSTRUMENTS continued

	2015 <sup>1</sup>					
	Carrying Value			Fair value		
	Impaired \$million	Not impaired \$million	Total \$million	Impaired \$million	Not impaired \$million	Total \$million
Corporate & Institutional Banking	4,723	113,375	118,098	4,795	114,715	119,510
Retail Banking	494	94,203	94,697	506	94,025	94,531
Commercial Banking	930	23,405	24,335	912	21,698	22,610
Private Banking	322	14,974	15,296	322	14,973	15,295
Central & other items	–	4,930	4,930	–	4,935	4,935
At 31 December 2015	6,469	250,887	257,356	6,535	250,346	256,881

1. The 2015 comparatives have been represented to reflect the reorganisation of the Group's client segments. Refer to notes 1 and 2 for details

### Level 3 Summary and significant unobservable inputs

The following table presents the Group's primary Level 3 financial instruments which are held at fair value and the valuation techniques used to measure those instruments, the significant unobservable inputs, the range of values for those inputs and the weighted average of those inputs.

Instrument	Value as at 31 December 2016					
	Assets million	Liabilities \$million	Principal valuation technique	Significant unobservable inputs	Range <sup>1</sup>	Weighted average <sup>2</sup>
Loans and advances to customers	179	–	Comparable pricing/yield	Recovery rates	2.7% to 45.8%	18.7%
Debt securities <sup>2</sup>	25	–	Comparable pricing/yield	Price/yield	3.5% to 14.5%	9.3%
Asset backed securities	5	–	Discounted cash flows	Credit spreads	0.4% to 13.5%	6.5%
Debt securities in issue	–	530	Discounted cash flows	Price/yield	0.5% to 4.0%	1.7%
Government bonds	173	–	Discounted cash flows	Price/yield	2.3% to 23.8%	10.9%
Derivative financial instruments of which:						
Foreign exchange	324	233	Option pricing model	Foreign exchange option implied volatility	10.4% to 18.8%	16.7%
Interest rate	6	25	Discounted cash flows	Interest rate curves	0.2% to 20.8%	7.0%
Credit	–	30	Discounted cash flows	Credit spreads	0.5% to 4.0%	2.0%
Equity	30	28	Internal pricing model	Equity correlation Equity-FX correlation	-35.0% to 92.0% -87.0% to 91.0%	N/A N/A
Equity shares (includes private equity investments)	1,544	–	Comparable pricing/Yield	EV/EBITDA multiples	7.7x to 26.6x	10.6x
				P/E multiples	7.6x to 22.3x	16.9x
				P/B multiples	1.4x	1.4x
				P/S multiple	1.7x to 2.6x	2.4x
				Liquidity discount	10% to 20%	19.0%
			Discounted cash flows	Discount rates	9.9%	9.9%
Total	2,286	846				

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 2016. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments

2. Weighted average for non-derivative financial instruments has been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator

The following section describes the significant unobservable inputs identified in the valuation technique table:

- **Credit spreads** represent the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument
- **Recovery rates** is the expectation of the rate of return resulting from the liquidation of a particular loan. As the probability of default increases for a given instrument, the valuation of that instrument will increasingly reflect its expected recovery level assuming default. An increase in the recovery rate, in isolation, would result in a favourable movement in the fair value of the loan

## 13. FINANCIAL INSTRUMENTS continued

- **Comparable price/yield** is a valuation methodology in which a price of a comparable instrument is used to estimate the fair value where there are no direct observable prices. Yield is the interest rate that is used to discount the future cash-flows in a discounted cash-flow model. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable instrument, then adjusting that yield (or spread) to derive a value for the instrument. The adjustment should account for relevant differences in the financial instruments such as maturity and/or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and the instrument being valued in order to establish the value of the instrument (for example, deriving a fair value for a junior unsecured bond from the price of a senior secured bond). An increase in price, in isolation, would result in a favourable movement in the fair value of the asset. An increase in yield, in isolation, would result in an unfavourable movement in the fair value of the asset
- **Correlation** is the measure of how movement in one variable influences the movement in another variable. An equity correlation is the correlation between two equity instruments while an interest rate correlation refers to the correlation between two swap rates
- **Volatility** represents an estimate of how much a particular instrument, parameter or index will change in value over time. Generally, the higher the volatility, the more expensive the option will be
- **Interest rate curves** is the term structure of interest rates and measure of future interest rates at a particular point of time
- **EV/EBITDA ratio multiples** is the ratio of Enterprise Value (EV) to Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). EV is the aggregate market capitalisation and debt minus the cash and cash equivalents. An increase in EV/EBITDA multiple in isolation, will result in a favourable movement in the fair value of the unlisted firm
- **Price-Earnings (P/E) multiples** is the ratio of the Market Capitalisation to the Net Income after tax. The multiples are determined from multiples of listed comparables, which are observable. An increase in P/E multiple will result in a favourable movement in the fair value of the unlisted firm
- **Liquidity discounts in the valuation of unlisted investments:** A liquidity discount is primarily applied to the valuation of unlisted firms' investments to reflect the fact that these stocks are not actively traded. An increase in liquidity discount will result in unfavourable movement in the fair value of the unlisted firm
- **Price-Book (P/B) multiple:** This is the ratio of the market value of equity to the book value of equity. An increase in P/B multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Sales (P/S) multiple:** This is the ratio of the market value of equity to sales. An increase in P/S multiple will result in a favourable movement in the fair value of the unlisted firm

### Level 3 movement

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 2016	232	256	813	478	82	257	841	2,959	
Total (losses)/gains recognised in income statement	(87)	4	(268)	44	–	(64)	(198)	(569)	
Net trading income	(87)	4	(268)	44	–	–	–	(307)	
Other operating income	–	–	–	–	–	–	(7)	(7)	
Impairment charge	–	–	–	–	–	(64)	(191)	(255)	
Total (losses)/gains recognised in other comprehensive income	–	–	–	–	–	(4)	1	(3)	
Available-for-sale	–	–	–	–	–	–	5	5	
Exchange difference	–	–	–	–	–	(4)	(4)	(8)	
Purchases	–	73	300	32	91	13	121	630	
Sales	(6)	(197)	(60)	(13)	–	(50)	(36)	(362)	
Settlements	(67)	(10)	–	(54)	–	(23)	–	(154)	
Transfers out <sup>1</sup>	(100)	(122)	–	(127)	(38)	(82)	(180)	(649)	
Transfers in <sup>2</sup>	207	–	210	–	–	17	–	434	
At 31 December 2016	179	4	995	360	135	64	549	2,286	
Total unrealised (losses)/gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 31 December 2016	(87)	5	(258)	24	–	–	–	(316)	
Total unrealised losses recognised in the income statement, within impairment charges at 31 December 2016	–	–	–	–	–	(64)	(191)	(255)	

1. Transfers out during the year primarily relate to loans and advances, debt securities, derivative financial instruments, treasury bills and equity shares where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2 financial assets

2. Transfers in during the year primarily relate to loans and advances, equity shares and debt securities where the valuation parameters become unobservable during the year

### 13. FINANCIAL INSTRUMENTS continued

	Held at fair value through profit or loss				Investment securities			
	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
<b>Assets</b>								
At 1 January 2015	640	395	808	575	—	360	953	3,731
Total (losses)/gains recognised in income statement	(441)	5	(75)	22	—	(17)	(24)	(530)
Net trading income	(441)	5	(75)	22	—	—	19	(470)
Other operating income	—	—	—	—	—	—	30	30
Impairment charge	—	—	—	—	—	(17)	(73)	(90)
Total losses recognised in other comprehensive income	—	—	—	(4)	(1)	(49)	(20)	(74)
Available-for-sale reserve	—	—	—	—	—	(29)	(15)	(44)
Exchange difference	—	—	—	(4)	(1)	(20)	(5)	(30)
Purchases	3	80	375	101	44	—	398	1,001
Sales	—	(161)	(357)	(72)	—	(116)	(304)	(1,010)
Settlements	—	(25)	—	(81)	(22)	(52)	—	(180)
Transfers out <sup>1</sup>	—	(185)	—	(78)	(78)	(123)	(162)	(626)
Transfers in <sup>2</sup>	30	147	62	15	139	254	—	647
At 31 December 2015	232	256	813	478	82	257	841	2,959
Total unrealised (losses)/gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 31 December 2015	(430)	6	(66)	33	—	—	—	(457)
Total unrealised (losses)/gains recognised in the income statement, within impairment charges at 31 December 2015	—	—	—	—	—	(17)	1	(16)

1. Transfers out during the year primarily relate to certain equity shares and debt securities where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2 financial assets
2. Transfers in during the year primarily relate to investment in structured notes, corporate debt securities and loans and advances where the valuation parameters become unobservable during the year

### Level 3 movement tables – Financial liabilities

	2016			
	Customer accounts \$million	Debt securities in issue \$million	Derivative financial instruments \$million	Total \$million
At 1 January 2016	1	495	319	815
Total losses recognised in income statement – net trading income	—	1	31	32
Issues	—	268	78	346
Settlements	—	(237)	(74)	(311)
Transfers out <sup>1</sup>	(1)	—	(38)	(39)
Transfers in <sup>2</sup>	—	3	—	3
At 31 December 2016	—	530	316	846
Total unrealised losses recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 31 December 2016	—	5	39	44

	2015			
	Customer accounts \$million	Debt securities in issue \$million	Derivative financial instruments \$million	Total \$million
At 1 January 2015	1	208	296	505
Total losses recognised in income statement – net trading income	—	11	6	17
Issues	—	310	40	350
Settlements	—	(176)	(26)	(202)
Transfers out	—	—	(3)	(3)
Transfers in	—	142	6	148
At 31 December 2015	1	495	319	815
Total unrealised losses recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 31 December 2015	—	—	16	16

1. Transfers out during the year primarily relate to derivative financial instruments where the valuation parameters became observable during the year and were transferred to Level 2 financial liabilities
2. Transfers in during the year primarily relate to debt securities in issue for which parameters became unobservable during the year

**13. FINANCIAL INSTRUMENTS** continued**Sensitivities in respect of the fair values of Level 3 assets and liabilities**

Sensitivity analysis is performed on products with significant unobservable inputs. The Group apply a 10 per cent increase or decrease on the values of these unobservable reasonably possible alternatives inputs, which could have increased fair values of financial instruments inputs, to generate a range of reasonably possible alternative valuations. The percentage shift is determined by statistical analyses performed on a set of reference prices based on the composition of our Level 3 assets. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This Level 3 sensitivity analysis assumes a one-way market move and does not consider offsets for hedges.

	Held at fair value through profit or loss			Available-for-sale		
	Net exposure \$million	Favourable Changes \$million	Unfavourable Changes \$million	Net exposure \$million	Favourable Changes \$million	Unfavourable Changes \$million
<b>Financial instruments held at fair value</b>						
Debt securities	4	4	4	64	64	64
Equity shares	995	1,095	896	549	604	494
Loan and advances	179	187	171	–	–	–
Treasury bills	–	–	–	135	136	134
Derivative financial instruments	44	158	25	–	–	–
Debt securities in issue	(530)	(521)	(539)	–	–	–
At 31 December 2016	<b>692</b>	<b>923</b>	<b>557</b>	<b>748</b>	<b>804</b>	<b>692</b>
<b>Financial instruments held at fair value</b>						
Debt securities	256	261	251	257	266	247
Equity shares	813	895	731	841	937	745
Loan and advances	231	259	217	–	–	–
Treasury bills	–	–	–	82	83	81
Derivative financial instruments	159	423	(106)	–	–	–
Debt securities in issue	(495)	(482)	(508)	–	–	–
At 31 December 2015	<b>964</b>	<b>1,356</b>	<b>585</b>	<b>1,180</b>	<b>1,286</b>	<b>1,073</b>

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	2016		2015	
		\$million	\$million	\$million	\$million
Designated at fair value through profit or loss	Possible increase	<b>231</b>	392		
	Possible decrease	(135)	(379)		
Available-for-sale	Possible increase	<b>56</b>	106		
	Possible decrease	(56)	(107)		

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

### Accounting policy

**Accounting for derivatives:** Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

Derivatives are initially recognised and subsequently measured at fair value, with revaluation gains recognised in profit or loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond held, are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives.

**Hedge accounting:** The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge)
- b) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge)
- c) hedges of the net investment of a foreign operation (net investment hedges)

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group may enter into economic hedges that do not qualify for IAS 39 hedge accounting treatment. Where these economic hedges use derivative to offset risk, the derivatives are fair valued, with fair value changes recognised through profit or loss.

**Fair value hedge:** Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity or derecognition.

**Cash flow hedge:** The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

**Net investment hedge:** Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is disposed of.

**14. DERIVATIVE FINANCIAL INSTRUMENTS** continued

The tables below analyse the notional principal amounts and the positive and negative fair values of derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

	2016			2015		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
<b>Derivatives</b>						
<b>Foreign exchange derivative contracts:</b>						
Forward foreign exchange contracts	<b>1,896,056</b>	<b>24,872</b>	<b>24,475</b>	1,846,097	20,379	20,013
Currency swaps and options	<b>1,288,908</b>	<b>29,210</b>	<b>29,648</b>	1,325,425	26,880	28,000
Exchange traded futures and options	<b>225</b>	—	—	454	—	—
	<b>3,185,189</b>	<b>54,082</b>	<b>54,123</b>	3,171,976	47,259	48,013
<b>Interest rate derivative contracts:</b>						
Swaps	<b>2,191,851</b>	<b>8,425</b>	<b>8,409</b>	2,121,493	10,810	10,780
Forward rate agreements and options	<b>114,988</b>	<b>1,305</b>	<b>1,404</b>	72,776	935	1,171
Exchange traded futures and options	<b>789,901</b>	<b>148</b>	<b>148</b>	586,588	—	—
	<b>3,096,740</b>	<b>9,878</b>	<b>9,961</b>	2,780,857	11,745	11,951
Credit derivative contracts	<b>25,101</b>	<b>171</b>	<b>472</b>	23,561	338	314
Equity and stock index options	<b>2,535</b>	<b>52</b>	<b>58</b>	9,384	295	234
Commodity derivative contracts	<b>80,921</b>	<b>1,326</b>	<b>1,098</b>	96,984	3,506	1,427
Total derivatives	<b>6,390,486</b>	<b>65,509</b>	<b>65,712</b>	6,082,762	63,143	61,939

The Group limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business. Details of the amounts available for offset are set out in note 13 on page 225.

The Derivatives and Hedging sections of the Risk review and Capital review on page 164 explain the Group's risk management of derivative contracts and application of hedging.

**Derivatives held for hedging**

Included in the table above are derivatives held for hedging purposes as follows:

	2016			2015		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
<b>Derivatives designated as fair value hedges:</b>						
Interest rate swaps	<b>48,565</b>	<b>972</b>	<b>303</b>	52,826	736	233
Forward foreign exchange contracts	<b>419</b>	<b>12</b>	<b>15</b>	5	—	—
Currency swaps	<b>21,495</b>	<b>37</b>	<b>2,377</b>	29,199	510	2,247
	<b>70,479</b>	<b>1,021</b>	<b>2,695</b>	82,030	1,246	2,480
<b>Derivatives designated as cash flow hedges:</b>						
Interest rate swaps	<b>10,236</b>	<b>3</b>	<b>84</b>	8,777	3	20
Forward foreign exchange contracts	<b>883</b>	—	<b>13</b>	1,589	3	46
Currency swaps	<b>1,258</b>	<b>1</b>	<b>3</b>	2,621	40	3
	<b>12,377</b>	<b>4</b>	<b>100</b>	12,987	46	69
<b>Derivatives designated as net investment hedges:</b>						
Forward foreign exchange contracts	<b>1,313</b>	<b>51</b>	—	1,339	39	—
<b>Total derivatives held for hedging</b>	<b>84,169</b>	<b>1,076</b>	<b>2,795</b>	96,356	1,331	2,549

## 14. DERIVATIVE FINANCIAL INSTRUMENTS continued

### Fair value hedges

The Group uses interest rate swaps to exchange fixed rates for floating rates on funding to match floating rates received on assets, or exchange fixed rates on assets to match the floating rates paid on funding.

For qualifying hedges the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit or loss. All qualifying hedges were effective.

	2016 \$million	2015 \$million
Net losses on hedging instruments	(77)	(192)
Net gains on hedging items <sup>1</sup>	57	198

1. Includes amortisation of fair value adjustments in respect of hedges no longer qualifying for hedge accounting

### Cash flow hedges

The Group uses interest rate swaps to manage the variability in future cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts, 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 or loss, at which time the gains or losses are transferred to profit and loss.

	2016 \$million	2015 \$million
Losses reclassified from reserves to income statement	(57)	(107)
Losses recognised in operating costs	(67)	(118)
Gains recognised in other comprehensive income	10	11

The Group has hedged the following cash flows which are expected to impact the income statement in the following years:

	2016					
	Less than one year \$million	One to two years \$million	Two to three years \$million	Three to four years \$million	Four to five years \$million	Over five years \$million
Forecast receivable cash flows	68	48	50	35	23	8
Forecast payable cash flows	(20)	(9)	(28)	(1)	–	–
	<b>48</b>	<b>39</b>	<b>22</b>	<b>34</b>	<b>23</b>	<b>8</b>
	2015					
	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
Forecast receivable cash flows	55	49	30	26	12	–
Forecast payable cash flows	(1,504)	(10)	(5)	(1)	–	(1,520)
	<b>(1,449)</b>	<b>39</b>	<b>25</b>	<b>25</b>	<b>12</b>	<b>–</b>

### Net investment hedges

The Group uses a combination of foreign exchange contracts and non derivative financial assets to manage the variability in future exchange rates on its net investments in foreign currencies. Gains and losses arising on the effective portion of the hedges are deferred in equity until the net investment is disposed of.

	2016 \$million	2015 \$million
Gains recognised in other comprehensive income	30	90

## 15. INVESTMENT SECURITIES

### Accounting policy

Investment securities are treasury bills, debt securities and equity securities intended to be held on a continuing basis. The securities are predominantly classified as available for sale. Refer to note 13 Financial Instruments for the accounting policy.

	2016				
	Debt securities				
	Held-to-maturity \$million	Available-for-sale \$million	Loans and receivables \$million	Equity shares <sup>1</sup> \$million	Treasury bills \$million
Issued by public bodies:					Total \$million
Government securities	163	30,312	10		
Other public sector securities	–	1,705	222		
	163	32,017	232		
Issued by banks:					
Certificates of deposit	–	5,764	–		
Other debt securities	–	21,748	79		
	–	27,512	79		
Issued by corporate entities and other issuers:					
Other debt securities	7	9,675	2,795		
Total debt securities	170	69,204	3,106		
Of which:					
Listed on a recognised UK exchange	–	8,847	108 <sup>2</sup>	3	628
Listed elsewhere	7	32,585	596 <sup>2</sup>	741	15,765
Unlisted	163	27,772	2,402	644	18,711
	170	69,204	3,106	1,388	35,104
Market value of listed securities	7	41,432	704	744	16,393
					59,280

1. Equity shares largely comprise investments in corporates

2. These debt securities listed or registered on a recognised UK exchange or elsewhere are thinly traded or the market for these securities is illiquid

	2015				
	Debt securities				
	Held-to-maturity \$million	Available-for-sale \$million	Loans and receivables \$million	Equity shares <sup>1</sup> \$million	Treasury bills \$million
Issued by public bodies:					Total \$million
Government securities	159	35,086	–		
Other public sector securities	–	2,215	37		
	159	37,301	37		
Issued by banks:					
Certificates of deposit	–	4,076	–		
Other debt securities	–	22,110	15		
	–	26,186	15		
Issued by corporate entities and other issuers:					
Other debt securities	51	14,197	2,648		
Total debt securities	210	77,684	2,700		
Of which:					
Listed on a recognised UK exchange	–	15,992	120 <sup>2</sup>	8	2,057
Listed elsewhere	51	31,837	483 <sup>2</sup>	782	14,703
Unlisted	159	29,855	2,097	930	15,693
	210	77,684	2,700	1,720	32,453
Market value of listed securities	51	47,829	603	790	16,760
					66,033

1. Equity shares largely comprise investments in corporates

2. These debt securities listed or registered on a recognised UK exchange or elsewhere are thinly traded or the market for these securities is illiquid

## 15. INVESTMENT SECURITIES continued

The change in the carrying amount of investment securities comprised:

	2016				2015			
	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	80,594	1,720	32,453	114,767	77,942	2,207	24,089	104,238
Exchange translation differences	(1,505)	(30)	(756)	(2,291)	(2,868)	(4)	(966)	(3,838)
Additions	99,915	193	107,166	207,274	132,800	375	76,300	209,475
Maturities and disposals	(106,505)	(284)	(104,035)	(210,824)	(127,184)	(699)	(67,244)	(195,127)
Impairment, net of recoveries on disposal	(151)	(246)	–	(397)	(71)	(124)	–	(195)
Changes in fair value (including the effect of fair value hedging)	122	35	21	178	14	(34)	(7)	(27)
Amortisation of discounts and premiums	10	–	255	265	(39)	(1)	281	241
At 31 December	72,480	1,388	35,104	108,972	80,594	1,720	32,453	114,767

The analysis of unamortised premiums and unamortised discounts on debt securities and income on equity shares held for investment purposes is provided below:

	2016 \$million	2015 \$million
Debt securities:		
Unamortised premiums	462	401
Unamortised discounts	139	149
Income from listed equity shares	38	92
Income from unlisted equity shares	14	19

The following table sets out the movement in the allowance of impairment provisions for investment securities classified as loans and receivables:

	2016 \$million	2015 \$million
At 1 January	57	26
Exchange translation differences	(3)	(1)
Amounts written off	(7)	(34)
Impairment charge	97	66
At 31 December	144	57

## 16. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

### Accounting policy

Refer to note 8 Impairment losses on loans and advances and other credit risk provision and note 13 Financial instruments for the accounting policies.

	2016 \$million	2015 \$million
Loans and advances to banks	72,773	64,658
Individual impairment provision	(163)	(163)
Portfolio impairment provision	(1)	(1)
	72,609	64,494
Loans and advances to customers	259,073	264,036
Individual impairment provision	(5,667)	(6,023)
Portfolio impairment provision	(687)	(657)
	252,719 <sup>1</sup>	257,356
Total loans and advances to banks and customers	325,328	321,850

1. Loans and advances to customers (net of provision) totalling \$1.1 billion (2015: \$nil billion) has been classified and disclosed as held for sale in note 20

The Group has outstanding residential mortgage loans to Korea residents of \$15.3 billion (2015: \$13.4 billion) and Hong Kong residents of \$28.7 billion (2015: \$27.7 billion).

Analysis of loans and advances to customers and related impairment provisions by geographic region is set out within the Risk review on pages 167 to 177.

**16. LOANS AND ADVANCES TO BANKS AND CUSTOMERS** continued**Accounting policy**

**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.

**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.

**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, either by way of a Global Master Repurchase Agreement (GMRA), or through a securities sale and TRS continue to be recognised on the balance sheet as the Group retains substantially the associated risks and rewards of the securities, the TRS is not recognised. The counterparty liability is included in deposits by banks or customer accounts, as appropriate. Assets sold under repurchase agreements are considered encumbered as the Group cannot pledge these to obtain funding.

The table below sets out the financial assets provided as collateral for repurchase transactions.

Collateral pledged against repurchase agreements	Fair value through profit or loss \$million	Available for sale \$million	Loans and receivables \$million	Total \$million
<b>On balance sheet</b>				
Treasury bills	–	110	–	110
Debt securities	1,094	3,576	–	4,670
<b>Off balance sheet</b>				
Repledged collateral received	–	–	33,053	33,053
At 31 December 2016	1,094	3,686	33,053	37,833

**Balance sheet liabilities – repurchase agreements**

Deposits by banks	4,022
Customer accounts	33,670
At 31 December 2016	37,692

Collateral pledged against repurchase agreements	Fair value through profit or loss \$million	Available for sale \$million	Loans and receivables \$million	Total \$million
<b>On balance sheet</b>				
Treasury bills	–	98	–	98
Debt securities	487	520	–	1,007
<b>Off balance sheet</b>				
Repledged collateral received	491	–	21,694	22,185
At 31 December 2015	978	618	21,694	23,290

**Balance sheet liabilities – repurchase agreements**

Deposits by banks	7,598
Customer accounts	13,008
At 31 December 2015	20,606

## 16. LOANS AND ADVANCES TO BANKS AND CUSTOMERS continued

### Reverse repurchase agreements

The Group also undertakes reverse repurchase (reverse repo) lending agreements with counterparties, typically financial institutions, in exchange for collateral. Reverse repo agreements 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. Reverse repos are set out in the table below.

### Balance sheet assets – reverse repurchase agreements

	2016 \$million	2015 \$million
Loans and advances to banks	<b>18,464</b>	17,330
Loans and advances to customers	<b>23,925</b>	15,307
	<b>42,389</b>	32,637

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:

	2016 \$million	2015 \$million
Securities and collateral received (at fair value)	<b>55,394</b>	53,357
Securities and collateral which can be repledged or sold (at fair value)	<b>54,473</b>	52,841
Amounts repledged/transferred to others for financing activities, to satisfy commitments under short sale transactions or liabilities under sale and repurchase agreements (at fair value)	<b>33,053</b>	22,185

### 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.

	2016			2015
	Carrying value \$million	Fair value \$million	Carrying value \$million	Fair value \$million
Loans and advances to customers	<b>21</b>	<b>21</b>	76	76
Securitisation liability	<b>15</b>	<b>15</b>	43	43
Net	<b>6</b>	<b>6</b>	33	33

The Group did not undertake any transactions that required the recognition of an asset representing continuing involvement in financial assets.

## 17. GOODWILL AND INTANGIBLE ASSETS

### Accounting policy

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in Intangible assets. Goodwill on acquisitions of associates is included in Investments in associates. Goodwill included in intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units (CGUs) and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement. Goodwill is allocated to CGUs for the purpose of impairment testing. CGUs represent the lowest level within the Group 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. The major CGUs to which goodwill has been allocated are set out below.

#### Significant accounting estimates and judgments

The carrying amount of goodwill is based on the extent of judgements including the basis of assumptions and forecasts used for determining cash flows for CGUs, headroom availability, and sensitivities of the forecasts to reasonably possible changes in assumptions. The Group undertakes an annual assessment to evaluate whether the carrying value of goodwill on balance sheet is impaired. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgement.

#### 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. Direct costs of the development of separately identifiable internally generated software are capitalised where it is probable that future economic benefits attributable to the asset will flow from its use (internally generated software). These costs include salaries and wages, materials, service providers and contractors, and directly attributable overheads. Costs incurred in the ongoing maintenance of software are expensed immediately when incurred. Internally generated software is amortised over a three-year time period.

	2016				2015			
	Goodwill \$million	Acquired intangibles \$million	Computer software <sup>1</sup> \$million	Total \$million	Goodwill \$million	Acquired intangibles \$million	Computer software \$million	Total \$million
<b>Cost</b>								
At 1 January	3,616	494	1,551	5,661	4,224	564	1,348	6,136
Exchange translation differences	6	(1)	(55)	(50)	(120)	(37)	(93)	(250)
Additions	–	24	567	591	–	–	368	368
Disposals	–	–	(1)	(1)	–	–	–	–
Impairment	(166)	–	–	(166)	(488)	–	–	(488)
Amounts written off	–	(12)	(181)	(193)	–	(33)	(72)	(105)
At 31 December	3,456	505	1,881	5,842	3,616	494	1,551	5,661
<b>Provision for amortisation</b>								
At 1 January	–	430	589	1,019	–	467	479	946
Exchange translation differences	–	(1)	(15)	(16)	–	(27)	(34)	(61)
Amortisation	–	14	272	286	–	22	205	227
Impairment charge	–	–	–	–	–	1	–	1
Disposals	–	–	(1)	(1)	–	–	–	–
Amounts written off	–	(12)	(153)	(165)	–	(33)	(61)	(94)
At 31 December	–	431	692	1,123	–	430	589	1,019
Net book value	3,456	74	1,189	4,719	3,616	64	962	4,642

1. Computer software is materially all internally generated

## 17. GOODWILL AND INTANGIBLE ASSETS continued

### Goodwill

At 31 December 2016, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to \$2,481 million (2015: \$2,315 million).

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. Indicators of impairment include changes in the economic performance and outlook of the region including geo-political changes, changes in market value of regional investments, large credit defaults and strategic decisions to exit certain regions. The recoverable amounts for all the CGUs were measured based on value-in-use (ViU).

At 31 December 2016, all CGUs had recoverable amounts that exceed the carrying amounts with the exception of the Thailand CGU, where the carrying amount exceeded the recoverable value by \$166 million. An impairment charge of \$166 million has been recognised to write off this remaining goodwill.

The calculation of ViU for each CGU is calculated using five-year cash flow projections and an estimated terminal value based on a perpetuity value after year five. The cash flow projections are based on forecasts approved by management up to 2021. The perpetuity terminal value amount is calculated using year five cash flows using long-term GDP growth rates. All cash flows are discounted using pre-tax discount rates which reflect market rates appropriate to the CGU. In prior years the terminal value element of the calculation was calculated by projecting a further 15-years of cash flow and then including a terminal value. The change in assessment methodology of the terminal value is not materially different between the two methods.

The goodwill allocated to each CGU and key assumptions used in determining the recoverable amounts are set out below and are solely estimates for the purposes of assessing impairment of acquired goodwill.

Cash Generating Unit	2016			2015		
	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
Pakistan business	251	23.8	5.3	251	27.0	4.9
Taiwan business	845	12.8	2.2	828	16.3	3.0
Credit card and personal loan –						
Asia, India & MENAP	896	13.1	3.6	896	15.0	4.0
India business	295	17.0	7.8	303	19.2	7.6
MESA business <sup>1</sup>	368	13.6	3.7	368	19.3	4.0
Thailand business	–	13.9	3.1	165	17.4	3.3
Financial Institutions and Private Banking business	396	13.5	2.9	396	14.0	3.8
Corporate advisory business	71	13.4	2.9	74	14.0	3.8
Consumer banking business in Singapore	193	10.1	2.6	197	11.9	4.0
Other	141	13.4-21.2	2.9-5.9	138	13.8-20.7	3.8-6.2
	<b>3,456</b>			<b>3,616</b>		

1. MESA business consists of UAE, Saudi Arabia, Jordan, Oman, Qatar, Bahrain, Lebanon, Pakistan, Sri Lanka and Bangladesh

The Group has performed sensitivity analysis on the key assumptions for each CGU's recoverable amount. These include a 1 per cent (post-tax) increase in the discount rate, a 1 per cent (pre-tax) reduction in long-term GDP growth rates, a 10 per cent (post-tax) reduction in estimated cash flows and in certain instances a combination of these factors. In each case, except the Taiwan business CGU, the recoverable amounts exceed the carrying amounts. In the case of Taiwan the sensitivity analysis under various scenarios could lead to a potential impairment in a future period; however, at present we do not consider that this is required. The discount rate would need to increase by 1 per cent (pre-tax) or the cash flows would need to fall by 9.3 per cent (pre-tax) on an annual basis.

### Acquired intangibles

These primarily comprise those items recognised as part of the acquisitions of Union Bank (now amalgamated into Standard Chartered Bank (Pakistan) Limited), Hsinchu (now amalgamated into Standard Chartered Bank (Taiwan) Limited), Pembroke, Harrison Lovegrove, American Express Bank and Absa's custody business in Africa. Maintenance intangible assets represent the value in the difference between the contractual right under acquired leases to receive aircraft in a specified maintenance condition at the end of the lease and the actual physical condition of the aircraft at the date of acquisition.

The acquired intangibles are amortised over periods from four years to a maximum of 16 years. The constituents are as follows:

Acquired intangibles comprise:	2016 \$million	2015 \$million
Aircraft maintenance	24	–
Brand names	–	1
Core deposits	3	5
Customer relationships	39	50
Licences	8	8
Net book value	<b>74</b>	64

## 18. PROPERTY, PLANT AND EQUIPMENT

### Accounting policy

All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

At each balance sheet date the assets' residual values and useful lives are reviewed, and adjusted if appropriate, including assessing for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down to the recoverable amount. Gains and losses on disposals are included in the income statement.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and buildings comprise mainly branches and offices. Freehold land is not depreciated although it is subject to impairment testing.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings – up to 50 years
- Leasehold improvements life of lease – up to 50 years
- Equipment and motor vehicles – three to 15 years
- Aircraft – up to 18 years
- Ships – up to 15 years

Where the Group is a lessee under finance leases, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in Other liabilities. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

### Change in accounting estimate

During the year, the Group revised the useful lives (to the Group) and residual value estimates of the Standard Chartered aviation and shipping assets which are leased to third parties under operating leases. A review researched the latest industry participant information and resulted in the Group concluding that the useful life of its aviation assets is a maximum of 18 years and its shipping assets is a maximum of 15 years (both previously up to 25 years) aligned to the Group's intended use of the assets. This had the effect of increasing the depreciation expense for the year ended 31 December 2016 by \$17 million.

	2016				2015			
	Premises \$million	Equipment \$million	Operating lease assets \$million	Total \$million	Premises \$million	Equipment \$million	Operating lease assets \$million	Total \$million
<b>Cost or valuation</b>								
At 1 January	2,156	735	6,527	9,418	2,330	805	6,759	9,894
Exchange translation differences	(62)	(28)	–	(90)	(107)	(52)	–	(159)
Additions	79	116	1,016	1,211	45	85	885	1,015
Disposals and fully depreciated assets written off	(38)	(123)	(561)	(722)	(108)	(103)	(853)	(1,064)
Transfers to assets held for sale	(18)	(1)	–	(19)	(4)	–	(264)	(268)
As at 31 December	2,117	699	6,982	9,798	2,156	735	6,527	9,418
<b>Depreciation</b>								
Accumulated at 1 January	668	528	1,013	2,209	655	581	674	1,910
Exchange translation differences	(19)	(17)	–	(36)	(32)	(38)	–	(70)
Charge for the year	98	84	271	453	91	88	258	437
Impairment charge	–	–	131	131	19	–	130	149
Attributable to assets sold, transferred or written off	(28)	(120)	(56)	(204)	(62)	(103)	(32)	(197)
Transfers to assets held for sale	(6)	(1)	–	(7)	(3)	–	(17)	(20)
Accumulated at 31 December	713	474	1,359	2,546	668	528	1,013	2,209
Net book amount at 31 December	1,404	225	5,623	7,252	1,488	207	5,514	7,209

During the year, an impairment charge of \$131 million (2015: \$130 million) was recognised in respect of aircraft and ships held as operating lease assets, as the ViU of the assets was lower than the net book value. The charge was recognised within the Corporate & Institutional Banking segment.

## 18. PROPERTY, PLANT AND EQUIPMENT continued

### Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft and ships which are included within property, plant and equipment. At 31 December 2016 these assets had a net book value of \$5,623 million (December 2015: \$5,514 million)

	2016	2015
	Minimum lease receivables under operating leases falling due: \$million	Minimum lease receivables under operating leases falling due: \$million
Within one year	611	588
Later than one year and less than five years	2,186	2,042
After five years	1,182	1,427
	<b>3,979</b>	4,057

## 19. OPERATING LEASE COMMITMENTS

### Accounting policy

The leases entered into by the Group are primarily operating leases. An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor. The Group leases various premises under non-cancellable lease arrangements. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place. If an operating lease contains a reinstatement clause, a provision will be raised for the best estimate of the expenses to be incurred at the end of the lease to reinstate the property to its original condition. This cost is amortised over the life of the lease.

	2016	2015		
	Premises \$million	Equipment \$million	Premises \$million	Equipment \$million
<b>Commitments under non-cancellable operating leases expiring:</b>				
Within one year	258	1	282	3
Later than one year and less than five years	623	1	674	2
After five years	245	–	383	–
	<b>1,126</b>	<b>2</b>	1,339	5

During the year \$400 million (2015: \$433 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 2016 is \$96 million (2015: \$116 million).

## 20. OTHER ASSETS

### Accounting policy

Refer to note 13 Financial Instruments for the accounting policy.

### Assets held for sale

Non-current assets (such as property) and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when:

- a) their carrying amounts will be recovered principally through sale
- b) they are available-for-sale in their present condition
- c) their sale is highly probable

Immediately before the initial classification as held for sale, the carrying amounts of the assets (or assets and liabilities in the disposal group) are measured in accordance with the applicable accounting policies related to the asset or liability before reclassification as held for sale.

**20. OTHER ASSETS** continued

	2016 \$million	2015 \$million
Financial assets held at amortised cost (note 13)		
Hong Kong SAR Government certificates of indebtedness (note 22) <sup>1</sup>	5,444	4,907
Cash collateral	14,230	13,430
Acceptances and endorsements	4,479	3,949
Unsettled trades and other financial assets	9,789	10,122
	<b>33,942</b>	32,408
Non-financial assets		
Commodities	2,719	1,652
Other assets	279	192
	<b>36,940</b>	34,252

1. The Hong Kong SAR Government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued.

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 2017. The assets and liabilities of the disposal groups were remeasured to the lower of carrying amount and fair value less costs to sell.

	2016 \$million	2015 \$million
Assets classified as held for sale		
Cash and balances at central banks	1	–
Loans and advances to customers	1,101	93
Prepayments and accrued income	9	–
Interests in associates	131	–
Property, plant and equipment	12	256
	<b>1,254</b>	349

Assets held for sale represent businesses held for sale which are measured at fair value less costs to sell. They are classified within level 3 of the fair value hierarchy. The disposal group includes:

- Retail Banking business of Standard Chartered Bank (Thai) Public Company Limited – \$1,111 million, expected to be completed in 2017
- Asia Commercial Bank – \$131 million for 2016, expected to be completed in 2017

There have been losses due to changes in fair value of assets classified as held for sale during 2016 of \$44 million (2015: \$4 million loss) within other operating income (note 6).

The assets reported above are Level 3 except for cash and balances at central banks (level 2) and financial assets held at fair value through profit or loss (level 2). The net liabilities due to Group undertakings will be transferred to the acquirers on completion of the sale.

**21. DEBT SECURITIES IN ISSUE**

**Accounting policy**

Refer to note 13 Financial instruments for the accounting policy.

	2016			2015		
	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	15,020	31,680	46,700	20,174	39,706	59,880
Debt securities in issue included within: Financial liabilities held at fair value through profit or loss (note 13)	35	5,635	5,670	104	8,813	8,917
Total debt securities in issue	<b>15,055</b>	<b>37,315</b>	<b>52,370</b>	20,278	48,519	68,797

In 2016, the Company issued a total of \$4.4 billion senior notes for general business purposes of the Group as shown below:

Securities	\$million
\$1,000 million fixed rate senior notes due 2021	1,000
\$1,250 million fixed rate senior notes due 2026	1,250
\$1,000 million fixed rate senior notes due 2019	1,000
\$750 million floating rate senior notes due 2019	750
JPY 45,000 million fixed rate notes due 2021	385

## 22. OTHER LIABILITIES

### Accounting policy

Refer to note 13 Financial instruments for the accounting policy.

	2016 \$million	2015 \$million
Financial liabilities held at amortised cost (note 13)		
Notes in circulation <sup>1</sup>	<b>5,444</b>	4,907
Acceptances and endorsements	<b>4,479</b>	3,949
Cash collateral	<b>9,624</b>	10,074
Unsettled trades and other financial liabilities	<b>13,411</b>	12,595
	<b>32,958</b>	31,525
Non-financial liabilities		
Cash-settled share based payments	<b>26</b>	18
Other liabilities	<b>162</b>	396
	<b>33,146</b>	31,939

1. Hong Kong currency notes in circulation of \$5,444 million (2015: \$4,907 million) that are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 20)

	2016 \$million	2015 \$million
Liabilities included in disposal groups held for sale <sup>1</sup>		
Customer accounts	<b>958</b>	58
Other liabilities	<b>1</b>	14
Accruals and deferred income	<b>6</b>	–
	<b>965</b>	72

1. Liabilities included in disposal groups held for sale are classified within level 2 of the fair value hierarchy. In 2016, the balance represents the Retail Banking business of Standard Chartered Bank (Thailand) Public Company Limited (assets classified as held for sale \$965 million) and is expected to be completed in 2017

## 23. PROVISIONS FOR LIABILITIES AND CHARGES

### Accounting policy

The Group recognises a provision for a present legal or constructive obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably. Where a liability arises based on participation in a market at a specified date, the obligation is recognised in the financial statements on that date and is not accrued over the period.

### Significant accounting estimates and judgements

The recognition and measurement of provisions for liabilities and charges requires significant judgement and the use of estimates about uncertain future conditions or events.

	2016			2015		
	Provision for credit commitments \$million	Other provisions \$million	Total \$million	Provision for credit commitments \$million	Other provisions \$million	Total \$million
At 1 January	<b>100</b>	<b>115</b>	<b>215</b>	20	109	129
Exchange translation differences	(2)	(2)	(4)	(3)	(4)	(7)
Charge against profit	<b>45</b>	<b>37</b>	<b>82</b>	94	89	183
Provisions utilised	(34)	(46)	(80)	(11)	(79)	(90)
At 31 December	<b>109</b>	<b>104</b>	<b>213</b>	100	115	215

Provision for credit commitments comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations.

Other provisions consist mainly of provisions for regulatory settlements and legal claims (note 25).

## 24. CONTINGENT LIABILITIES AND COMMITMENTS

### Accounting policy

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events, that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

Where the Group undertakes to make a payment on behalf of its customers for guarantees issued, such as for performance bonds or as irrevocable letters of credit as part of the Group's transaction banking business for which an obligation to make a payment has not arisen at the reporting date, those are included in these financial statements as contingent liabilities.

Other contingent liabilities primarily include revocable letters of credit and bonds issued on behalf of customers to customs officials, for bids or offers and as shipping guarantees.

Commitments are where the Group has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees whether cancellable or not or letters of credit and the Group has not made payments at the balance sheet date, those instruments are included in these financial statement as commitments.

Capital commitments are contractual commitments the Group has entered into to purchase non-financial assets.

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.

	2016 \$million	2015 <sup>1</sup> \$million
<b>Contingent liabilities</b>		
Guarantees and irrevocable letters of credit	<b>33,551</b>	29,694
Other contingent liabilities	<b>3,839</b>	9,361
	<b>37,390</b>	39,055
<b>Commitments</b>		
Documentary credits and short-term trade-related transactions	<b>4,120</b>	4,852
Forward asset purchases and forward deposits placed	<b>6</b>	69
Undrawn formal standby facilities, credit lines and other commitments to lend		
One year and over	<b>38,108</b>	45,327
Less than one year	<b>17,547</b>	14,104
Unconditionally cancellable	<b>118,330</b>	123,036
	<b>178,111</b>	187,388
<b>Capital commitments</b>		
Contracted capital expenditure approved by the directors but not provided for in these accounts	<b>1,736</b>	1

1. \$461 million of derivative notional reported in 2015 as forward asset purchases and forward deposits placed has been restated to \$69 million. Accordingly, total reported commitments of the Group in 2015 was \$187.8 billion and has been restated to \$187.4 billion.

The Group's share of contingent liabilities and commitments relating to joint ventures is \$246 million (2015: \$286 million).

The Group has committed to purchase 16 aircraft for delivery in 2017 and 2018. The combined purchase commitment for these orders totals a maximum of \$1.7 billion. Pre-delivery payments of \$0.4 billion have been made to date in respect of these aircraft.

## 25. LEGAL AND REGULATORY MATTERS

### Accounting policy

Where appropriate, the Group recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. The uncertainties inherent in legal and regulatory matters affect the amount and timing of any potential outflows with respect to which provisions have been established.

The Group receives legal claims against it in a number of jurisdictions and is a party to regulatory matters arising in the normal course of business. Apart from the matters described below, the Group currently considers none of these claims and proceedings as material.

### 2012 Settlements with certain US authorities

In 2012, the Group reached settlements with certain US authorities regarding US sanctions compliance in the period 2001 to 2007, involving a Consent Order by the New York Department of Financial Services (NYDFS), a Cease and Desist Order by the Board of Governors of the Federal Reserve System (Fed), Deferred Prosecution Agreements (DPAs) with each of the Department of Justice (DOJ) and the New York County District Attorney's Office (DANY) and a Settlement Agreement with the Office of Foreign Assets Control (together, the 'Settlements'). In addition to the civil penalties totalling \$667 million, the terms of these Settlements include a number of conditions and ongoing obligations with regard to improving sanctions, Anti-Money Laundering (AML) and Bank Secrecy Act (BSA) controls such as remediation programmes, reporting requirements, compliance reviews and programmes, banking transparency requirements, training measures, audit programmes, disclosure obligations and, in connection with the NYDFS Consent Order, the appointment of an independent monitor (Monitor). These obligations are managed under a programme of work referred to as the US Supervisory Remediation Program (SRP). The SRP comprises work streams designed to ensure compliance with the remediation requirements contained in all of the Settlements.

## 25. LEGAL AND REGULATORY MATTERS continued

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 Group is engaged with all relevant authorities to implement these programmes and meet the obligations under the Settlements.

### **2014 Settlement with NYDFS**

On 19 August 2014, the Group announced that it had reached a final settlement with the NYDFS regarding deficiencies in the AML transaction surveillance system in its New York branch (the 'Branch'). The system, which is separate from the sanctions screening process, is one part of the Group's overall financial crime controls and is designed to alert the Branch to unusual transaction patterns that require further investigation on a post-transaction basis.

The Settlement provisions are summarised as follows:

- (i) A civil monetary penalty of \$300 million
- (ii) Enhancements to the transaction surveillance system at the Branch
- (iii) A two-year extension to the term of the Monitor, which we expect to be further extended
- (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.

### **Other ongoing reviews**

The Group is cooperating with an investigation by the US authorities and the New York State Attorney General relating to possible historical violations of US sanctions laws and regulations. In contrast to the 2012 settlements, which focused on the period before the Group's 2007 decision to stop doing new business with known Iranian parties, the ongoing investigation is focused on examining the extent to which conduct and control failures permitted clients with Iranian interests to conduct transactions through Standard Chartered Bank after 2007 and the extent to which any such failures were shared with relevant US authorities in 2012.

The Financial Conduct Authority (FCA) is investigating Standard Chartered Bank's financial crime controls, looking at the effectiveness and governance of those controls within the correspondent banking business carried out by Standard Chartered Bank's London branch, particularly in relation to the business carried on with respondent banks from outside the European Economic Area, and the effectiveness and governance of those controls in one of Standard Chartered Bank's overseas branches and the oversight exercised at Group level over those controls.

As part of their remit to oversee market conduct, regulators and other agencies in certain markets are conducting investigations or requesting reviews into a number of areas of regulatory compliance and market conduct, including sales and trading, involving a range of financial products, and submissions made to set various market interest rates and other financial benchmarks, such as foreign exchange. At relevant times, certain of the Group's branches and/or subsidiaries were (and are) participants in some of those markets, in some cases submitting data to bodies that set such rates and other financial benchmarks and responding to inquiries and investigations by relevant authorities. 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 Securities and Futures Commission (SFC) in Hong Kong has been investigating Standard Chartered Securities (Hong Kong) Limited's (SCSHK) role as a joint sponsor of an initial public offering of China Forestry Holdings Limited, listed on the Hong Kong Stock Exchange in 2009. In October 2016, SFC informed the Group that it intends to commence action against SCSHK and other parties. On 16 January 2017 a writ was filed by the SFC with Hong Kong's High Court. The writ names SCSHK as one of six defendants from whom the SFC is seeking compensation for an unspecified amount of losses incurred by certain shareholders in relation to the initial public offering. There may be financial consequences for SCSHK in connection with this matter.

**26. SUBORDINATED LIABILITIES AND OTHER BORROWED FUNDS****Accounting policy**

Subordinated liabilities and other borrowed funds are classified as financial instruments. Refer to note 13 Financial Instruments for the accounting policy.

All subordinated liabilities are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements.

	2016 \$million	2015 \$million
<b>Subordinated loan capital – issued by subsidiary undertakings</b>		
£700 million 7.75 per cent subordinated notes 2018	898	1,106
£675 million 5.375 per cent undated step up subordinated notes (callable 2020)	307	651
£600 million 8.103 per cent step up callable perpetual preferred securities (callable 2016)	–	905
£200 million 7.75 per cent undated step up subordinated notes (callable 2022)	215	364
€1.1 billion 5.875 per cent subordinated notes 2017	1,197	1,280
\$1 billion 6.4 per cent subordinated notes 2017	512	1,065
\$750 million 5.875 per cent subordinated notes 2020	785	799
\$700 million 8.0 per cent subordinated notes 2031	432	636
BWP 127.26 million 8.2 per cent subordinated notes 2022 (callable 2017)	12	11
BWP 70 million floating rate subordinated notes 2021 (callable 2016)	7	6
BWP 50 million floating rate notes 2022 (callable 2017)	5	5
JPY 10 billion 3.35 per cent subordinated notes 2023 (callable 2018)	88	86
KRW 270 billion 4.67 per cent subordinated debt 2021 (callable 2016)	–	231
KRW 90 billion 6.05 per cent subordinated debt 2018	79	85
PKR 2.5 billion floating rate notes 2022 (callable 2017)	24	24
SGD 750 million 4.15 per cent subordinated notes 2021 (callable 2016)	–	503
SGD 450 million 5.25 per cent subordinated notes 2023 (callable 2018)	318	323
UGX 40 billion 13 per cent subordinated notes 2020 (callable 2015)	–	12
	<b>4,879</b>	8,092
<b>Subordinated loan capital – issued by the Company</b>		
Primary capital floating rate notes:		
\$400 million	16	44
\$300 million (Series 2)	69	80
\$400 million (Series 3)	50	64
\$200 million (Series 4)	26	50
£150 million	15	45
£900 million 5.125 per cent subordinated debt 2034	1,307	1,463
\$2 billion 5.7 per cent subordinated debt 2044	2,372	2,379
\$2 billion 3.95 per cent subordinated debt 2023	1,971	1,985
\$1.25 billion 4 per cent subordinated notes 2022 (callable 2017)	1,249	1,247
\$1 billion 5.7 per cent subordinated notes 2022	996	1,003
\$1 billion 5.2 per cent subordinated debt 2024	1,027	996
\$750 million 5.3 per cent subordinated debt 2043	788	789
\$1.25 billion 4.3 percent subordinated debt 2027	1,220	–
€1.25 billion 4 per cent subordinated debt 2025 (callable 2020)	1,387	1,420
€750 million 3.625 per cent subordinated notes 2022	852	858
€500 million 3.125 per cent subordinated debt 2024	543	535
SGD 700 million 4.4 per cent subordinated notes 2026 (callable 2021)	473	473
Other subordinated borrowings – issued by Company <sup>1</sup>	283	329
	<b>14,644</b>	13,760
<b>Total for Group</b>	<b>19,523</b>	21,852

1. Other borrowings comprise irredeemable sterling preference shares (note 27). In the balance sheet of the Company the amount recognised is \$221 million (2015: \$305 million) with the difference being the effect of hedge accounting achieved on a Group basis

## 26. SUBORDINATED LIABILITIES AND OTHER BORROWED FUNDS continued

	2016				
	USD \$million	GBP \$million	Euro \$million	Others \$million	Total \$million
Fixed rate subordinated debt	10,132	3,010	3,979	970	18,091
Floating rate subordinated debt	1,381	15	–	36	1,432
Total	11,513	3,025	3,979	1,006	19,523

	2015				
	USD \$million	GBP \$million	Euro \$million	Others \$million	Total \$million
Fixed rate subordinated debt	10,899	4,818	4,093	1,724	21,534
Floating rate subordinated debt	238	45	–	35	318
Total	11,137	4,863	4,093	1,759	21,852

### Repurchases during the year

On 23 March 2016, Standard Chartered Bank repurchased the below listed subordinated debt securities as a result of the tender offer announced on 11 March 2016:

- \$503.1m of \$1 billion 6.4 per cent subordinated notes 2017
- \$145.9m of \$700 million 8.0 per cent subordinated notes 2031
- £172.7m of £675 million 5.375 per cent undated step up subordinated notes (callable 2020)
- £65.5m of £200 million 7.75 per cent undated step up subordinated notes (callable 2022)

On 23 March 2016, Standard Chartered PLC repurchased the below listed primary capital floating rate notes as a result of the tender offer announced on 11 March 2016:

- \$27.7m of \$400 million primary capital floating rate notes
- \$11.4m of \$300 million primary capital floating rate notes (Series 2)
- \$14.3m of \$400 million primary capital floating rate notes (Series 3)
- \$24.1m of \$200 million primary capital floating rate notes (Series 4)
- £18.6m of £150 million primary capital floating rate notes

On 11 May 2016, Standard Chartered Bank exercised its rights to redeem its £600 million 8.103 per cent step up callable perpetual preferred securities in full on the first call date.

On 28 October 2016, Standard Chartered Bank Hong Kong exercised its rights to redeem its SGD 750 million 4.15 per cent subordinated notes in full on the first call date.

On 6 December 2016, Standard Chartered Bank Korea exercised its rights to redeem its KRW 270 billion 4.67 per cent subordinated debt in full on the first call date.

On 6 December 2016, Standard Chartered Bank Uganda exercised its rights to redeem its UGX 40 billion 13.0 per cent subordinated debt in full on the first call date.

### Issuance during the year

On 19 August 2016, Standard Chartered PLC issued \$1.25 billion 4.3 per cent subordinated notes due 2027.

## 27. SHARE CAPITAL, OTHER EQUITY AND RESERVES

### Accounting policy

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue a variable number of own equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Securities which carry a discretionary coupon and have no fixed maturity or redemption date are classified as other equity instruments. Interest payments on these securities are recognised, net of tax, as distributions from equity in the period in which they are paid.

Where the Company or other members of the consolidated Group purchase the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity of the Group and/or of the Company as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity of the Group and/or the Company.

**27. SHARE CAPITAL, OTHER EQUITY AND RESERVES** continued**Group and Company**

	Number of ordinary shares millions	Ordinary share capital <sup>1</sup> \$million	Share premium <sup>2</sup> \$million	Total share capital and share premium \$million	Other equity instruments \$million
At 1 January 2015	2,473	1,236	5,483	6,719	–
Capitalised on scrip dividend	71	36	(36)	–	–
Shares issued	734	367	2	369	–
Additional Tier 1 equity issuance	–	–	–	–	1,987
At 31 December 2015	<b>3,278</b>	<b>1,639</b>	<b>5,449</b>	<b>7,088</b>	<b>1,987</b>
Shares issued	6	3	–	3	–
Additional Tier 1 equity issuance	–	–	–	–	1,982
At 31 December 2016	<b>3,284</b>	<b>1,642</b>	<b>5,449</b>	<b>7,091</b>	<b>3,969</b>

1. Issued and fully paid ordinary shares of 50 cents each

2. Includes \$1,494 million of share premium relating to preference capital

**Ordinary share capital**

In accordance with the Companies Act 2006 the Company does not have authorised share capital. The nominal value of each ordinary share is 50 cents.

During the year 6,275,370 shares were issued under employee share plans at prices between nil and 937.53 pence.

**Preference share capital**

At 31 December 2015 and 2016, the Company has 15,000 \$5 non-cumulative redeemable preference shares in issue, with a premium of \$99,995 making a paid up amount per preference share of \$100,000. The preference shares are redeemable at the option of the Company and are classified in equity.

The available profits of the Company are distributed to the holders of the issued preference shares in priority to payments made to holders of the ordinary shares and in priority to, or pari passu with, any payments to the holders of any other class of shares in issue. On a winding up, the assets of the Company are applied to the holders of the preference shares in priority to any payment to the ordinary shareholders and in priority to, or pari passu with, the holders of any other shares in issue, for an amount equal to any dividends accrued and/or payable and the nominal value of the shares together with any premium as determined by the Board. The redeemable preference shares are redeemable at the paid up amount (which includes premium) at the option of the Company in accordance with the terms of the shares. The holders of the preference shares are not entitled to attend or vote at any general meeting except where any relevant dividend due is not paid in full or where a resolution is proposed varying the rights of the preference shares.

**Other equity instruments**

On 2 April 2015 Standard Chartered PLC issued \$2,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as Additional Tier 1 (AT1) securities, raising \$1,987 million after issue costs. On 18 August 2016, Standard Chartered PLC issued a further \$2,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising \$1,982 million after issue costs. Both issuances were made for general business purposes and to increase the regulatory capital base of the Group.

The principal terms of the AT1 securities are described below:

- The securities are perpetual and redeemable, at the option of Standard Chartered PLC in whole but not in part, on the first interest reset date and each date falling five years after the first reset date
- The securities are also redeemable for certain regulatory or tax reasons on any date at 100 per cent of their principal amount together with any accrued but unpaid interest to (but excluding) the date fixed for redemption. Any redemption is subject to Standard Chartered PLC giving notice to the relevant regulator and the regulator granting permission to redeem
- The interest rate in respect of the securities issued on 2 April 2015 for the period from (and including) the issue date to (but excluding) 2 April 2020 is a fixed rate of 6.50 per cent per annum. The first reset date for the interest rate is 2 April 2020 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest rate in respect of the securities issued on 18 August 2016 for the period from (and including) the issue date to (but excluding) 2 April 2022 is a fixed rate of 7.50 per cent per annum. The first reset date for the interest rate is 2 April 2022 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest on each of the securities will be payable semi-annually in arrears on 2 April and 2 October in each year, accounted for as a dividend
- Interest on the securities is due and payable only at the sole and absolute discretion of Standard Chartered PLC, subject to certain additional restrictions set out in the terms and conditions. Accordingly, Standard Chartered PLC may at any time elect to cancel any interest payment (or part thereof) which would otherwise be payable on any interest payment date
- The securities convert into ordinary shares of Standard Chartered PLC, at a pre-determined price, should the fully loaded Common Equity Tier 1 ratio of the Group fall below 7.0 per cent. Approximately 443 million ordinary shares would be required to satisfy the conversion of both sets of securities
- The securities rank behind the claims against Standard Chartered PLC of (a) unsubordinated creditors, (b) which are expressed to be subordinated to the claims of unsubordinated creditors of Standard Chartered PLC but not further or otherwise; or (c) which are, or are expressed to be, junior to the claims of other creditors of Standard Chartered PLC, whether subordinated or unsubordinated, other than claims which rank, or are expressed to rank, pari passu with, or junior to, the claims of holders of the AT1 securities in a winding-up occurring prior to the conversion trigger

## 27. SHARE CAPITAL, OTHER EQUITY AND RESERVES continued

### Reserves

The constituents of the reserves are summarised as follows:

- Capital Reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001. The capital redemption reserve represents the nominal value of preference shares redeemed
- Merger reserve represents the premium arising on shares issued using a cash box financing structure, which required the Company to create a merger reserve under section 612 of the Companies Act 2006. Shares were issued using this structure in 2005 and 2006 to assist in the funding of certain acquisitions, in 2008, 2010 and 2015 for the shares issued by way of a rights issue, and for the shares issued in 2009 in the placing. The funding raised by the 2008 and 2010 rights issues and 2009 share issue was fully retained within the Company. Of the 2015 funding, \$1.5 billion was used to subscribe to additional equity in Standard Chartered Bank, a wholly owned subsidiary of the Company
- Own credit adjustment reserve represents the cumulative gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit. Following the Group's decision to early apply this IFRS 9 requirement the cumulative own credit adjustment component of financial liabilities designated at fair value through profit or loss has been transferred from opening retained earnings to the OCA reserve. Gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit in the year have been taken through other comprehensive income into this reserve. On derecognition of applicable instruments the balance of any OCA will not be recycled to the income statement, but will be transferred within equity to retained earnings
- Available-for-sale reserve represents the unrealised fair value gains and losses in respect of financial assets classified as available-for-sale, net of taxation. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying asset is sold, matures or becomes impaired
- Cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria for these types of hedges. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying hedged item affects profit or loss or when a forecast transaction is no longer expected to occur
- Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve and are reclassified to the income statement when the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations
- Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions and own shares held (treasury shares)

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

As at 31 December 2016, the distributable reserves of Standard Chartered PLC (the Company) were \$15.2 billion (2015: \$15.2 billion). These comprised retained earnings and \$12.5 billion of the merger reserve account. Distribution of reserves is subject to maintaining minimum capital requirements.

The cumulative amount of goodwill on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is \$27 million (2015: \$27 million).

### Own shares

Computershare Trustees (Jersey) Limited is the trustee of the 2004 Employee Benefit Trust ('2004 Trust') and Ocorian Trustees (Jersey) Limited (formerly known as Bedell Trustees Limited) is the trustee of the 1995 Employees' Share Ownership Plan Trust ('1995 Trust'). The 2004 Trust is used in conjunction with the Group's employee share schemes and the 1995 Trust is used for the delivery of other employee share-based payments (such as upfront shares and fixed pay allowances). Group companies fund these trusts from time to time to enable the trustees to acquire shares to satisfy these arrangements.

Except as disclosed, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the Company listed on The Stock Exchange of Hong Kong Limited during the period. Details of the shares purchased and held by the trusts are set out below.

Number of shares	1995 Trust		2004 Trust		Total	
	2016	2015	2016	2015	2016	2015
Shares purchased during the year	6,160,185	6,448,053	–	439,906	6,160,185	6,887,959
Market price of shares purchased (\$million)	51	63	–	5	51	68
Shares held at the end of the year	6,104,154	4,861,846	78,313	137,850	6,182,467	4,999,696
Maximum number of shares held during the year					6,183,210	7,517,013

## 28. NON-CONTROLLING INTERESTS

### Accounting policy

Non-controlling interests are measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

	\$million
At 1 January 2015	306
Expenses in equity attributable to non-controlling interests	(38)
Loss attributable to non-controlling interests	(2)
Comprehensive loss for the year	(40)
Distributions	(26)
Other increases <sup>1</sup>	81
At 31 December 2015	<b>321</b>
Expenses in equity attributable to non-controlling interests	(11)
Profits attributable to non-controlling interests	56
Comprehensive income for the year	45
Distributions	(37)
Other decreases <sup>2</sup>	(8)
At 31 December 2016	<b>321</b>

1. Additional investment from non-controlling interests in one of the Group's subsidiary undertakings

2. Predominantly due to completion of sale of businesses with non-controlling interest in Pakistan and issuance of shares to non-controlling interest in Angola

## 29. RETIREMENT BENEFIT OBLIGATIONS

### Accounting policy

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 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.

### Significant accounting estimates and judgements

There are many factors that affect the measurement of retirement benefit obligations as it requires the use of assumptions which are inherently uncertain; the sensitivity of the liabilities to changes in these assumptions is shown in the note below.

Retirement benefit obligations comprise:

	2016 \$million	2015 \$million
Defined benefit plans obligation	495	422
Defined contribution plans obligation	30	23
Net obligation	<b>525</b>	445

Retirement benefit charge comprises:

	2016 \$million	2015 \$million
Defined benefit plans	85	96
Defined contribution plans	231	203
Charge against profit (note 7)	<b>316</b>	299

The Group operates 50 defined benefit plans across its geographies, many of which are closed to new entrants who now join defined contribution arrangements. The aim of all these plans is to give employees the opportunity to save appropriately for retirement in a way that is consistent with local regulations, taxation requirements and market conditions. The defined benefit plans expose the Group to currency risk, interest rate risk, investment risk and actuarial risks such as longevity risk.

## 29. RETIREMENT BENEFIT OBLIGATIONS continued

The material holdings of government and corporate bond holdings shown in the asset table below partially hedge movements in the liabilities resulting from interest rate changes. Setting aside movements from other drivers such as currency fluctuation, the falls in discount rates in most geographies over 2016 have led to higher liabilities. These have been somewhat offset by rises in the value of bonds held. These movements are shown as actuarial losses versus gains respectively in the tables below.

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 2016.

### UK Fund

The Standard Chartered Pension Fund (the 'UK Fund') is the Group's largest pension plan, representing 60 percent of total pension liabilities, and provides pensions based on 1/60th of final salary per year of service, normally payable from age 60. The UK Fund is set up under a Trust that is legally separate from the Bank (its formal sponsor) and, as required by UK legislation, at least one third of the Trustee Directors are nominated by members; the remainder are appointed by the Bank. The Trustee Directors have a fiduciary duty to members and are responsible for governing the UK Fund in accordance with its Trust Deed and Rules.

The financial position of the UK Fund is regularly assessed by an independent qualified actuary. The most recent funding valuation was performed as at 31 December 2014 by A Zegleman, Fellow of the Institute and Faculty of Actuaries, of Willis Towers Watson, using the projected unit method and assumptions different from those below. To repair the \$89 million (£72 million) past service deficit identified as at 31 December 2014, four annual cash payments of \$15.5 million (£12.6 million) were agreed, starting in January 2016. The agreement allows that if the funding position improves more quickly than expected, the three payments from January 2017 could be reduced or eliminated. The actuarial assessment that applied to the January 2017 payment did not allow for a reduction, so the full £12.6 million was paid into the Fund on 16 January 2017. In addition, an escrow account of \$136 million (£110 million) exists to provide security for future contributions. Following the 31 December 2014 valuation, regular contributions to the UK Fund were set at 32 per cent of pensionable salary for all members. The next valuation is due as at 31 December 2017.

With effect from 1 July 1998, the UK Fund was closed to new entrants and new employees are offered membership of a defined contribution plan. Over 85 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 2016, the weighted-average duration of the UK Fund was 16 years (2015: 15 years).

The Bank is not required to recognise any additional liability under IFRIC 14 or the current exposure draft of proposed amendments to it, as it has control of any pension surplus.

### Overseas plans

The principal overseas defined benefit arrangements operated by the Group are in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the United States (US).

### Key assumptions

The principal financial assumptions used at 31 December 2016 were:

	Funded plans			
	UK Fund <sup>1</sup>		Overseas plans <sup>2</sup>	
	2016 %	2015 %	2016 %	2015 %
Price inflation	2.1	1.9	1.0 – 5.0	1.0 – 5.0
Salary increases	2.1	1.9	2.1 – 6.5	1.9 – 6.5
Pension increases	2.1	1.9	1.5 – 3.2	1.3 – 3.0
Discount rate	2.7	3.7	1.3 – 6.9	1.0 – 8.1

1. The assumptions for life expectancy for the UK Fund are that a male member currently aged 60 will live for 28 years (2015: 28 years) and a female member 29 years (2015: 29 years) and a male member currently aged 40 will live for 30 years (2015: 30 years) and a female member 31 years (2015: 31 years) after their 60th birthdays

2. The range of assumptions shown is for the main funded defined benefit overseas plans in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the US. These comprise over 85 per cent of the total liabilities of funded overseas plans

These assumptions are likely to change in the future and this will affect the value placed on the liabilities. For example, changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

- If the discount rate increased by 25 basis points the liability would reduce by approximately \$70 million for the UK Fund and \$35 million for the other plans
- If the rate of inflation and pension increases by 25 basis points the liability would increase by approximately \$45 million for the UK Fund and \$10 million for the other plans
- If the rate salaries increase compared to inflation by 25 basis points the liability would increase by approximately \$6 million for the UK Fund and \$10 million for the other plans
- If longevity expectations increased by one year the liability would increase by approximately \$35 million for the UK Fund and \$10 million for the other plans

Although this analysis does not take account of the full distribution of cash flows expected under the UK Fund, it does provide an approximation of the sensitivity to the main assumptions. While changes in other assumptions would also have an impact, the effect would not be as significant.

**29. RETIREMENT BENEFIT OBLIGATIONS** continued

	Unfunded plans			
	Post-retirement medical <sup>1</sup>		Other <sup>2</sup>	
	2016 %	2015 %	2016 %	2015 %
Price inflation	<b>2.5</b>	2.5	<b>2.0 – 5.0</b>	1.9 – 5.0
Salary increases	<b>4.0</b>	4.0	<b>2.1 – 6.5</b>	1.9 – 6.5
Pension increases	<b>N/A</b>	N/A	<b>0.0 – 2.1</b>	0.0 – 1.9
Discount rate	<b>4.4</b>	4.6	<b>2.7 – 8.4</b>	2.5 – 8.2
Post-retirement medical rate	<b>9% in 2016 reducing by 1% per annum to 5% in 2020</b>	8% in 2015 reducing by 1% per annum to 5% in 2018	<b>N/A</b>	N/A

1. The post-retirement medical plan is in the US

2. The range of assumptions shown is for the main unfunded plans in India, Indonesia, Korea, Thailand, UAE and the UK. They comprise over 85 per cent of the total liabilities of unfunded plans

**Fund values**

The fair value of assets and present value of liabilities of the plans attributable to defined benefit members were:

At 31 December	2016				2015			
	Funded plans		Unfunded plans		Funded plans		Unfunded plans	
	UK Fund \$million	Overseas plans \$million	Post-retirement medical \$million	Other \$million	UK Fund \$million	Overseas plans \$million	Post-retirement medical \$million	Other \$million
Equities	<b>191</b>	<b>291</b>	<b>N/A</b>	<b>N/A</b>	176	267	N/A	N/A
Government Bonds	<b>642</b>	<b>153</b>	<b>N/A</b>	<b>N/A</b>	686	164	N/A	N/A
Corporate Bonds	<b>169</b>	<b>81</b>	<b>N/A</b>	<b>N/A</b>	192	68	N/A	N/A
Absolute Return Fund	<b>148</b>	–	<b>N/A</b>	<b>N/A</b>	187	–	N/A	N/A
Hedge Funds <sup>1</sup>	<b>187</b>	–	<b>N/A</b>	<b>N/A</b>	189	–	N/A	N/A
Insurance linked funds <sup>1</sup>	<b>29</b>	–	<b>N/A</b>	<b>N/A</b>	56	–	N/A	N/A
Opportunistic credit <sup>1</sup>	<b>61</b>	–	<b>N/A</b>	<b>N/A</b>	79	–	N/A	N/A
Property	<b>70</b>	<b>4</b>	<b>N/A</b>	<b>N/A</b>	71	5	N/A	N/A
Derivatives	(16)	–	<b>N/A</b>	<b>N/A</b>	(11)	–	N/A	N/A
Cash and equivalents	<b>52</b>	<b>160</b>	<b>N/A</b>	<b>N/A</b>	49	197	N/A	N/A
Others <sup>1</sup>	<b>8</b>	<b>30</b>	<b>N/A</b>	<b>N/A</b>	9	25	N/A	N/A
Total fair value of assets <sup>2</sup>	<b>1,541</b>	<b>719</b>	<b>N/A</b>	<b>N/A</b>	1,683	726	N/A	N/A
Present value of liabilities <sup>3</sup>	(1,657)	(878)	(22)	(198)	(1,719)	(901)	(24)	(187)
Net pension liability	<b>(116)</b>	<b>(159)</b>	<b>(22)</b>	<b>(198)</b>	(36)	(175)	(24)	(187)

1. Unquoted assets

2. Self investment is monitored closely and is less than \$2 million of Standard Chartered equities and bonds for 2016 (2015: \$2 million). Self investment is only allowed where it is not practical to exclude it – for example through investment in index-tracking funds where the Group is a constituent of the relevant index

3. Includes \$nil million (2015: \$nil million) impact as a result of unrecognisable surplus in Kenya

## 29. RETIREMENT BENEFIT OBLIGATIONS continued

The pension cost for defined benefit plans was:

	Funded plans		Unfunded plans		
	UK Fund \$million	Overseas plans \$million	Post- retirement medical \$million	Other \$million	Total \$million
2016					
Current service cost	5	52	1	17	75
Past service cost and curtailments	–	(7)	–	3	(4)
Gain on settlements <sup>1</sup>	–	(1)	–	–	(1)
Interest income on pension plan assets	(56)	(22)	–	–	(78)
Interest on pension plan liabilities	57	27	1	8	93
Total charge to profit before deduction of tax	6	49	2	28	85
Return on plan assets excluding interest income <sup>2</sup>	(139)	(18)	–	–	(157)
Losses/(gains) on liabilities	239	12	(4)	15	262
Total losses/(gains) recognised directly in statement of comprehensive income before tax	100	(6)	(4)	15	105
Deferred taxation	–	(2)	–	–	(2)
Total losses/(gains) after tax	100	(8)	(4)	15	103

1. These movements reflect a reduction in workforce in a number of geographies as a result of the restructuring actions of the Group

2. The actual return on the UK fund assets was \$195 million and on overseas plan assets was \$40 million

	Funded plans		Unfunded plans		
	UK Fund \$million	Overseas plans \$million	Post- retirement medical \$million	Other \$million	Total \$million
2015					
Current service cost	7	62	1	21	91
Past service cost and curtailments	–	(2)	–	–	(2)
Gain on settlements	–	(7)	–	–	(7)
Interest income on pension plan assets	(64)	(24)	–	–	(88)
Interest on pension plan liabilities	63	29	1	9	102
Total charge to loss before deduction of tax	6	58	2	30	96
Return on plan assets excluding interest income	45	22	–	–	67
Losses/(gains) on liabilities	2	7	(4)	(15)	(10)
Total losses/(gains) recognised directly in statement of comprehensive income before tax	47	29	(4)	(15)	57
Deferred taxation	15	(5)	–	–	10
Total losses/(gain) after tax	62	24	(4)	(15)	67

1. The actual return on the UK fund assets was \$19 million and on overseas plan assets was \$2 million

**29. RETIREMENT BENEFIT OBLIGATIONS** continued

Movement in the defined benefit pension plans and post-retirement medical deficit during the year comprise:

	Funded plans		Unfunded plans		Total \$million
	UK Fund \$million	Overseas plans \$million	Post- retirement medical \$million	Other \$million	
Deficit at 1 January	(36)	(175)	(24)	(187)	(422)
Contributions	20	60	—	18	98
Current service cost	(5)	(52)	(1)	(17)	(75)
Past service cost and curtailments	—	7	—	(3)	4
Settlement costs and transfers impact	—	1	—	—	1
Net interest on the net defined benefit asset/liability	(1)	(5)	(1)	(8)	(15)
Actuarial (losses)/gains	(100)	6	4	(15)	(105)
Exchange rate adjustment	6	(1)	—	14	19
Deficit at 31 December	(116)	(159)	(22)	(198)	(495)

	Funded plans		Unfunded plans		Total \$million
	UK Fund \$million	Overseas plans \$million	Post- retirement medical \$million	Other \$million	
Deficit at 1 January	10	(178)	(27)	(196)	(391)
Contributions	7	81	1	20	109
Current service cost	(7)	(62)	(1)	(21)	(91)
Past service cost and curtailments	—	2	—	—	2
Settlement costs	—	7	—	—	7
Net interest on the net defined benefit asset/liability	1	(5)	(1)	(9)	(14)
Actuarial (losses)/gains	(47)	(29)	4	15	(57)
Exchange rate adjustment	—	9	—	4	13
Deficit at 31 December	(36)	(175)	(24)	(187)	(422)

The Group's expected contribution to its defined benefit pension plans in 2017 is \$80 million.

	2016			2015		
	Assets \$million	Obligations \$million	Total \$million	Assets \$million	Obligations \$million	Total \$million
Deficit at 1 January	2,409	(2,831)	(422)	2,634	(3,025)	(391)
Contributions <sup>1</sup>	99	(1)	98	110	(1)	109
Current service cost <sup>2</sup>	—	(75)	(75)	—	(91)	(91)
Past service cost and curtailments	—	4	4	—	2	2
Settlement costs	(13)	14	1	(46)	53	7
Interest cost on pension plan liabilities	—	(93)	(93)	—	(102)	(102)
Interest income on pension plan assets	78	—	78	88	—	88
Benefits paid out <sup>2</sup>	(175)	175	—	(196)	196	—
Actuarial gains/(losses) <sup>3</sup>	157	(262)	(105)	(67)	10	(57)
Exchange rate adjustment	(295)	314	19	(114)	127	13
Deficit at 31 December	2,260	(2,755)	(495)	2,409	(2,831)	(422)

1. Includes employee contributions of \$1 million (2015: \$1 million)

2. Includes administrative expenses paid out of plan assets of \$1 million (2015: \$1 million)

3. Actuarial (loss)/gain on obligation comprises \$284 million loss (2015: \$42 million gain) from financial assumption changes, \$8 million gain (2015: \$5 million gain) from demographic assumption changes and \$14 million gain (2015: \$37 million loss) from experience

## 30. SHARE-BASED PAYMENTS

### Accounting policy

The Group operates equity-settled and cash-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For deferred share awards granted as part of an annual performance award, the expense is recognised over the period from the start of the performance period to the vesting date. For example, the expense for awards granted in 2016 in respect of 2015 performance, which vest in 2017-2019, is recognised as an expense over the period from 1 January 2015 to the vesting dates in 2017-2019. For all other awards, the expense is recognised over the period from the date of grant to the vesting date.

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options at the date of grant, which excludes the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the income statement at the time of cancellation. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. Cash-settled awards are revalued at each balance sheet date and a liability recognised on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in the income statement until the awards are exercised. Where forfeitures occur prior to vesting that are attributable to factors other than a failure to satisfy market-based performance conditions, the cumulative charge incurred up to the date of forfeiture is credited to the income statement. The Company records the value of the equity-settled awards as a deemed investment in subsidiaries. Any revaluation related to cash-settled awards is recorded as an amount due from subsidiary undertakings.

The Group operates a number of share-based arrangements for its executive directors and employees. Details of the share-based payment charge are set out below.

	2016 <sup>1</sup>			2015 <sup>1</sup>		
	Cash \$million	Equity \$million	Total \$million	Cash <sup>2</sup> \$million	Equity \$million	Total \$million
Deferred share awards	8	26	34	(18)	119	101
Other share awards	5	61	66	(5)	50	45
Total share-based payments	13	87	100	(23)	169	146

1. No forfeiture assumed

2. The credit charge for cash settled awards in 2015 reflects a reduction in expected liability in line with the movement in share price

### 2011 Standard Chartered Share Plan (the '2011 Plan')

The 2011 Plan was approved by shareholders in May 2011 and is the Group's main share plan. Since approval, it has been used to deliver various types of share awards:

- Long Term Incentive Plan (LTIP) awards: granted with vesting subject to performance measures. Performance measures attached to awards granted previously include: total shareholder return (TSR); return on equity (RoE) with a common equity tier 1 (CET1) underpin; strategic measures; earnings per share (EPS) growth; and return on risk-weighted assets (RoRWA). Each measure is assessed independently over a three-year period. Awards granted from 2016 have an individual conduct gateway that results in the award lapsing if not met
- Deferred awards are used to deliver the deferred portion of variable remuneration, in line with both market practice and regulatory requirements. These awards vest in instalments on anniversaries of the award date specified at the time of grant. Deferred awards are not subject to any plan limit. This enables the Group to meet regulatory requirements relating to deferral levels, and is in line with market practice
- Restricted share awards, made outside of the annual performance process as replacement buy-out awards to new joiners who forfeit awards on leaving their previous employers, vest in instalments on the anniversaries of the award date specified at the time of grant. This enables the Group to meet regulatory requirements relating to buy-outs, and is in line with market practice. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance measures
- Underpin shares are subject to a combination of two performance measures: EPS growth and return on RoRWA. The weighting between the two elements is split equally, one-half of the award depending on each measure, assessed independently. These awards vest after three or five years. Underpin shares formed part of the variable remuneration awarded to executive directors and senior management in respect of 2014 performance

Under the 2011 Plan, no grant price is payable to receive an award. The remaining life of the 2011 Plan during which new awards can be made is four years.

**30. SHARE-BASED PAYMENTS** continued**Valuation – LTIP awards**

The vesting of awards granted in 2016 is subject to the satisfaction of RoE (subject to a capital underpin) and relative TSR performance measures and achievement of a strategic scorecard. The fair value of the TSR component is calculated using the probability of meeting the measures over a three-year performance period, using a Monte Carlo simulation model. The number of shares expected to vest is evaluated at each reporting date, based on the expected performance against the RoE and strategic measures in the scorecard, to determine the accounting charge.

The vesting of awards granted in 2015 is subject to the satisfaction of EPS growth, RoRWA and relative TSR performance measures. The fair value of the TSR component was derived by the probability of meeting the condition over a three-year performance period, calculated by the area under the TSR vesting schedule curve. The number of shares expected to vest based on the performance of the EPS growth and RoRWA conditions is assessed at each reporting date to determine the accounting charge. Dividend equivalents accrue on these awards during the vesting period, so no discount is applied.

	2016			2015
	15 June	4 May	11 March	19 March
Grant date				
Share price at grant date (£)	<b>5.05</b>	<b>5.08</b>	<b>4.68</b>	10.51
Vesting period (years)	<b>3</b>	<b>3, 3-7</b>	<b>3</b>	5
Expected dividend yield (%)	N/A	N/A	N/A	N/A <sup>1</sup>
Fair value (RoE) (£)	<b>1.68</b>	<b>1.69, 1.69</b>	<b>1.56</b>	
Fair value (TSR) (£)	<b>1.24</b>	<b>1.25, 1.12</b>	<b>1.15</b>	1.08
Fair value (Strategic) (£)	<b>1.68</b>	<b>1.69, 1.69</b>	<b>1.56</b>	
Fair value (EPS) (£)				2.65
Fair value (RoRWA) (£)				2.65

1. The expected dividend yield for the PSA 2015 (grant date 19 March) has been amended to N/A as dividend equivalents were accrued

**Valuation – deferred shares and restricted shares**

The fair value for all employees is based on 100 per cent of the face value of the shares at the date of grant as the share price will reflect expectations of all future dividends.

Deferred shares and underpin shares accrue dividend equivalent payments during the vesting period. The expected dividend yield assumption is based on a historical average over a period commensurate with this 'average' period until vesting, or over one year if the average period until vesting is less than one year.

Details of deferred, underpin and LTIP awards for executive directors can be found in the Directors' remuneration report.

**Deferred share awards<sup>1</sup>**

	2016					2015	
	30 November	4 October	15 June	4 May	11 March	17 June	19 March
Grant date							
Share price at grant date (£)	<b>6.41</b>	<b>6.50</b>	<b>5.05</b>	<b>5.08</b>	<b>4.68</b>	10.28	10.51
Vesting period	Fair value (£)						
1-3 years	<b>6.41</b>	<b>6.50</b>	<b>5.05</b>	<b>5.08</b>	<b>4.68</b>	10.28	10.51
3 year	–	–	–	–	–	–	10.51
1-5 years	–	–	–	–	–	10.28	10.51
5 year	–	–	–	–	–	–	10.51

1. Deferred shares include 88,024 underpin shares, granted on 19 March 2015, with three- and five-year cliff vesting. Valuation as per deferred shares granted on the same date

### 30. SHARE-BASED PAYMENTS continued

#### Other restricted share awards

Grant date	2016							
	30 November		4 October		15 June		4 May	
Share price at grant date (£)	6.41	6.50		5.05		5.08		4.68
Vesting period	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
1 year	—	6.41	—	6.50	—	—	—	—
2 year	2.4	6.11	2.4	6.20	—	—	—	—
2-3 years	2.5	6.03	2.5	6.11	3.6	4.62	3.6	4.65
3 year	3.0	5.87	3.0	5.95	—	—	3.4	4.60
2-4 years	—	—	—	—	—	—	3.8	4.65
1-4 years	—	—	—	—	—	—	—	3.5
4 year	—	—	3.1	5.76	—	—	3.4	4.44

Grant date	2015				
	1 December		22 September		17 June
Share price at grant date (£)	5.57	6.73		10.28	10.51
Vesting period	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)
2-3 years	6.4	4.77	6.4	5.77	7.0
2-4 years	—	—	6.4	5.77	—
1-4 years	—	—	6.4	5.77	—

#### 2001 Performance Share Plan ('2001 PSP') – now closed to new grants

The Group's previous plan for delivering performance shares was the 2001 PSP and there remain outstanding vested awards. Under the 2001 PSP half the award was dependent upon TSR performance and the balance was subject to a target of defined EPS growth. Both measures used the same three-year period and were assessed independently.

#### 2006 Restricted Share Scheme ('2006 RSS')/2007 Supplementary Restricted Share Scheme ('2007 SRSS')

The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There remain outstanding vested awards under these plans. Awards were generally in the form of nil cost options and did not have any performance measures. Generally deferred restricted share awards vested equally over three years and for non-deferred awards half vested two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

#### All Employee Sharesave Plans (comprised of the '2004 International Sharesave Plan', the '2004 UK Sharesave Plan' and the '2013 Sharesave Plan')

Under the All Employee Sharesave Plans, employees may open a savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation (this is known as the 'option exercise price'). There are no performance measures attached to options granted under the All Employee Sharesave Plans and no grant price is payable to receive an option. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent cash-based plan to its employees. The 2004 International Sharesave and the 2004 UK Sharesave plans are now closed and no further awards will be granted under these plans.

The 2013 Sharesave Plan was approved by shareholders in May 2013 and all future Sharesave invitations are made under this plan. The remaining life of the 2013 Sharesave Plan is six years.

#### Valuation – Sharesave

Options under the Sharesave plans are valued using a binomial option-pricing model. The same fair value is applied to all employees including executive directors. The fair value per option granted and the assumptions used in the calculation are as follows:

#### All Employee Sharesave Plan (Sharesave)

Grant date	2016		2015
	4 October	7 October	
Share price at grant date (£)	6.50	7.41	
Exercise price (£) <sup>1</sup>	5.30	5.86	
Vesting period (years)	3	3	
Expected volatility (%)	34.2	28.0	
Expected option life (years)	3.33	3.33	
Risk-free rate (%)	0.13	0.9	
Expected dividend yield (%)	3.04	6.3	
Fair value (£)	1.71	1.40	

1. For Sharesave granted in 2015 the exercise prices have been adjusted downwards to reflect the rights issue by approximately 5.06 per cent (the adjusted exercise price is £5.58 for 2015).

**30. SHARE-BASED PAYMENTS** continued

The expected volatility is based on historical volatility over the last three years, or three years prior to grant. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. The expected dividend yield is based on historical dividend for three years prior to grant.

**Reconciliation of option movements for the year to 31 December 2016**

	2011 Plan <sup>1</sup>						Weighted average exercise price (£)
	Performance shares	Deferred/restricted shares	PSP <sup>1</sup>	RSS <sup>1</sup>	SRSS <sup>1</sup>	Sharesave	
Outstanding as at 1 January	9,658,733	23,108,554	103,768	1,150,866	140,110	15,341,808	7.87
Granted <sup>2</sup>	25,319,833 <sup>3</sup>	8,457,559 <sup>4</sup>	–	–	–	3,801,733	5.30
Lapsed	(6,074,460)	(1,585,856)	(14,007)	(121,803)	(348)	(5,851,915)	8.83
Exercised	(163,492)	(5,771,269)	(12,784)	(327,460)	(59,463)	(365)	5.67
Outstanding as at 31 December	28,740,614	24,208,988	76,977	701,603	80,299	13,291,261	6.72
Exercisable as at 31 December	145,928	5,745,431	76,977	701,603	80,299	1,484,146	10.98
Range of exercise prices (£) <sup>2</sup>	–	–	–	–	–	5.30–11.21	–
Intrinsic value of vested but not exercised options (\$million)	0.1	3.6	0.1	0.4	0.1	0.0	–
Weighted average contractual remaining life (years)	8.88	8.15	2.02	0.90	0.45	2.31	–
Weighted average share price for options exercised during the period (£)	4.89	5.21	6.23	5.49	6.02	5.85	–

1. Employees do not contribute towards the cost of these awards

2. For Sharesave granted in 2016 the exercise price is £5.30 per share, which was the average of the closing prices over the five days to the invitation date of 5 September. The closing share price on 2 September 2016 was £6.614

3. 23,437,968 granted on 11 March 2016, 922 (notional dividend) granted on 19 March 2016, 1,810,435 granted on 4 May 2016, 70,508 granted on 15 June 2016

4. 7,134,374 granted on 11 March 2016, 34,643 (notional dividend) granted on 11 March 2016, 52,514 (notional dividend) granted on 13 March 2016, 94,242 (notional dividend) granted on 19 March 2016, 600,413 granted on 4 May 2016, 21,991 granted on 15 June 2016, 187 (notional dividend) granted on 17 June 2016, 35 (notional dividend) granted on 18 June 2016, 14 (notional dividend) granted on 19 June 2016, 434,555 granted on 4 October 2016, and 84,591 granted on 30 November 2016

**Reconciliation of option movements for the year to 31 December 2015**

	2011 Plan <sup>1</sup>						Weighted average exercise price (£)
	Performance shares	Deferred/restricted shares	PSP <sup>1</sup>	RSS <sup>1</sup>	SRSS <sup>1</sup>	Sharesave	
Outstanding as at 1 January	14,277,137	18,235,300	249,645	2,245,347	663,148	14,017,543	10.91
Granted <sup>2</sup>	83,787 <sup>4</sup>	11,654,081 <sup>5</sup>	–	–	–	7,744,134	5.86
Additional shares for rights issue <sup>3</sup>	466,018	1,114,589	4,986	55,669	6,761	782,130	–
Lapsed	(4,696,340)	(840,478)	(78,787)	(472,152)	(386,668)	(6,979,307)	10.74
Exercised	(471,869)	(7,054,938)	(72,076)	(677,998)	(143,131)	(222,692)	10.66
Outstanding as at 31 December	9,658,733	23,108,554	103,768	1,150,866	140,110	15,341,808	7.87
Exercisable as at 31 December	324,373	3,475,711	103,768	1,150,866	140,110	1,685,205	11.31
Range of exercise prices (£) <sup>2</sup>	–	–	–	–	–	5.58–13.93	–
Intrinsic value of vested but not exercised options (\$million)	0.1	1.7	0.2	0.5	0.1	–	–
Weighted average contractual remaining life (years)	7.7	5.4	2.6	1.6	1.4	2.6	–
Weighted average share price for options exercised during the period (£)	10.02	9.78	9.13	9.66	10.00	10.82	–

1. Employees do not contribute towards the cost of these awards

2. For Sharesave granted in 2015 the exercise price has been adjusted downwards to reflect the rights issue by approximately 5.06 per cent (the adjusted exercise price is £5.58)

3. For grants awarded prior to the announcement of the rights issue and which had not been exercised or lapsed as of 23 November 2015, the number of shares under award has been adjusted upwards to reflect the rights issue by approximately 5.06 per cent. The adjustment follows the standard approach that companies apply to employee share awards in the event of a rights issue. The adjustment compensates participants for their inability to participate in the rights issue in relation to their outstanding employee share awards

4. 83,787 granted on 19 March 2015

5. 9,426,009 granted on 19 March 2015, 781,538 (notional dividend) granted on 13 March 2015, 140,722 granted on 17 June 2015, 2,572 (notional dividend) granted on 18 June 2015, 261 (notional dividend) granted on 19 September 2015, 1,215,196 granted on 22 September 2015, and 87,783 granted on 1 December 2015

## 31. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS, JOINT VENTURES AND ASSOCIATES

### Accounting policy

#### Subsidiaries

Subsidiaries are all entities, including structured entities, which the Group controls. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The assessment of power is based on the Group's practical ability to direct the relevant activities of the entity unilaterally for the Group's own benefit and is subject to reassessment if and when one or more of the elements of control change. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are deconsolidated from the date that control ceases, and where any interest in the subsidiary remains, this is re-measured to its fair value and the change in carrying amount is recognised in the income statement.

#### Associates and joint arrangements

Joint arrangements are where two or more parties either have rights to the assets, and obligations of the joint arrangement (joint operations), or have rights to the net assets of the joint arrangement (joint venture). The Group evaluates the contractual terms of joint arrangements to determine whether a joint arrangement is a joint operation or a joint venture. As at 31 December 2016, 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.

### Significant accounting estimates and judgements

Impairment testing of investments in associates and joint arrangements is based on judgements including the basis of assumptions and forecasts used for estimating the expected cash flows from the investments and in the calculations of the present values of those cash flows. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgement.

#### Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill (see note 17 for details on goodwill recognised by the Group). If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the income statement.

Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, adjustments arising from their subsequent finalisation are not reflected in the income statement if (i) they arise within 12 months of the acquisition date (or relate to acquisitions completed before 1 January 2014) and (ii) the adjustments arise from better information about conditions existing at the acquisition date (measurement period adjustments). Such adjustments are applied as at the date of acquisition and, if applicable, prior year amounts are restated. All changes that are not measurement period adjustments are reported in income other than changes in contingent consideration not classified as financial instruments, which are accounted for in accordance with the appropriate accounting policy, and changes in contingent consideration classified as equity, which is not re-measured.

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 re-measured at the acquisition date fair value with the resulting gain or loss recognised in the income statement.

In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received prior to 1 January 2009, if any. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group accounts.

#### Investment in subsidiary undertakings

	2016 \$million	2015 \$million
As at 1 January	28,381	24,881
Additions	5,500	3,500
Disposal	(28)	-
As at 31 December	<b>33,853</b>	28,381

**31. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS, JOINT VENTURES AND ASSOCIATES** continued

At 31 December 2016, 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	The UK, 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	74.30
Standard Chartered Private Equity Limited, Hong Kong	Hong Kong	100

A complete list of subsidiary undertakings is included in note 39.

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 \$103 million (2015: \$95 million) in Standard Chartered Bank Kenya Limited. This country contributes 3.9 per cent of the Group's operating profit and 0.4 per cent of the Group's assets.

Whilst the Group's subsidiaries are subject to local statutory capital and liquidity requirements in relation to foreign exchange remittance, these restrictions arise in the normal course of business and do not significantly restrict the Group's ability to access or use assets and settle liabilities of the Group.

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory framework within which the banking subsidiaries operate. These frameworks require banking operations to keep certain levels of regulatory capital, liquid assets, exposure limits and comply with other required ratios. These restrictions are summarised as follows:

- **Regulatory and liquidity requirements:** The Group's subsidiaries are required to maintain minimum capital, leverage ratios, liquidity and exposure ratios which therefore restrict the ability of these subsidiaries to distribute cash or other assets to the parent company.

The subsidiaries are also required to maintain balances with central banks and other regulatory authorities in the countries in which they operate. At 31 December 2016, the total cash and balances with central bank was \$71 billion (2015: \$65 billion) of which \$9 billion (2015: \$9 billion) is restricted. See liquid asset disclosure on page 176.

- **Statutory requirements:** The Group's subsidiaries are subject to statutory requirements not to make distributions of capital and unrealised profits to the parent company, generally to maintain solvency. These requirements restrict the ability of subsidiaries to remit dividends to the Group. Certain subsidiaries are also subject to local exchange control regulations which provide for restrictions on exporting capital from the country other than through normal dividends

**Contractual requirements:** The encumbered assets in the balance sheet of the Group's subsidiaries are not available for transfer around the Group. Encumbered assets are disclosed on page 177. In addition the securitised assets disclosed in note 16 have legal restrictions.

**Interests in joint ventures**

	PT Bank Permata Tbk and Others	
	2016 \$million	2015 \$million
As at 1 January	679	751
Exchange translation difference	13	(74)
Additions	238	–
Share of (loss)/profit	(215)	9
Dividends received	–	(6)
Share of AFS and other reserves	(2)	(1)
As at 31 December	713	679

The Group's principal joint venture is PT Bank Permata Tbk (Permata). The Group has a 44.56 per cent (2015: 44.56 per cent) interest through a (joint venture) company which holds a majority investment in Permata. Permata provides financial services to the consumer and commercial segment in Indonesia. The Group's share of (loss)/profit of Permata amounts to \$(215) million (2015: \$9 million) and the Group share of net assets was \$705 million (2015: \$672 million). On 16 February 2017 Permata announced plans for a IDR3 trillion (approximately \$225 million) rights issue to drive growth. The Group is committed to participating in this capital raising and its share would be approximately \$100 million. In December 2016 the Group made a capital advance to Permata of approximately \$50 million and this is expected to be utilised in the 2017 rights issue.

### 31. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS, JOINT VENTURES AND ASSOCIATES continued

The following table sets out the summarised financial statements of Permata Tbk prior to the Group's share of joint ventures being applied:

	2016 \$million	2015 \$million
Current assets	6,484	8,918
Non-current assets	5,697	4,183
Current liabilities	(9,896)	(10,739)
Non-current liabilities	(963)	(1,107)
Net assets	1,322	1,255
Operating income	608	623
Of which:		
Interest income	1,083	1,205
Interest expense	(641)	(742)
Expenses	(329)	(573)
Impairment	(923)	(25)
Operating profit	(644)	25
Taxation	161	(5)
(Loss)/profit after tax	(483)	20
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	1,964	1,814
Other comprehensive (loss) for the year	(4)	-
Total comprehensive (loss)/income for the year	(487)	20
Dividends received from the joint venture during the year	-	(6)

In December 2016 Permata established a portfolio of non-performing loans that are beyond its risk appetite which are to be liquidated. This resulted in an incremental impairment of \$140 million, representing the difference between the carrying amount of the liquidation portfolio on a hold to collect basis and the amount expected to be realised upon liquidation. This is consistent with the Group's restructuring actions. Accordingly, the Group has recorded its \$62 million share of this incremental impairment as restructuring and it has been normalised from the underlying results of the Group.

Non-current 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 Permata Tbk recognised in the consolidated financial statements:

	2016 \$million	2015 \$million
Net assets of PT Bank Permata Tbk	1,322	1,255
Proportion of the Group's ownership interest in joint ventures	589	559
Notional goodwill	116	113
Carrying amount of the Group's interest in PT Bank Permata Tbk	705	672

#### Interests in associates

	China Bohai Bank		Asia Commercial Bank (ACB) <sup>1</sup>		Other		Total	
	2016 \$million	2015 \$million	2016 \$million	2015 \$million	2016 \$million	2015 \$million	2016 \$million	2015 \$million
As at 1 January	1,099	987	125	174	34	50	1,258	1,211
Exchange translation differences	(75)	(63)	-	(4)	(1)	-	(76)	(67)
Additions	-	-	-	-	-	-	-	-
Share of profits	167	173	8	7	3	3	178	183
Disposals	-	-	-	-	-	(18)	-	(18)
Dividends received	-	-	-	(5)	(3)	(1)	(3)	(6)
Share of other reserves	(9)	2	-	(1)	-	-	(9)	1
Impairment	-	-	-	(46)	-	-	-	(46)
Transferred to assets held for sale	-	-	(133)	-	1	-	(132)	-
As at 31 December	1,182	1,099	-	125	34	34	1,216	1,258

1. Transferred to assets held for sale

A complete list of the Group's interest in associates is included in note 39. The Group's principal associate is:

Associate	Nature of activities	Main areas of operation	Group interest in ordinary share capital %
China Bohai Bank	Banking Operations	China	19.99

**31. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS, JOINT VENTURES AND ASSOCIATES** continued

The Group's investment in China Bohai Bank is less than 20 per cent but is considered to be an associate because of the significant influence the Group is able to exercise over the management and financial and operating policies. Significant influence is evidenced largely through the interchange of management personnel and the provision of expertise. The Group applies the equity method of accounting for investments in associates. The reporting date (30 November 2016) of this associate is within three months of the Group's reporting date. The following table sets out the summarised financial statements of China Bohai Bank prior to the Group's share of the associates being applied:

	China Bohai Bank	
	30 Nov 2016 \$million	30 Nov 2015 \$million
Current assets	<b>39,799</b>	37,947
Non-current assets	<b>86,568</b>	85,877
Current liabilities	<b>(71,453)</b>	(96,282)
Non-current liabilities	<b>(49,001)</b>	(22,047)
Net assets	<b>5,913</b>	5,495
Operating income	<b>3,221</b>	2,968
Of which:		
Interest income	<b>5,763</b>	6,468
Interest expense	<b>(3,432)</b>	(4,023)
Expenses	<b>(1,208)</b>	(1,110)
Impairment	<b>(994)</b>	(776)
Operating profit	<b>1,019</b>	1,082
Taxation	<b>(182)</b>	(221)
Profit after tax	<b>837</b>	861
The above amounts of assets and liabilities include the following:		
Other comprehensive (loss)/income for the year	<b>(43)</b>	9
Total comprehensive income for the year	<b>794</b>	870

Non-current assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

**32. STRUCTURED ENTITIES****Accounting policy**

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Contractual arrangements determine the rights and therefore relevant activities of the Structured entity. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their activities. Structured entities are consolidated when the substance of the relationship between the Group and the structured entity indicates the Group has power over the contractual relevant activities of the structured entity, is exposed to variable returns, and can use that power to affect the variable return exposure.

In determining whether to consolidate a structured entity the Group takes into account its ability to direct the relevant activities of the structured entity. Control over relevant activities is generally evidenced through a unilateral right to liquidate the structured entity, investment in a substantial proportion of the securities issued by the structured entity or where the Group holds specific subordinated securities that embody certain controlling rights. The Group may further consider relevant activities embedded within contractual arrangements such as call options which give the practical ability to direct the entity, special relationships between the structured entity and investors, and if a single investor has a large exposure to variable returns of the structured entity.

**Significant accounting judgements**

Significant judgement is required in determining control over Structured entities. The purpose and design of the entity is considered, along with a determination of what the relevant activities are of the entity and who directs these. Further judgements are made around which investor is exposed to, and absorbs the variable returns of the Structured entity. The Group will have to weigh up all of these facts to consider whether the Group, or another involved party is acting as a principal in its own right or as an agent on behalf of others. Judgement is further required in the ongoing assessment of control over structured entities, specifically if market conditions have an effect on the variable return exposure of different investors.

The Group has involvement with both consolidated and unconsolidated structured entities, which may be established by the Group as a sponsor or by a third party, as detailed on the page opposite.

## 32. STRUCTURED ENTITIES continued

**Interests in consolidated structured entities:** A structured entity is consolidated into the Group's financial statements where the Group controls the structured entity, as per the determination in the accounting policy above.

The following table presents the Group's interests in consolidated structured entities.

	2016 Total assets \$million	2015 Total assets \$million
Securitisation <sup>1</sup>	21	76
Aircraft and ship leasing	5,623	5,514
Structured finance	1,512	1,377
Total	<b>7,156</b>	6,967

1. The amortisation charge for the year is recognised in the income statement within note 3

**Interests in unconsolidated structured entities:** unconsolidated structured entities are all structured entities that are not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities. An interest in a structured entity is contractual or non-contractual involvement which creates variability of the returns of the Group arising from the performance of the structured entity.

The table below presents the carrying amount of the assets and liabilities recognised in the financial statements relating to variable interests held in unconsolidated structured entities, the maximum exposure to loss relating to those interests and the total assets of the structured entities. Maximum exposure to loss is primarily limited to the carrying amount of the Group's on-balance sheet exposure to the structured entity. For derivatives, the maximum exposure to loss represents the on-balance sheet valuation and not the notional amount. For commitments and guarantees, the maximum exposure to loss is the notional amount of potential future losses.

	2016				2015 <sup>1</sup>			
	Principal finance funds \$million	Structured finance \$million	Asset- backed securities \$million	Total \$million	Principal finance funds \$million	Structured finance \$million	Asset- backed securities \$million	Total \$million
<b>Group's interest – assets</b>								
Financial assets held at fair value through profit or loss	515	–	172	687	483	–	97	580
Investment securities – Debt securities (AFS)	54	–	4,331	4,385	73	–	6,480	6,553
Investment securities – Debt securities (loans and receivables)	624	–	1,489	2,113	1,547	–	1,156	2,703
Other assets	12	–	–	12	6	297	–	303
<b>Total assets</b>	<b>1,205</b>	–	<b>5,992</b>	<b>7,197</b>	2,109	297	7,733	10,139
<b>Group's interests – liabilities</b>								
Customer accounts	–	1,193	8	1,201	–	900	42	942
Debt securities in issue	–	–	929	929	–	–	1,304	1,304
Other liabilities	–	–	–	–	–	290	–	290
<b>Total liabilities</b>	<b>–</b>	<b>1,193</b>	<b>937</b>	<b>2,130</b>	–	1,190	1,346	2,536
<b>Off balance sheet</b>								
Capital commitment	422	353	82	857	153	46	270	469
<b>Group's maximum exposure to loss</b>	<b>1,627</b>	<b>353</b>	<b>6,074</b>	<b>8,054</b>	2,262	343	8,003	10,608
<b>Total assets of structured entities</b>	<b>4,967</b>	<b>5,038</b>	<b>316,324</b>	<b>326,329</b>	4,804	4,094	539,976	548,874

1. Principal Finance balances for 2015 have been restated to include further structured entities identified increasing the Group's total interest in assets from \$8.6 billion to \$10.1 billion, and reclassify certain entities as structured finance and asset-backed securities. Total assets of structured entities has been restated from \$668.4 billion to \$548.9 billion arising from a currency translation adjustment. These changes only affect this disclosure and do not adjust the Group's reported balance sheet

## 32. STRUCTURED ENTITIES continued

The main types of activities for which the Group utilises unconsolidated structured entities cover synthetic credit default swaps for managed investment funds (including specialised principal finance funds), portfolio management purposes, structured finance and asset backed securities. These are detailed as follows:

- **Principal finance fund:** the Group's exposure to Principal Finance funds represents committed or invested capital in unleveraged investment funds, primarily investing in pan-Asian infrastructure, real estate and private equity
- **Portfolio management:** for the purposes of portfolio management, the Group purchased credit protection via synthetic credit default swaps from note-issuing structured entities. The referenced assets remain on the Group's balance sheet as they are not assigned to these structured entities. The Group continues to own or hold all of the risks and returns relating to these assets. The credit protection obtained from the regulatory-compliant securitisation only serves to protect the Group against losses upon the occurrence of eligible credit events and the underlying assets are not de-recognised from the Group balance sheet. The Group does not hold any equity interests in the structured entities, but may hold an insignificant amount of the issued notes for market making purposes. This is disclosed in the ABS section below. The proceeds of the notes' issuance are typically held as cash collateral in Issuer's account operated by a Trustee or invested in AAA-rated Government-backed securities to collateralise the structured entities swap obligations to the Group, and to repay the principal to investors at maturity. The structured entities reimburse the Group on actual losses incurred, through the use of the cash collateral or realisation of the collateral security. Correspondingly, the structured entities write down the notes issued by an equal amount of the losses incurred, in reverse order of seniority. All funding is committed for the life of these vehicles and the Group has no indirect exposure in respect of the vehicles' liquidity position. The Group has reputational risk in respect of certain portfolio management vehicles and investment funds either because the Group is the arranger and lead manager or because the structured entities have Standard Chartered branding
- **Structured finance:** structured finance comprises interests in transactions that the Group or, more usually, a customer has structured, using one or more structured entities, which provide beneficial arrangements for customers. The Group's exposure primarily represents the provision of funding to these structures as a financial intermediary, for which it receives a lender's return. The transactions largely relate to the provision of aircraft leasing and ship finance
- **Asset backed securities:** the Group also has investments in asset backed securities issued by third-party structured entities as set out on page 169 of the Risk review and Capital review. For the purpose of market marking and at the discretion of the ABS trading desk, the Group may hold an immaterial amount of debt securities (\$2.5 million at year end) from structured entities originated by Credit portfolio management. This is disclosed in the ABS column above

## 33. CASH FLOW STATEMENT

### Adjustment for non-cash items and other adjustments included within income statement

	Group		Company	
	2016 \$million	2015 \$million	2016 \$million	2015 \$million
Amortisation of discounts and premiums of investment securities	(265)	(241)	—	—
Interest expense on subordinated liabilities	835	565	604	428
Interest expense on senior debt securities in issue	367	436	238	308
Other non-cash items	9	304	65	(9)
Pension costs for defined benefit schemes	85	96	—	—
Share-based payment costs	100	146	—	—
Impairment losses on loans and advances and other credit risk provisions	2,791	4,976	—	—
Dividend income from subsidiaries	—	—	(204)	(973)
Other impairment	612	855	—	—
Loss on business classified as held for sale	44	4	—	—
Loss/(profit) from associates and joint ventures	37	(192)	—	—
Total	4,615	6,949	703	(246)

### Change in operating assets

	Group		Company	
	2016 \$million	2015 \$million	2016 \$million	2015 \$million
(Increase)/decrease in derivative financial instruments	(2,692)	730	110	226
Decrease in debt securities, treasury bills and equity shares held at fair value through profit or loss	718	9,575	—	—
(Increase)/decrease in loans and advances to banks and customers	(3,626)	20,979	—	—
Net (increase)/decrease in pre-payments and accrued income	(98)	383	—	—
Net (increase)/decrease in other assets	(2,588)	5,145	—	(17)
Total	(8,286)	36,812	110	209

### 33. CASH FLOW STATEMENT continued

#### Change in operating liabilities

	Group		Company	
	2016 \$million	2015 \$million	2016 \$million	2015 \$million
Increase/(decrease) in derivative financial instruments	4,110	(304)	103	961
Net increase/(decrease) in deposits from banks, customer accounts, debt securities in issue, Hong Kong notes in circulation and short positions	9,219	(69,958)	(240)	(585)
(Decrease)/increase in accruals and deferred income	(139)	(198)	18	(18)
Net (decrease)/increase in other liabilities	(110)	216	(500)	(415)
Total	13,080	(70,244)	(619)	(57)

### 34. CASH AND CASH EQUIVALENTS

#### Accounting policy

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, on demand and overnight balances with central banks (unless restricted) and balances with less than three months' maturity from the date of acquisition, including treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

	Group		Company	
	2016 \$million	2015 \$million	2016 \$million	2015 \$million
Cash and balances at central banks	70,706	65,312	—	—
Less: restricted balances	(8,648)	(9,112)	—	—
Treasury bills	9,163	10,280	—	—
Loans and advances to banks	23,109	18,946	—	—
Trading securities	2,647	3,002	—	—
Amounts owed by and due to subsidiary undertakings	—	—	15,230	20,517
Total	96,977	88,428	15,230	20,517

Restricted balances comprise minimum balances required to be held at central banks.

### 35. RELATED PARTY TRANSACTIONS

#### Directors and officers

Details of directors' remuneration and interests in shares are disclosed in the Directors' remuneration report.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises non-executive directors, executive directors of Standard Chartered PLC, the Court Directors of Standard Chartered Bank and the Persons Discharging Managerial Responsibilities (PDMR) of Standard Chartered PLC.

	2016 \$million	2015 \$million
Salaries, allowances and benefits in kind	37	42
Pension contributions	—	3
Share-based payments	34	40
Bonuses paid or receivable	5	—
	76	85

#### Transactions with directors and others

At 31 December 2016, 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:

	2016		2015	
	Number	\$million	Number	\$million
Directors	2	—	1	—

The loan transaction provided to the director of Standard Chartered PLC was a connected transaction under Chapter 14A of the HK Listing Rule. It was fully exempt as financial assistance under Rule 14A.87(1), as it was provided in our ordinary and usual course of business and on normal commercial terms.

As at 31 December 2016, Standard Chartered Bank had created a charge over \$68 million (2015: \$74 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.

**35. RELATED PARTY TRANSACTIONS** continued**Company**

The Company has received \$751 million (2015: \$627 million) of interest income from Standard Chartered Bank. The Company issues debt externally and lends proceeds to Group companies. At 31 December 2016, it had loans to and debt instruments issued by Standard Chartered Bank of \$11,625 million (2015: \$16,209 million), derivative financial assets of \$529 million (2015: \$639 million) and \$1,541 million derivative financial liabilities (2015: \$1,438 million) with Standard Chartered Bank, loans of \$80 million (2015: \$130 million) to Standard Chartered Holdings Limited. At 31 December 2016, it had loans to Standard Chartered International Holdings of \$1,054 million (2015: \$1,801 million).

The Company has an agreement with Standard Chartered Bank that in the event of Standard Chartered Bank defaulting on its debt coupon interest payments, where the terms of such debt requires it, the Company shall issue shares as settlement for non-payment of the coupon interest.

**Associate and joint ventures**

	2016			2015		
	China Bohai Bank \$million	Clifford Capital \$million	PT Bank Permata \$million	China Bohai Bank \$million	Clifford Capital \$million	PT Bank Permata \$million
<b>Assets</b>						
Loans and advances	–	40	90	11	–	69
Debt securities	–	27	–	–	–	112
Derivative assets	–	–	–	18	6	–
<b>Total assets</b>	<b>–</b>	<b>67</b>	<b>90</b>	29	6	181
<b>Liabilities</b>						
Deposits	7	–	29	70	–	16
Debt securities issued	14	–	–	–	–	–
Derivative liabilities	–	–	–	3	–	–
<b>Total liabilities</b>	<b>21</b>	<b>–</b>	<b>29</b>	73	–	16
Loan commitments and other guarantees	–	10	–	–	50	–

**36. POST BALANCE SHEET EVENTS**

On 18 January 2017, Standard Chartered PLC issued \$1 billion 7.75 per cent fixed rate resetting perpetual subordinated contingent convertible securities with the first reset date being 2 April 2023.

**37. AUDITOR'S REMUNERATION**

Auditor's remuneration is included within other general administration expenses. The amounts paid by the Group to their principal auditor, KPMG LLP, and its associates (together KPMG) are set out below. All services are approved by the Group Audit Committee and are subject to controls to ensure the external auditor's independence is unaffected by the provision of other services.

	2016 \$million	2015 \$million
Audit fees for the Group statutory audit:		
Fees relating to the current year	4.0	3.9
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	10.1	10.9
Total audit and audit related fees	14.1	14.8
Other services pursuant to legislation	5.3	5.4
Tax services	0.4	0.4
Services relating to corporate finance transactions	0.7	2.1
All other services	0.9	0.9
<b>Total fees payable</b>	<b>21.4</b>	<b>23.6</b>

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG LLP for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered PLC. They exclude amounts payable for the audit of Standard Chartered PLC's subsidiaries and amounts payable to KPMG LLP's associates. These amounts have been included in fees payable to KPMG for other services provided to the Group
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings
- Tax services include tax compliance services and tax advisory services

### 37. AUDITOR'S REMUNERATION continued

- 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 debt issuances, acquisition due diligence and long-form reports
- All other services include other assurance and advisory services such as transaction services, ad hoc accounting advice and reviews of interim financial information

Expenses incurred during the provision of services and which have been reimbursed by the Group are included within auditor's remuneration.

### 38. STANDARD CHARTERED PLC (COMPANY)

#### Classification and measurement of financial instruments

	2016			2015		
	Derivatives held for hedging \$million	Amortised cost \$million	Total \$million	Derivatives held for hedging \$million	Amortised cost \$million	Total \$million
<b>Financial assets</b>						
Derivatives	<b>529</b>	–	<b>529</b>	639	–	639
Debt securities	–	<b>15,009</b>	<b>15,009</b>	–	12,309	12,309
Amounts owed by subsidiary undertakings	–	<b>15,230</b>	<b>15,230</b>	–	20,517	20,517
<b>Total</b>	<b>529</b>	<b>30,239</b>	<b>30,768</b>	639	32,826	33,465

Derivatives held for hedging are held at fair value and classified as Level 2 whilst the counterparty is Standard Chartered Bank.

Debt securities comprise corporate securities issued by Standard Chartered Bank with a fair value of \$15,009 million (2015: \$12,309 million).

In 2016 and 2015, amounts owed by subsidiary undertakings have a fair value equal to carrying value.

	2016			2015		
	Derivatives held for hedging \$million	Amortised cost \$million	Total \$million	Derivatives held for hedging \$million	Amortised cost \$million	Total \$million
<b>Financial liabilities</b>						
Derivatives	<b>1,541</b>	–	<b>1,541</b>	1,438	–	1,438
Debt securities in issue	–	<b>17,132</b>	<b>17,132</b>	–	17,293	17,293
Subordinated liabilities and other borrowed funds	–	<b>14,582</b>	<b>14,582</b>	–	13,736	13,736
<b>Total</b>	<b>1,541</b>	<b>31,714</b>	<b>33,255</b>	1,438	31,029	32,467

Derivatives held for hedging are held at fair value and classified as Level 2 whilst the counterparty is Standard Chartered Bank.

The fair value of debt securities in issue is \$17,132 million (2015: \$17,293 million).

The fair value of subordinated liabilities and other borrowed funds is \$13,970 million (2015: \$12,920 million).

#### Derivative financial instruments

	2016			2015		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
<b>Derivatives</b>						
<b>Foreign exchange derivative contracts:</b>						
Currency swaps	<b>7,998</b>	–	<b>1,333</b>	10,528	58	1,426
<b>Interest rate derivative contracts:</b>						
Swaps	<b>17,918</b>	<b>529</b>	<b>208</b>	14,748	581	12
<b>Total</b>	<b>25,916</b>	<b>529</b>	<b>1,541</b>	25,276	639	1,438

#### Credit risk

##### Maximum exposure to credit risk

	2016 \$million	2015 \$million
Derivative financial instruments	<b>529</b>	639
Debt securities	<b>15,009</b>	12,309
Amounts owed by subsidiary undertakings	<b>15,230</b>	20,517
<b>Total</b>	<b>30,768</b>	33,465

In 2016 and 2015, amounts owed by subsidiary undertakings were neither past due nor impaired; the Company had no individually impaired loans.

In 2016 and 2015, the Company had no impaired debt securities. The debt securities held by the Group are issued by Standard Chartered Bank, a wholly owned subsidiary undertaking with credit ratings of A+/A/Aa3.

**38. 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:

		2016								
		One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
<b>Assets</b>										
Derivative financial instruments	–	–	–	16	–	1	17	495	529	
Investment securities	–	–	–	1,250	1,600	–	1,698	10,461	15,009	
Amount owed by subsidiary undertakings	249	98	992	1,500	20	2,873	8,725	773	15,230	
Investments in subsidiary undertakings	–	–	–	–	–	–	–	33,853	33,853	
Total assets	249	98	992	2,766	1,620	2,874	10,440	45,582	64,621	
<b>Liabilities</b>										
Derivative financial instruments	–	–	–	–	240	1	323	977	1,541	
Senior debt	–	–	842	1,500	795	2,899	7,858	3,238	17,132	
Other liabilities	207	73	72	–	20	–	37	4	413	
Subordinated liabilities and other borrowed funds	–	–	–	1,250	–	–	2,250	11,082	14,582	
Total liabilities	207	73	914	2,750	1,055	2,900	10,468	15,301	33,668	
Net liquidity gap	42	25	78	16	565	(26)	(28)	30,281	30,953	
		2015								
		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
<b>Assets</b>										
Derivative financial instruments	–	–	13	–	–	19	20	587	639	
Investment securities	–	–	1,300	–	–	2,850	1,698	6,461	12,309	
Of which classified as:										
Amount owed by subsidiary undertakings	293	584	2,779	506	2,958	3,950	8,663	784	20,517	
Investments in subsidiary undertakings	–	–	–	–	–	–	–	28,381	28,381	
Total assets	293	584	4,092	506	2,958	6,819	10,381	36,213	61,846	
<b>Liabilities</b>										
Derivative financial instruments	–	–	–	–	339	242	384	473	1,438	
Senior debt	–	–	1,913	–	1,371	3,956	6,800	3,253	17,293	
Other liabilities	202	56	76	–	33	23	20	–	410	
Subordinated liabilities and other borrowed funds	–	–	–	–	–	1,247	1,420	11,069	13,736	
Total liabilities	202	56	1,989	–	1,743	5,468	8,624	14,795	32,877	
Net liquidity gap	91	528	2,103	506	1,215	1,351	1,757	21,418	28,969	

**38. STANDARD CHARTERED PLC (COMPANY) continued**
**Financial liabilities excluding derivative financial instruments on an undiscounted basis**

	2016								
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Debt securities in issue	9	14	912	1,546	1,022	2,930	8,479	4,596	19,508
Subordinated liabilities and other borrowed funds	25	28	19	207	24	575	1,726	21,136	23,740
Other liabilities	207	73	72	-	20	-	37	-	409
<b>Total liabilities</b>	<b>241</b>	<b>115</b>	<b>1,003</b>	<b>1,753</b>	<b>1,066</b>	<b>3,505</b>	<b>10,242</b>	<b>25,732</b>	<b>43,657</b>
	2015								
	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	70	21	1,999	46	1,537	4,259	7,421	4,317	19,670
Subordinated liabilities and other borrowed funds	150	57	79	207	83	1,822	3,146	17,429	22,973
Other liabilities	202	56	76	-	33	23	4	-	394
<b>Total liabilities</b>	<b>422</b>	<b>134</b>	<b>2,154</b>	<b>253</b>	<b>1,653</b>	<b>6,104</b>	<b>10,571</b>	<b>21,746</b>	<b>43,037</b>

**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.

	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
<b>2016</b>	<b>11</b>	<b>23</b>	<b>24</b>	<b>22</b>	<b>21</b>	<b>85</b>	<b>226</b>	<b>1,331</b>	<b>1,743</b>
<b>2015</b>	<b>59</b>	<b>25</b>	<b>94</b>	<b>102</b>	<b>108</b>	<b>424</b>	<b>1,218</b>	<b>2,338</b>	<b>4,368</b>

**39. RELATED UNDERTAKINGS OF THE GROUP**

As at 31 December 2016, the Group's interests in related undertakings is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of the Group. Note 31 details undertakings that have a significant contribution to the Group's net profit or net assets.

**Subsidiaries**

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom</i>			
BWA Dependents Limited	United Kingdom	£1.00 Ordinary shares	100
Chartered Financial Holdings Limited	United Kingdom	£5.00 Ordinary shares £1.00 Preference shares	100 100
FinVentures UK Limited	United Kingdom	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
SC (Secretaries) Limited	United Kingdom	£1.00 Ordinary shares	100
SC Leaseco Limited	United Kingdom	\$1.00 Ordinary shares	100
SC Overseas Investments Limited	United Kingdom	AUD1.00 Ordinary shares \$1.00 Ordinary shares	100 100
SC Transport Leasing 1 LTD	United Kingdom	£1.00 Ordinary shares	100
SC Transport Leasing 2 Limited	United Kingdom	£1.00 Ordinary shares	100
SCMB Overseas Limited	United Kingdom	£0.10 Ordinary shares	100
St. Helens Nominees Limited <sup>1</sup>	United Kingdom	£1.00 Ordinary shares	100
Stanchart Nominees Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered (GCT) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Africa Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered APR Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Bank	United Kingdom	\$0.01 Non-Cumulative Irredeemable Preference shares \$5.00 Non-Cumulative Redeemable Preference shares <sup>1</sup> \$1.00 Ordinary shares	100 100 100
Standard Chartered Debt Trading Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Health Trustee (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Holdings Limited <sup>1</sup>	United Kingdom	\$2.00 Ordinary shares	100
Standard Chartered I H Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Leasing (UK) 2 Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Leasing (UK) 3 Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Leasing (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Masterbrand Licensing Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered NEA Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Nominees Limited <sup>1</sup>	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Nominees (Private Clients UK) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Overseas Holdings Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Securities (Africa) Holdings Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Trustees (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered UK Holdings Limited	United Kingdom	£10.00 Ordinary shares	100
The SC Transport Leasing Partnership 1 <sup>2</sup>	United Kingdom	Partnership interest	100
The SC Transport Leasing Partnership 2 <sup>2</sup>	United Kingdom	Partnership interest	100
The SC Transport Leasing Partnership 3 <sup>2</sup>	United Kingdom	Partnership interest	100
The SC Transport Leasing Partnership 4 <sup>2</sup>	United Kingdom	Partnership interest	100
The BW Leasing Partnership 1 LP <sup>3</sup>	United Kingdom	Partnership interest	99.9
The BW Leasing Partnership 2 LP <sup>3</sup>	United Kingdom	Partnership interest	99.9
The BW Leasing Partnership 3 LP <sup>3</sup>	United Kingdom	Partnership interest	99.9
The BW Leasing Partnership 4 LP <sup>3</sup>	United Kingdom	Partnership interest	99.9
The BW Leasing Partnership 5 LP <sup>3</sup>	United Kingdom	Partnership interest	99.9
<i>The following company has an address at Rua Gamal Abdel Nasser, Edifício Tres Torres, Eixo Viário, Distrito Urbano da Ingombota, Município de Luanda, Província de Luanda, Angola</i>			
Standard Chartered Bank Angola S.A.	Angola	AOK4,825.00 Ordinary shares	60
<i>The following company has the address of Level 5, 345 George St, Sydney NSW 2000, Australia</i>			
Standard Chartered Grindlays Pty Limited	Australia	AUD Ordinary shares	100
<i>The following companies have the address of 5th Floor Standard House Bldg, The Mall, Queens Road, PO Box 496, Gaborone, Botswana</i>			
Standard Chartered Bank Botswana Insurance Agency (Proprietary) Limited	Botswana	BWP1.00 Ordinary shares	100

### 39. RELATED UNDERTAKINGS OF THE GROUP continued

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
Standard Chartered Bank Botswana Investment Services (Pty) Limited	Botswana	BWP1.00 Ordinary shares	100
Standard Chartered Bank Botswana Limited	Botswana	BWP1.00 Ordinary shares	75.8
Standard Chartered Botswana Education Trust <sup>4</sup>	Botswana	Interest in trust	100
Standard Chartered Botswana Nominees (Proprietary) Limited	Botswana	BWP Ordinary shares	100
<i>The following companies have the address of Avenida Brigadeiro Faria Lima, 3600 - 7th floor, Sao Paulo, Sao Paulo, 04538-132, Brazil</i>			
Standard Chartered Bank (Brasil) S.A. - Banco de Investimento	Brazil	BRL Ordinary shares	100
Standard Chartered Participacoes E Assessoria Economica Ltda	Brazil	BRL0.51 Common shares	100
<i>The following companies have an address at G01-02, Wisma Haji Mohd Taha Building, Jalan Gadong, BE4119, Brunei Darussalam</i>			
Standard Chartered Finance (Brunei) Bhd	Brunei Darussalam	BND1.00 Ordinary shares	100
Standard Chartered Securities (B) Sdn Bhd	Brunei Darussalam	BND1.00 Ordinary shares	100
<i>The following company has the address of 1155, Boulevard de la Liberté, Douala, B.P. 1784, Cameroon</i>			
Standard Chartered Bank Cameroon S.A	Cameroon	XAF10,000.00 shares	100
<i>The following company has the address of 20 Adelaide Street, Suite 1105, Toronto ON M5C 2T6, Canada</i>			
Standard Chartered (Canada) Limited	Canada	CAD1.00 Ordinary shares	100
<i>The following company has the address of Maples Finance Limited, PO Box 1093 GT, Queensgate House, Georgetown, Grand Cayman, Cayman Islands</i>			
SCB Investment Holding Company Limited	Cayman Islands	\$0.01 A Ordinary shares	100
<i>The following company has the address of Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands</i>			
Ocean Horizon Holdings South Ltd	Cayman Islands	\$1.00 Ordinary shares	100
<i>The following companies have the address of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road George Town, Grand Cayman KY1-9008, Cayman Islands</i>			
Sirat Holdings Limited	Cayman Islands	\$0.01 Ordinary shares \$0.01 Preference shares	91 66.7
Standard Chartered Corporate Private Equity (Cayman) Limited	Cayman Islands	\$1.00 Ordinary shares	100
Standard Chartered International Partners	Cayman Islands	\$1.00 Ordinary shares	100
Standard Chartered Principal Finance (Cayman) Limited	Cayman Islands	\$1.00 Ordinary shares	100
Standard Chartered Private Equity (Cayman) Limited	Cayman Islands	\$1.00 Ordinary shares	100
<i>The following company has the address of Mourant Ozannes Corporate Services (Cayman) Limited, Harbour Centre, 42 North Church Street, PO Box 1348, Grand Cayman KY1-1108, Cayman Islands</i>			
Sunflower Cayman SPC <sup>5</sup>	Cayman Islands	\$1.00 Management shares	100
<i>The following companies have the address of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands</i>			
Cerulean Investments LP	Cayman Islands	Partnership interest	100
Standard Chartered Saadiq Mudarib Company Limited	Cayman Islands	\$1.00 Ordinary shares	100
<i>The following company has the address of Standard Chartered Tower, 201 Century Avenue, Pudong, Shanghai 200120, China</i>			
Standard Chartered Bank (China) Limited	China	CNY Ordinary shares	100
<i>The following company has the address of Unit 5, 12th Floor, Standard Chartered Tower, World Finance, No 1 East Third Ring Middle Road, Chaoyang District, Beijing 100020, China</i>			
Standard Chartered Corporate Advisory Co. Ltd	China	\$1.00 Ordinary shares	100
<i>The following company has the address of No. 188 Yeshen Rd, 11F, A-1161 RM, Pudong New District, Shanghai 31201308, China</i>			
Standard Chartered Trading (Shanghai) Limited	China	\$15,000,000.00 Ordinary shares	100
<i>The following company has the address of No. 35, Xinhuanbei Road, TEDA, Tianjin, 300457, China</i>			
Standard Chartered Global Business Company Limited (previously named Scope International (China) Co., Ltd.)	China	\$ Ordinary shares	100
<i>The following company has the address of Standard Chartered Bank Cote d'Ivoire, 23 Boulevard de la République, Abidjan 17, 17 B.P. 1141, Côte d'Ivoire</i>			
Standard Chartered Bank Cote d'Ivoire SA	Cote d'Ivoire	XOF100,000.00 Ordinary shares	100

**39. RELATED UNDERTAKINGS OF THE GROUP** continued

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following company has the address of Standard Chartered Bank France, 32 Rue de Monceau, 75008, Paris, France</i>			
Pembroke Lease France SAS	France	€1.00 Ordinary shares	100
<i>The following company has the address of 8 Ecowas Avenue, PMB 259 Banjul, The Gambia</i>			
Standard Chartered Bank Gambia Limited	Gambia	GMD1.00 Ordinary shares	74.9
<i>The following companies have the address of Standard Chartered Bank Building, 6 John Evans Atta Mills High Street, P.O. Box 768, Accra, Ghana</i>			
Standard Chartered Bank Ghana Limited	Ghana	GHS Ordinary shares GHS0.52 Preference shares	69.4 87.0
Standard Chartered Ghana Nominees Limited	Ghana	GHS Ordinary shares	100
<i>The following companies have the address of Bordeaux Court Les Echelons, South Esplanade, St. Peter Port, Guernsey</i>			
Birdsong Limited	Guernsey	£1.00 Ordinary shares	100
Nominees One Limited	Guernsey	£1.00 Ordinary shares	100
Nominees Two Limited	Guernsey	£1.00 Ordinary shares	100
Songbird Limited	Guernsey	£1.00 Ordinary shares	100
Standard Chartered Secretaries (Guernsey) Limited	Guernsey	£1.00 Ordinary shares	100
Standard Chartered Trust (Guernsey) Limited	Guernsey	£1.00 Ordinary shares	100
<i>The following companies have the address of 1401 Hutchison House, 10 Harcourt Road, Hong Kong</i>			
Double Wings Limited	Hong Kong	HKD1.00 Ordinary shares	100
Kozagi Limited	Hong Kong	HKD10.00 Ordinary shares	100
Majestic Legend Limited	Hong Kong	HKD1.00 Ordinary shares	100
Ori Private Limited	Hong Kong	\$1.00 Ordinary shares \$1.00 A Ordinary shares	100 90.8
Rivendell Private Limited	Hong Kong	\$1.00 A Ordinary shares	84.8
Standard Chartered PF Real Estate (Hong Kong) Limited	Hong Kong	HKD10.00 Ordinary shares	100
<i>The following company has the address of 15th Floor, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Hong Kong</i>			
Horsford Nominees Limited	Hong Kong	HKD Ordinary shares	100
<i>The following companies have the address of 25/F, Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong</i>			
Marina Acacia Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Amaryllis Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Amethyst Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Ametrine Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Angelite Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Apollo Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Beryl Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Carnelian Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Emerald Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Flax Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Gloxinia Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Hazel Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Honor Shipping Limited	Hong Kong	HKD Ordinary shares \$ Ordinary shares	100 100
Marina Ilex Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Iridot Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Kunzite Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Leasing Limited	Hong Kong	\$ Ordinary shares	100
Marina Mimosa Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Moonstone Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Peridot Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Sapphire Shipping Limited	Hong Kong	\$ Ordinary shares	100
Marina Splendor Shipping Limited	Hong Kong	HKD Ordinary shares \$ Ordinary shares	100 100
Marina Tourmaline Shipping Limited	Hong Kong	\$ Ordinary shares	100
Standard Chartered Leasing Group Limited	Hong Kong	\$ Ordinary shares	100
Standard Chartered Trade Support (HK) Limited	Hong Kong	HKD Ordinary shares	100

### 39. RELATED UNDERTAKINGS OF THE GROUP continued

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following companies have the address of 13/F, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong</i>			
S C Learning Limited	Hong Kong	HKD Ordinary shares	100
Standard Chartered Asia Limited	Hong Kong	HKD Deferred shares	100
		HKD Ordinary shares	100
<i>The following companies have the address of 32nd Floor, 4-4A Des Voeux Road, Central, Hong Kong</i>			
Standard Chartered Sherwood (HK) Limited	Hong Kong	HKD Ordinary shares	100
Standard Chartered Bank (Hong Kong) Limited	Hong Kong	HKD A Ordinary shares	100
		HKD B Ordinary shares	100
		\$ Preference shares	100
<i>The following company has the address of L5 The Forum, Exchange Square, 8 Connaught Place, Central, Hong Kong</i>			
Standard Chartered Global Trading Investments Limited	Hong Kong	HKD Ordinary shares	100
<i>The following companies have the address of 20/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong</i>			
Standard Chartered Private Equity Limited	Hong Kong	HKD1.00 Ordinary shares	100
		HKD Ordinary shares	100
Standard Chartered Private Equity Managers (Hong Kong) Limited	Hong Kong	HKD Ordinary shares	100
<i>The following company has the address of 15/F, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong</i>			
Standard Chartered Securities (Hong Kong) Limited	Hong Kong	HKD Ordinary shares	100
<i>The following company has the address of 17/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong</i>			
Standard Chartered Trust (Hong Kong) Limited	Hong Kong	HKD10.00 Ordinary shares	100
<i>The following company has the address of Room 1305, 13/F, Shun Tak Center West Tower, 200 Connaught Road, Hong Kong</i>			
Union Town Limited	Hong Kong	HKD1.00 Ordinary shares	100
<i>The following company has the address of 1st Floor, Europe Building, No.1, Haddows Road, Nungambakkam, Chennai, 600 006, India</i>			
Scope International Private Limited (name changed to Standard Chartered Global Business Services Private Limited)	India	INR10.00 Equity shares	100
<i>The following companies have the address of 1st Floor, Crescenzo, Crescenzo, Plot no. C-38 &amp; 39, G-Block, Bandra (East), Mumbai, Maharashtra, 400 051, India</i>			
St Helen's Nominees India Private Limited	India	INR10.00 Equity shares	100
Standard Chartered (India) Modeling and Analytics Centre Private Limited	India	INR10.00 Ordinary shares	100
<i>The following company has the address of 90 M.G.Road, II Floor, FORT, Mumbai, MAHARASHTRA, 400 001, India</i>			
Standard Chartered Finance Limited	India	INR10.00 Ordinary shares	98.7
<i>The following company has the address of Crescenzo, 6th Floor, Plot No 38-39, G Block, Bandra Kurla Complex, Bandra East, Mumbai, Maharashtra, 400051, India</i>			
Standard Chartered Investments and Loans (India) Limited	India	INR10.00 Ordinary shares	100
<i>The following company has the address of Floor no.7, Crescenzo Building, C-38/39, G Block, Bandra Kurla Complex, Bandra East, Mumbai, Maharashtra, 400051, India</i>			
Standard Chartered Private Equity Advisory (India) Private Limited	India	INR1,000.00 Ordinary shares	100
<i>The following company has the address of 2nd Floor, 23-25 M.G. Road, Fort, Mumbai, 400 001, India</i>			
Standard Chartered Securities (India) Limited	India	INR10.00 Ordinary shares	100
<i>The following company has the address of Menara Standard Chartered, 3rd Floor, Jl. Prof.Dr. Satrio no. 164, Setiabudi, Jakarta Selatan, Indonesia</i>			
PT Standard Chartered Securities Indonesia	Indonesia	IDR100,000,000.00 Ordinary shares	99
<i>The following company has the address of Menara Standard Chartered, 7th floor, Jl. Prof. DR. Satrio No. 164, Jakarta, 12930, Indonesia</i>			
PT. Price Solutions Indonesia	Indonesia	\$100.00 Ordinary shares	100

**39. RELATED UNDERTAKINGS OF THE GROUP** continued

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following companies have the address of 33-41 Lower Mount Street, Dublin 2, Ireland</i>			
Inishbroy Leasing Limited	Ireland	€1.00 Ordinary shares	100
Inishcannon Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Inishcorky Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Inishcrean Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Inishdawson Leasing Limited	Ireland	€1.00 Ordinary shares	100
Inisherkin Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Inishgort Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Inishlynch Leasing Limited	Ireland	€1.00 Ordinary shares	100
Inishoo Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Inishquirk Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Inishtubrid Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Nightjar Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke 7006 Leasing Limited	Ireland	€1.25 Ordinary shares	100
Pembroke Aircraft Leasing 1 Limited	Ireland	€1.00 Ordinary shares	100
Pembroke Aircraft Leasing 2 Limited	Ireland	€1.00 Ordinary shares	100
Pembroke Aircraft Leasing 3 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 4 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 5 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 6 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 7 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 8 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 9 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 10 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 11 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 12 Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Aircraft Leasing Holdings Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke Alpha Limited	Ireland	€1.00 Ordinary shares	100
Pembroke Capital Limited	Ireland	€1.25 Ordinary shares \$1.00 Ordinary shares	100 100
Pembroke Capital Shannon Limited	Ireland	€1.25 Ordinary shares	100
Skua Limited	Ireland	\$1.00 Ordinary shares	100
<i>The following company has the address of Fort Anne, Douglas, IM1 5PD, Isle of Man</i>			
Pembroke Group Limited	Isle of Man	\$0.01 Ordinary shares	100
<i>The following companies have the address of 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE, Isle of Man</i>			
Standard Chartered Assurance Limited	Isle of Man	\$1.00 Ordinary shares \$1.00 Redeemable Preference shares	100 100
Standard Chartered Insurance Limited	Isle of Man	\$1.00 Ordinary shares	100
<i>The following company has the address of 21/F, Sanno Park Tower, 2-11-1 Nagatacho, Chiyoda-ku, Tokyo, 100-6155, Japan</i>			
Standard Chartered Securities (Japan) Limited	Japan	JPY50,000 Ordinary shares	100
<i>The following company has the address of Lime Grove House, Green Street, St Helier, JE1 2ST, Jersey</i>			
Ocean Horizon Holdings East Limited	Jersey	\$1.00 Ordinary shares	100
<i>The following company has the address of 4/F St Pauls Gate, 22-24 New Street, St Helier, Jersey, Channel Islands, JE1 4TR, Jersey</i>			
Ocean Horizon Holdings West Limited	Jersey	\$1.00 Ordinary shares	100
<i>The following company has the address of 15 Castle Street, St Helier, JE4 8PT, Jersey</i>			
SCB Nominees (CI) Limited	Jersey	\$1.00 Ordinary shares	100
<i>The following company has the address of 13 Castle Street, St Helier, JE4 5UT, Jersey</i>			
Standard Chartered Funding (Jersey) Limited <sup>1</sup>	Jersey	£1.00 Ordinary shares	100

### 39. RELATED UNDERTAKINGS OF THE GROUP continued

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following companies have the address of Standard Chartered@ Chiromo, Number 48, Westlands Road, P.O. Box 30003 - 00100, Nairobi, Kenya</i>			
Standard Chartered Investment Services Limited	Kenya	KES1.00 Ordinary shares	100
Standard Chartered Bank Kenya Limited	Kenya	KES5.00 Ordinary shares KES5.00 Preference shares	74.3 100
Standard Chartered Securities (Kenya) Limited	Kenya	KES10.00 Ordinary shares	100
Standard Chartered Financial Services Limited	Kenya	KES20.00 Ordinary shares	100
Standard Chartered Insurance Agency Limited	Kenya	KES100.00 Ordinary shares	100
Standard Chartered Kenya Nominees Limited	Kenya	KES20.00 Ordinary shares	100
<i>The following company has the address of M6-2701, West 27Fl, Suha-dong, 26, Eulji-ro 5-gil, Jung-gu, Seoul, Korea, Republic of</i>			
Resolution Alliance Korea Ltd	Korea, Republic of	KRW5,000.00 Ordinary shares	100
<i>The following company has the address of 47 Jongno, Jongno-gu, Seoul, 110-702, Korea, Republic of</i>			
Standard Chartered Bank Korea Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	100
<i>The following companies have the address of 17th Floor, Standard Chartered First Bank, Korea, Building 100, Kongpyong-dong, Jongno-gu, Seoul, Korea, Republic of</i>			
Standard Chartered Private Equity Korea II	Korea, Republic of	KRW1,000,000.00 Ordinary shares	100
Standard Chartered Private Equity Managers Korea Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	100
<i>The following company has the address of 2F, 47 Jongno, Jongno-gu, Seoul, 110-702, Korea, Republic of</i>			
Standard Chartered Securities Korea Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	100
<i>The following company has the address of Atrium Building, Maarad Street, 3rd Floor, P.O.Box: 11-4081 Riad El Solh, Beirut, Beirut Central District, Lebanon</i>			
Standard Chartered Metropolitan Holdings SAL	Lebanon	\$10.00 Ordinary A shares	100
<i>The following companies have the address of Level 16, Menara Standard Chartered, 30, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia</i>			
Amphissa Corporation Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Cartaban (Malaya) Nominees Sdn Berhad	Malaysia	RM10.00 Ordinary shares	100
Cartaban Nominees (Asing) Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Cartaban Nominees (Tempatan) Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Price Solutions Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
SCBMB Trustee Berhad	Malaysia	RM10.00 Ordinary shares	100
Standard Chartered Bank Malaysia Berhad	Malaysia	RM0.10 Irredeemable Cumulative Preference shares RM1.00 Ordinary shares	100 100
Standard Chartered Saadiq Berhad	Malaysia	RM1.00 Ordinary shares	100
<i>The following company has the address of Suite 8-3A, Menara RA, No. 18, Jalan Dataran SD2, Dataran SD, PJU 9, Bandar Sri Damansara, 52200 Kuala Lumpur, Wilayah Persekutuan, Malaysia</i>			
Golden Maestro Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
<i>The following companies have the address of Brumby Centre, Lot 42, Jalan Muhibbah, 87000 Labuan F.T., Malaysia</i>			
Marina Morganite Shipping Limited	Malaysia	\$ Ordinary shares	100
Marina Moss Shipping Limited	Malaysia	\$1.00 Ordinary shares	100
Marina Tanzanite Shipping Limited	Malaysia	\$ Ordinary shares	100
Pembroke Leasing (Labuan) 2 Berhad	Malaysia	\$1.00 Ordinary shares	100
Pembroke Leasing (Labuan) 3 Berhad	Malaysia	\$1.00 Ordinary shares	100
Pembroke Leasing (Labuan) Pte Limited	Malaysia	\$1.00 Ordinary shares	100
<i>The following company has the address of Suite 8-3A, Menara RA, No. 18, Jalan Dataran SD2, Dataran SD, PJU 9, Bandar Sri Damansara, 52200 Kuala Lumpur, Wilayah Persekutuan, Malaysia</i>			
Popular Ambience Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
<i>The following company has the address of 12th Floor, Menara KH, Jalan Sultan Ismail, 50250 Kuala Lumpur, Wilayah Persekutuan, Malaysia</i>			
Resolution Alliance Sdn Bhd <sup>6</sup>	Malaysia	RM1.00 Ordinary shares	91
<i>The following company has the address of Level 7, Wisma Standard Chartered, Jalan Teknologi 8, Taman Teknologi Malaysia, 57000 Bukit Jalil, Kuala Lumpur, Wilayah Persekutuan, Malaysia.</i>			
Scope International (M) Sdn Bhd (name changed to Standard Chartered Global Business Services Sdn Bhd)	Malaysia	RM1.00 Ordinary shares	100

**39. RELATED UNDERTAKINGS OF THE GROUP** continued

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following companies have the address of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands</i>			
Marina Alysse Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Amandier Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Ambroisee Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Angelica Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Aquamarine Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Aventurine Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Buxus Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Celsie Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Citrine Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Dahlia Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Dittany Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Dorado Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Jessamine Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Lilac Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Lolite Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Obsidian Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Pissenlet Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Poseidon Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Protea Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Quartz Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Remora Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Turquoise Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Zeus Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
Marina Zircon Shipping Limited	Marshall Islands	\$1.00 Ordinary shares	100
<i>The following company has the address of 6th Floor, Standard Chartered Tower, 19, Bank Street, Cybercity, Ebene, 72201, Mauritius</i>			
Standard Chartered Bank (Mauritius) Limited	Mauritius	\$10.00 Ordinary shares	100
<i>The following companies have the address of c/o Abax Corporate Services Ltd, 6th Floor, Tower A, 1 CYBERCITY, Ebene, Mauritius</i>			
Standard Chartered Financial Holdings	Mauritius	\$1.00 Ordinary shares	100
Standard Chartered Private Equity (Mauritius) II Limited	Mauritius	\$1.00 Ordinary shares	100
Standard Chartered Private Equity (Mauritius) Limited	Mauritius	\$1.00 Ordinary shares \$ Redeemable Preference shares	100
Standard Chartered Private Equity (Mauritius) III Limited	Mauritius	\$1.00 Ordinary shares	100
<i>The following company has the address of 5th Floor, Ebene Esplanade, 24 Bank Street, Cybercity, Ebene, Mauritius</i>			
Subcontinental Equities Limited	Mauritius	\$1.00 Ordinary shares	100
<i>The following company has the address of Av. Julius Nyerere n. 3412, Maputo, Mozambique</i>			
Standard Chartered Bank Mozambique, S.A.	Mozambique	\$1.00 Ordinary shares	100
<i>The following company has the address of Standard Chartered Bank Nepal Limited, Madan Bhandari Marg, Ward No.34, Kathmandu Metropolitan City, Kathmandu District, Bagmati Zone, Kathmandu, Nepal</i>			
Standard Chartered Bank Nepal Limited	Nepal	NPR100.00 Ordinary shares	75
<i>The following companies have the address of Hoogoorddreef 15, 1101 BA, Amsterdam, Netherlands</i>			
Pembroke B717 Holdings B.V.	Netherlands	€1.00 Ordinary shares	100
Pembroke Holland B.V.	Netherlands	€450.00 Ordinary shares	100
<i>The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom</i>			
Smart Application Investment B.V.	Netherlands	€45.00 Ordinary shares	100
Standard Chartered Holdings (Africa) B.V.	Netherlands	€4.50 Ordinary shares	100
Standard Chartered Holdings (Asia Pacific) B.V.	Netherlands	€4.50 Ordinary shares	100
Standard Chartered Holdings (International) B.V.	Netherlands	€4.50 Ordinary A Shares €4.50 Ordinary B Shares €4.50 Ordinary C Shares €4.50 Ordinary D Shares €4.50 Ordinary E Shares €4.50 Ordinary F Shares €4.50 Ordinary G Shares	100

### 39. RELATED UNDERTAKINGS OF THE GROUP continued

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
Standard Chartered MB Holdings B.V.	Netherlands	€4.50 Ordinary shares	100
<i>The following companies have the address of 142 Ahmadu Bello Way, Victoria Island, Lagos, Nigeria</i>			
Cherroots Nigeria Limited	Nigeria	NGN1.00 Ordinary shares	100
Standard Chartered Bank Nigeria Limited	Nigeria	NGN1.00 Irredeemable Non Cumulative Preference shares	100
		NGN1.00 Ordinary shares	100
		NGN1.00 Redeemable Preference shares	100
Standard Chartered Capital & Advisory Nigeria Limited	Nigeria	NGN1.00 Ordinary shares	100
Standard Chartered Nominees (Nigeria) Limited	Nigeria	NGN1.00 Ordinary shares	100
<i>The following company has the address of 3rd Floor Main SCB Building, I.I Chundrigar Road, Karachi, Sindh, 74000, Pakistan</i>			
Price Solution Pakistan (Private) Limited <sup>1</sup>	Pakistan	PKR10.00 Ordinary shares	100
<i>The following company has the address of P.O. Box No. 5556 I.I. Chundrigar Road, Karachi, 74000, Pakistan</i>			
Standard Chartered Bank (Pakistan) Limited	Pakistan	PKR10.00 Ordinary shares	99
<i>The following company has the address of Offshore Chambers, PO Box 217, Apia, Western Samoa</i>			
Standard Chartered Nominees (Western Samoa) Limited	Samoa	\$1.00 Ordinary shares	100
<i>The following company has the address of Al Faisaliah Office Tower Floor No 7 (T07D), King Fahad Highway, Olaya District, Riyadh P.O box 295522, Riyadh, 11351, Saudi Arabia</i>			
Standard Chartered Capital (Saudi Arabia)	Saudi Arabia	SAR10.00 Ordinary shares	100
<i>The following company has the address of 9 &amp; 11, Lightfoot Boston Street, Freetown, Sierra Leone</i>			
Standard Chartered Bank Sierra Leone Limited	Sierra Leone	SLL1.00 Ordinary shares	80.7
<i>The following companies have the address of 8 Marina Boulevard, Level 26, Marina Bay Financial Centre, Tower 1, 018981, Singapore</i>			
Marina Aquata Shipping Pte. Ltd.	Singapore	\$ Ordinary shares	100
Marina Aruana Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
		\$ Ordinary shares	100
Marina Aster Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Cobia Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
		\$ Ordinary shares	100
Marina Daffodil Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Fatmarini Shipping Pte. Ltd.	Singapore	\$ Ordinary shares	100
Marina Frabandari Shipping Pte. Ltd.	Singapore	\$ Ordinary shares	100
Marina Freesia Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Gerbera Shipping Pte. Ltd.	Singapore	\$ Ordinary shares	100
Marina Mars Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Mercury Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Opah Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
		\$ Ordinary shares	100
Marina Partawati Shipping Pte. Ltd.	Singapore	\$ Ordinary shares	100
Marina Poise Shipping Pte. Ltd.	Singapore	\$ Ordinary shares	100
<i>The following company has the address of 7 Changi Business Park Crescent, #03-00 Standard Chartered @ Changi, 486028, Singapore</i>			
Raffles Nominees (Pte.) Limited	Singapore	SGD Ordinary shares	100
<i>The following companies have the address of 8 Marina Boulevard, #27-01 Marina Bay Financial Centre Tower 1, 018981, Singapore</i>			
SCM Real Estate (Singapore) Private Limited	Singapore	SGD1.00 Ordinary shares	100
SCTS Capital Pte. Ltd	Singapore	SGD Ordinary shares	100
SCTS Management Pte. Ltd.	Singapore	SGD Ordinary shares	100
Standard Chartered (2000) Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Bank (Singapore) Limited	Singapore	SGD Ordinary shares	100
		SGD Preference shares	100
Standard Chartered Trust (Singapore) Limited	Singapore	SGD Ordinary shares	100
Standard Chartered Holdings (Singapore) Private Limited	Singapore	SGD Ordinary shares	100

**39. RELATED UNDERTAKINGS OF THE GROUP** continued

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following company has the address of Abogado Pte Ltd, No. 8 Marina Boulevard, #05-02 MBFC Tower 1, 018981, Singapore</i>			
Standard Chartered IL&FS Management (Singapore) Pte. Limited	Singapore	\$1.00 Ordinary shares	50
<i>The following company has the address of 9 Battery Road, #15-01 Straits Trading Building, 049910, Singapore</i>			
Standard Chartered Nominees (Singapore) Pte Ltd	Singapore	SGD1.00 Ordinary shares	100
<i>The following company has the address of Marina Bay Financial Centre (Tower 1), 8 Marina Boulevard, #05-02, 018981, Singapore</i>			
Standard Chartered PF Managers Pte. Limited	Singapore	\$1.00 Ordinary shares	100
<i>The following companies have the address of Marina Bay Financial Centre (Tower 1), 8 Marina Boulevard, Level 23, 018981, Singapore</i>			
Standard Chartered Private Equity (Singapore) Pte. Ltd	Singapore	\$ Ordinary shares \$ Redeemable Preference shares	100 100
Standard Chartered Private Equity Managers (Singapore) Pte. Ltd	Singapore	\$ Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) I Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) II Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) III Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) IV Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) V Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) VI Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) VII Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) VIII Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment Holdings (Singapore) Private Limited	Singapore	SGD1.00 Ordinary shares	100
<i>The following companies have the address of 5th Floor, 4 Sandown Valley Crescent, Sandton, Gauteng, 2196, South Africa</i>			
CMB Nominees Proprietary Limited	South Africa	ZAR1.00 Ordinary shares	100
Standard Chartered Nominees South Africa Proprietary Limited (RF)	South Africa	ZAR Ordinary shares	100
<i>The following company has the address of 1, 2, 4, 7, 9, 10F, No. 168/170 &amp; 8F, 12F, No.168 &amp; B1, No. 170, Dunhua N. Rd., Songshan Dist., Taipei, 105, Taiwan</i>			
Standard Chartered Bank (Taiwan) Limited	Taiwan	TWD10.00 Ordinary shares	100
<i>The following companies have the address of 1 Floor, International House, Shaaban Robert Street / Garden Avenue, PO Box 9011, Dar Es Salaam, Tanzania, United Republic of</i>			
Standard Chartered Bank Tanzania Limited	Tanzania, United Republic of	TZS1,000.00 Ordinary shares	100
Standard Chartered Tanzania Nominees Limited	Tanzania, United Republic of	TZS1,000.00 Ordinary shares	100
<i>The following company has the address of 90 North Sathorn Road, Silom, Bangrak Bangkok, 10500, Thailand</i>			
Standard Chartered Bank (Thai) Public Company Limited	Thailand	THB10.00 Ordinary shares	99.9
<i>The following company has the address of Buyukdere Cad. Yapi Kredi Plaza C Blok, Kat 15, Levent, Istanbul, 34330, Turkey</i>			
Standard Chartered Yatirim Bankasi Turk Anonim Sirketi	Turkey	TRL0.10 Ordinary shares	100
<i>The following company has the address of Standard Chartered Bank, Bldg5 Speke Road, PO Box 7111, Kampala, Uganda</i>			
Standard Chartered Bank Uganda Limited	Uganda	UGS1,000.00 Ordinary shares	100
<i>The following company has the address of 625 2nd Street, #102, San Francisco CA 94107, United States</i>			
SC Studios, LLC	United States	\$1.00 Membership Interest shares	100
<i>The following companies have the address of 1111 Brickell Avenue, Miami FL 33131, United States</i>			
StanChart Securities International, Inc.	United States	\$0.01 Common shares	100
Standard Chartered Bank International (Americas) Limited	United States	\$1.00 Ordinary shares	100

### 39. RELATED UNDERTAKINGS OF THE GROUP continued

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following companies have the address of Corporation Trust Centre, 1209 Orange Street, Wilmington DE 19801, United States</i>			
Standard Chartered Holdings Inc.	United States	\$100.00 Common shares	100
Standard Chartered Capital Management (Jersey), LLC	United States	\$ Ordinary shares	100
Standard Chartered Securities (North America) Inc.	United States	\$0.01 Ordinary shares	100
<i>The following company has the address of 1095 Avenue of Americas, New York City NY, United States</i>			
Standard Chartered International (USA) Ltd.	United States	\$100.00 Ordinary shares	100
<i>The following company has the address of 50 Fremont Street, San Francisco CA 94105, United States</i>			
Standard Chartered Overseas Investment, Inc.	United States	\$10.00 Ordinary shares	100
<i>The following company has the address of 1013 Centre Road, Wilmington, Delaware, USA</i>			
Standard Chartered Trade Services Corporation	United States	\$0.01 Common shares	100
<i>The following company has the address of Room 1810-1815, Level 18, Building 72, Keangnam Hanoi Landmark Tower, Pham Hung Road, Cau Giay New Urban Area, Me Tri Ward, Nam Tu Liem District, Hanoi10000, Vietnam</i>			
Standard Chartered Bank (Vietnam) Limited	Vietnam	VND Charter Capital shares	100
<i>The following companies have the address of P.O. Box 438, Palm Grove House, Road Town, Tortola, Virgin Islands, British</i>			
California Rose Limited	Virgin Islands, British	\$1.00 Ordinary shares	90.5
Earnest Range Limited	Virgin Islands, British	\$1.00 Ordinary shares	90.5
<i>The following companies have the address of Offshore Incorporations Limited, P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, Virgin Islands, British</i>			
Sky Favour Investments Limited	Virgin Islands, British	\$1.00 Ordinary shares	100
Sky Harmony Holdings Limited	Virgin Islands, British	\$1.00 Ordinary shares	100
<i>The following companies have the address of Standard Chartered House, Cairo Road, Lusaka, PO BOX 32238, Zambia</i>			
Standard Chartered Bank Zambia Plc	Zambia	ZMW0.25 Ordinary shares	90
Standard Chartered Zambia Securities Services Nominees Limited	Zambia	ZMK1.00 Ordinary shares	100
<i>The following companies have the address of Africa Unity Square Building, 68 Nelson Mandela Avenue, Harare, Zimbabwe</i>			
Standard Chartered Asset Management Limited	Zimbabwe	\$0.001 Ordinary shares	100
Standard Chartered Bank Zimbabwe Limited	Zimbabwe	\$1.00 Ordinary shares	100
Standard Chartered Nominees Zimbabwe (Private) Limited	Zimbabwe	\$2.00 Ordinary shares	100

### Associates

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following company has the address of Bohai Bank Building, No.218 Hai He Dong Lu, Hedong District, Tianjin, 300012, China</i>			
China Bohai Bank Co. Ltd <sup>7</sup>	China	CNY Ordinary Shares	19.99
<i>The following company has the address of C/o CIM Corporate Services Ltd, Les Cascades, Edith Cavell Street, Port Louis, Mauritius</i>			
FAI Limited	Mauritius	\$1.00 Ordinary shares	25
<i>The following company has the address of Victoria House, State House Avenue, Victoria, MAHE, Seychelles</i>			
Seychelles International Mercantile Banking Corporation Limited	Seychelles	SCR1,000.00 Ordinary shares	22
<i>The following company has the address of Marina Bay Financial Centre, 17-03, MBFC Tower 3, 12 Marina Boulevard, 018981, Singapore</i>			
Clifford Capital Pte. Ltd <sup>8</sup>	Singapore	\$ Ordinary Shares	9.9
<i>The following company has the address of 442 Nguyen Thi Minh Khai Street, Ward 5, District 3, Ho Chi Minh City, Vietnam</i>			
Asia Commercial Bank <sup>7</sup>	Vietnam	VND10,000.00 Ordinary Shares	15

**39. RELATED UNDERTAKINGS OF THE GROUP** continued

**Joint ventures**

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following company has the address of WTC II Building, Jalan Jenderal Sudirman Kav29-31, Jakarta, 12920' Indonesia</i>			
PT Bank Permata Tbk <sup>9</sup>	Indonesia	IDR125.00 B shares	44.6
<i>The following companies have the address of 33-41 Lower Mount Street, Dublin 2, Ireland</i>			
Canas Leasing Limited <sup>9</sup>	Ireland	\$1 Ordinary Shares	50
Elviria Leasing Limited <sup>9</sup>	Ireland	\$1 Ordinary Shares	33.3
<i>The following company has the address of 100/36 Sathorn Nakorn Tower, Fl 21 North Sathorn Road, Silom Sub-District, Bangrak District, Bangkok, 10500, Thailand</i>			
Resolution Alliance Limited	Thailand	THB10.00 Ordinary shares	49

**Significant investment holdings**

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following company has the address of 20-22 Bedford Row, London, WC1R 4JS, United Kingdom</i>			
Cyber Defence Alliance Limited	United Kingdom		25
<i>The following company has the address of Corporate Services (Pty) Ltd, Plot 115, Unit 5, Kgale Mews, Kgale Hill, Gaborone, Botswana</i>			
Spark Capital (Proprietary) Limited	Botswana	BWP Ordinary shares	49.90
<i>The following companies have the address of 2PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands</i>			
Abacus Eight Limited	Cayman Islands	A Shares	24.5
Abacus Nine Limited	Cayman Islands	A Shares	24.5
Abacus Seven Limited	Cayman Islands	A Shares	24.5
Abacus Ten Limited	Cayman Islands	A Shares	31.2
Asia Trading Holdings Limited	Cayman Islands	\$0.01 Ordinary shares	50
<i>The following company has the address of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands</i>			
ATSC Cayman Holdco Limited	Cayman Islands	\$0.01 A Ordinary shares \$0.01 B Ordinary shares	5.3 100
<i>The following company has the address of Floor 4, Willow House, Cricket Square, PO Box 2804, Grand Cayman, KY1-1112, Cayman Islands</i>			
Etonkids Educational Group Limited	Cayman Islands	\$0.001 Series A Preferred Shares \$0.001 Series A-1 Preferred Shares	100 100
<i>The following companies have the address of Mourant Ozannes Corporate Services (Cayman) Limited, 94 Solaris Avenue, Camana Bay, PO Box 1348, Grand Cayman KY1-1108, Cayman Islands</i>			
Standard Chartered IL&FS Asia Infrastructure (Cayman) Limited	Cayman Islands	\$0.01 Ordinary shares	50
Standard Chartered IL&FS Asia Infrastructure Growth Fund Company Ltd.	Cayman Islands	\$1.00 Ordinary shares	50
Standard Chartered IL&FS Asia Infrastructure Growth Fund LP	Cayman Islands	Partnership interest	38.6
<i>The following company has the address of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, Cayman Islands</i>			
BCC Launchpad, L.P.	Cayman Islands	Partnership Interest	49
<i>The following companies have the address of 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands</i>			
Greathorse Chemical Limited	Cayman Islands	\$1.00 Ordinary shares	28.3
Hygienic Holdings Group Ltd	Cayman Islands	US\$0.01 Redeemable Exchangeable Preferred Shares	29.319
<i>The following company has the address of Zhuhai Jida, Jiuzhoudadao, Dont 1164 Hao, Wuzidasha, 9 Ceng-11, China</i>			
Guangdong Aiyingdao Children Departmental Store Co. Ltd	China	CNY1.00 Common shares	20.2
<i>The following company has the address of Unit 405A, 4/F, Building 4, No. 258 Jinzang Road, Pudong New District, Shanghai, the PRC, China</i>			
Jin Li Realty (Shanghai) Co., Ltd.	China	Registered Capital	48.6

### 39. RELATED UNDERTAKINGS OF THE GROUP continued

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following company has the address of Unit 4, 14F Ke Chuang Building, No. 16 Buzheng Lane, Haishu District, Ningbo, China</i>			
Ningbo Xinxin Real Estate Development Co.,Ltd*	China	Registered Capital	60
<i>The following company has the address of Room 4-405, Block 36, No.1888 Jinqiao Road, Pudong New District, Shanghai, China</i>			
Shui Li Realty (Shanghai) Limited	China	Registered Capital	45
<i>The following company has the address of No.8 Hua Shiyuan North Road, East Lake New Technology Development Zone, Wu Han, China</i>			
Ecoplast Technologies Inc	China	US\$0.0001 Class C Preferred shares	100
<i>The following company has the address of 3, Floor 1, No.1, Shiner Wuxingcayuan, West Er Huan Rd, Xi Shan District, Kunming, Yunnan Province, PRC, China</i>			
Yunnan Golden Shiner Property Development Co., Ltd.	China	Registered Capital	40
<i>The following company has the address of Room 1A-1, No.88 Xianxia Road, Changning District, Shanghai, China</i>			
Shanghai Siyanli Industrial Co., Ltd.	China	CNY Ordinary shares	39
<i>The following company has the address of 3, Floor 1, No.1, Shiner Wuxingcayuan, West Er Huan Rd, Xi Shan District, Kunming, Yunnan Province, PRC, China</i>			
Fast Great Investment Limited	Hong Kong	HKD1.00 Ordinary shares	28
<i>The following company has the address of Suite 1401, 14 Floor, World Commerce Centre, Harbour City, 7-11 Canton Road, Tsim Sha Tsui, Hong Kong</i>			
Standard Latitude Consultancy (HK) Limited	Hong Kong	\$5,000 Ordinary shares	20
<i>The following company has the address of 70, Nagindas Master Road, Fort, Mumbai, 400023, India</i>			
Joyville Shapoorji Housing Private Limited	India	INR10.00 Common Equity Shares	25.8
<i>The following company has the address of 5th Floor, Mahindra Towers, Worli, Mumbai, 400018, India</i>			
Mahindra Homes Private Limited	India	INR100.00 Compulsorily Convertible Debentures Series A shares INR10.00 Compulsorily Convertible Preference Shares INR10.00 Ordinary-A shares INR10.00 Ordinary-B shares	100 100 50 100
<i>The following company has the address of 9th Floor, KP Platina, Racecourse, Vadodara, Gujarat-390007, India</i>			
Inox India Limited	India	Compulsorily Convertible Preference Shares Equity Shares	100 4.62
<i>The following company has the address of 1221 A, Devika Tower, 12th Floor, 6 Nehru Place, New Delhi 110019, India.</i>			
Mikado Realtors Private Limited	India	INR10.00 Ordinary shares	22.1
<i>The following company has the address of Elphinstone Building, 2nd Floor, 10 Veer Nariman Road, Fort, Mumbai, 400001, Maharashtra, India</i>			
TRIL IT4 Private Limited	India	INR10.00 Ordinary shares	26
<i>The following company has the address of Graha Paramita, 3rd Floor, Jalan Denpasar, Raya Block D-2, Kav. 8, Kuningan, Jakarta, 12940, Indonesia</i>			
PT Travira Air	Indonesia	IDR1.00 Ordinary shares	30
<i>The following companies have the address of 4th Floor, St Pauls Gate, 22-24 New Street, St Helier, Jersey JE1 4TR, Jersey</i>			
Standard Jazeera Limited	Jersey	USD1.00 Ordinary shares	20
Standard Topaz Limited	Jersey	USD1.00 Ordinary shares	20.1
<i>The following company has the address of 146-8 Chusa-ro Sinam-myeon, Yesan-gun Chungnam, Korea, Republic of</i>			
Daiyang Metal Company Ltd	Korea, Republic of	KRW 500 Common Shares KRW 500 Convertible Preference Shares	23.1 100
<i>The following company has the address of Building A 10th floor, 50, Jong-ro 1-gil, (Jungbak-dong, the K Twin Tower), Jongno-gu, Seoul, Korea, Republic of</i>			
Fountain Valley PFV Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	47.3

**39. RELATED UNDERTAKINGS OF THE GROUP** continued

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following companies have the address of 17th Floor, 100, Gongpyeongdong, Jongno-gu, Seoul, Korea, Republic of</i>			
Smoothie King Holdings, Inc.	Korea, Republic of	KRW5,000.00 Ordinary shares KRW5,000.00 Redeemable Convertible Preference Shares	20.3 58
SCPEK IV	Korea, Republic of	KRW1.00 Common shares	41.4
<i>The following company has the address of 17F (Gongpyung-dong), 47, Jongno, Jongno-gu, Seoul, Korea, Republic of</i>			
Standard Chartered Private Equity Korea III	Korea, Republic of	KRW1,000,000.00 Ordinary shares	31
<i>The following company has the address of Suite 8-3A, Menara RA, No. 18, Jalan Dataran SD2, Dataran SD, PJU 9, Bandar Sri Damansara, 52200 Kuala Lumpur, Wilayah Persekutuan, Malaysia</i>			
House Network SDN BHD	Malaysia	RM1.00 Ordinary shares	25
<i>The following company has the address of 80 Robinson Road, #02-00, 068898, Singapore</i>			
Maxpower Group Pte Ltd	Singapore	US\$1,000.00 Preference shares	100
<i>The following company has the address of 1 Venture Avenue, #07-07 Big Box, 608521, Singapore</i>			
Omni Centre Pte. Ltd.	Singapore	\$ Redeemable Convertible Preference Shares	100
<i>The following company has the address of 180B Bencoolen Street, #11-00 The Bencoolen, Singapore, 189648, Singapore</i>			
Crystal Jade Group Holdings Pte Ltd	Singapore	\$1.00 Ordinary shares	42.3
<i>The following company has the address of Blk 10, Kaki Bukit Avenue 1, #07-05 Kaki Bukit Industrial Estate, 417492, Singapore</i>			
MMI Technoventures Pte Ltd	Singapore	SGD Ordinary shares SGD 0.01 Redeemable Preference shares	50 50
<i>The following company has the address of 81 Ubi Avenue 4, #03-11 UB One, Singapore, 408830, Singapore</i>			
Polaris Limited	Singapore	SGD Ordinary shares	25.8
<i>The following company has the address of 8 Marina Boulevard, #23-01 Marina Bay Financial Centre, 018981, Singapore</i>			
Greenman Pte. Ltd.	Singapore	SGD1.00 Ordinary shares	35.5
	Singapore	SGD1.00 Preferred Shares Class A	35.5
	Singapore	SGD1.00 Preferred Shares Class B	100
<i>The following company has the address of Floor M, Petroland Building, 12 Tan Trao, Tan Phu Ward, District 7, Ho Chi Minh City</i>			
Online Mobile Services Joint Stock Company	Vietnam	Class A1 Redeemable Preference Shares Class A1 Dividend Preference Share	100 100

### 39. RELATED UNDERTAKINGS OF THE GROUP continued

#### In liquidation

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following companies have the address of Deloitte LLP, Hill House, 1 Little New Street, London, EC4A 3TR, United Kingdom</i>			
Standard Chartered Capital Markets Limited	United Kingdom	£1.00 Ordinary shares \$1.00 Ordinary shares	100 100
<i>The following company has the address of 648-07 room, Building 2, Shanghai Zhangjiang High-tech Park, 351 Guo shoujing road, Shanghai, 201203, China</i>			
SCL Consulting (Shanghai) Co. Ltd	China	\$ Ordinary shares	100
<i>The following company has the address of Cra 7 Nro 71-52 TA if 702, Bogota, Colombia</i>			
Sociedad Fiduciaria Extebandes S.A.	Colombia	COP1.00 Ordinary shares	100
<i>The following companies have the address of Schottegatweg Oost, 44, Curacao, Netherlands Antilles</i>			
American Express International Finance Corp.N.V.	Curaçao	\$1,000.00 Ordinary shares	100
Ricanex Participations N.V.	Curaçao	\$1,000.00 Ordinary shares	100
<i>The following company has the address of 8/F Eurotrade Centre, 21-23 Des Voeux Road Central, Hong Kong</i>			
GE Capital (Hong Kong) Limited	Hong Kong	HKD10.00 Ordinary shares	100
<i>The following company has the address of 8th Floor, Gloucester Tower , The Landmark, 15 Queen's Road Central, Hong Kong</i>			
Leopard Hong Kong Limited	Hong Kong	\$ Ordinary shares	100
<i>The following companies have the address of 33-41 Lower Mount Street, Dublin 2, Ireland</i>			
Inishmullen Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Inishroe Leasing Limited	Ireland	\$1.00 Ordinary shares	100
<i>The following company has the address of Standard Chartered@ Chiromo, Number 48, Westlands Road, P. O. Box 30003 - 00100, Nairobi, Kenya</i>			
Standard Chartered Management Services Limited	Kenya	KES20.00 Ordinary shares	100
<i>The following company has the address of 26 boulevard royal, 2449, Luxembourg</i>			
Standard Chartered Financial Services (Luxembourg) S.A.	Luxembourg	€25.00 Ordinary shares	100
<i>The following companies have the address of Hoogoorddreef 15, 1101 BA, Amsterdam, Netherlands</i>			
Pembroke Funding BV	Netherlands	€100.00 Ordinary shares	100
Pembroke Thai Aircraft II B.V.	Netherlands	€100.00 Ordinary shares	100
<i>The following company has the address of 380 Canaval y Moreyra, Lima 27, Peru, Peru</i>			
Banco Standard Chartered en Liquidacion	Peru	\$75.133 Ordinary shares	100
<i>The following companies have the address of 8 Marina Boulevard, #27-01 Marina Bay Financial Centre Tower 1, Singapore, 018981, Singapore</i>			
SC2 Investments (Singapore) Private Limited	Singapore	SGD Ordinary shares	100
Standard Chartered (1996) Limited	Singapore	SGD Ordinary shares	100
Standard Chartered Investments (Singapore) Private Limited	Singapore	\$ Ordinary shares	100
Standard Chartered Securities (Singapore) Pte. Limited	Singapore	SGD Ordinary shares	100
Prime Financial Holdings Limited	Singapore	SGD Ordinary shares \$ Ordinary shares	100 100
<i>The following company has the address of 9 Changi Business Park Crescent, Level 2, 486005, Singapore</i>			
Price Solutions Singapore Pte. Ltd.	Singapore	SGD Ordinary shares	100

**39. RELATED UNDERTAKINGS OF THE GROUP** continued

Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following company has the address of Quai du General Guisan 38, 8022, Zurich, Switzerland, Switzerland</i>			
Standard Chartered Bank (Switzerland) S.A.	Switzerland	CHF1,000.00 Ordinary shares CHF100.00 Participation Capital shares	100 100
<i>The following company has the address of 6th Floor, Hewlett Packard Building, 337 Fu Hsing North Road, Taipei, Taiwan</i>			
Kwang Hua Mocatta Ltd. (Taiwan)	Taiwan	TWD1,000.00 Ordinary shares	100
<i>The following companies have the address of 100/3, Sathorn Nakorn Tower, 3rd Floor, North Sathorn Road, Silom, Bangrak, Bangkok, 10500, Thailand</i>			
Thai Exclusive Leasing Company Limited	Thailand	THB10.00 Ordinary shares	100
Standard Chartered (Thailand) Company Limited	Thailand	THB10.00 Ordinary shares	100
<i>The following company has the address of Luis Alberto de Herrera 1248, Torre II, Piso 11, Esc. 1111, Uruguay</i>			
Standard Chartered Uruguay Representacion S.A.	Uruguay	UYU1.00 Ordinary shares	100
<i>The following company has the address of PO Box 957, Offshore Incorporations Centre, Road Town, Tortola, Virgin Islands, British</i>			
New Group Investments Limited	Virgin Islands, British	\$1.00 Ordinary shares	100
<b>Associates</b>			
Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
<i>The following company has the address of Quadrant House, 4 Thomas More Square, London, E1W 1YW, United Kingdom</i>			
MCashback Limited	United Kingdom	£0.01 Ordinary shares	31.7
<b>Liquidated in 2016</b>			
Name	Country of Incorporation	Description of shares	Proportion of shares held (%)
Harrison Lovegrove & Co. Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered FURBS Trustee Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Lease Trustee Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Asia Real Estate Fund Company Limited	Cayman Islands	\$1.00 Ordinary shares	100
Standard Chartered Saadiq Certificate Company Limited	Cayman Islands	\$1.00 Ordinary shares	100
Gettysburg Investments LP	Cayman Islands	Partnership interest	100
Larne Limited	Hong Kong	HKD Ordinary shares	100
Prime Financial Limited	Hong Kong	HKD Ordinary shares	100
Inishdasky Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Inishilra Leasing Limited	Ireland	\$1.00 Ordinary shares	100
Pembroke 717 Leasing Limited	Ireland	€1.00 Ordinary shares	100
Pembroke Nominees Limited	Ireland	€1.25 Ordinary shares	100
Grimes Golden Limited	Hong Kong	HKD Ordinary shares \$ Ordinary shares	100 100
Standard Chartered Life Insurance Agency Company	Taiwan	TWD10.00 Ordinary shares	100
Taiwan Standard Chartered Insurance Agency Company	Taiwan	TWD10.00 Ordinary shares	100
Standard Chartered Zambia Nominees Limited	Zambia	ZMK2.00 Ordinary shares	100

1. Directly held by parent company of the Group
2. These partnerships are included within the consolidated financial statements in accordance with note 31. Consequently, they have taken advantage of the exemption within the Partnerships (Accounts) Regulations 2008 (regulation 7) from filing annual financial statements
3. These partnerships are not included within the consolidated financial statements because the Group indirectly controls the General Partners, but its management role is limited to defined administrative functions over which it has no discretion. Copies of the latest financial statements will be filed with Companies House
4. No share capital by virtue of being a trust
5. Not consolidated because the Group does not actively manage the funds and activities are limited to finding funds to market. As the entity does not invest on its own account, the Group gets no benefit and suffers no risk from the investments
6. Not consolidated because the Group does not control the entity by virtue of the shareholder agreement with Orix Leasing Malaysia Bhd
7. Both are considered to be associates as described in note 31
8. Accounted for as an associate because the Group has significant influence over the management and their financial and operational policies through our representation on their board
9. Joint management is based on significant influence over the management and their financial and operational policies derived from the joint venture agreement

## 40. IFRS 9 FINANCIAL INSTRUMENTS

The Group is committed to a high quality implementation of IFRS 9. In addition to complying with the requirements of IFRS 9, the Group will seek to adhere to the *Guidance on Credit Risk and Accounting for Expected Credit Losses* issued by the BCBS and will also implement the guidance issued by the IASB's Impairment Transition Resource Group. The Group will also seek to implement the recommendations of the Enhanced Disclosure Task Force set out in their report *Impact of Expected Credit Loss Approaches on Bank Risk Disclosures* and those of the European Securities and Markets Authority, including the recommendations on disclosures in advance of the date of initial application.

The Group continues to assess the impact that IFRS 9 will have on its consolidated financial statements but it is not yet practicable to provide a robust and reliable estimate of the potential effect. The Group will disclose the impact of IFRS 9 when it is reliably able to do so, which will be no later than the publication of its 2017 Annual Report and Accounts. To the extent that amounts are disclosed based on a period earlier than 31 December 2017, the actual impact on initial application of IFRS 9 is likely to be different, reflecting changes in the composition of portfolios and/or different economic conditions in the interim period.

It is currently anticipated that the initial adoption of IFRS 9 would be unlikely to result in a material movement between asset measurement categories compared to IAS 39. In line with IFRS 9 requirements, all non-trading equity securities will be classified at fair value through profit or loss with all realised and unrealised gains and losses reported directly in income. The Group is not currently proposing to designate any equity securities at fair value through other comprehensive income. In respect of credit impairment provisions, the Group currently anticipate that the overall provisioning base will increase on initial adoption compared to IAS 39, with most of the increase arising from the requirement to initially recognise 12 months of expected credit losses. We currently anticipate a moderate impact from the introduction of lifetime loss provisions for non-defaulted but significantly deteriorated credit assets, in part reflecting the relatively short tenor of our Corporate & Institutional Banking portfolio. Further details to our approach is set below.

The adoption of IFRS 9 may also have a capital impact, in particular on the CET1 capital base, reflecting the anticipated increase in the stock of impairment provisions under an expected credit loss model. Further details are set out in the 'Impact on capital planning' section below.

### Summary of IFRS 9 and implementation status

#### Implementation governance, strategy and milestones

The IFRS 9 programme has a full-time implementation team in place with an established plan and is one of the largest programmes within the Group. The implementation is jointly run by Finance and Risk and overseen by a Project Steering Committee, which comprises senior management from Risk, Finance and Technology. From a control perspective, the implementation programme is subject to review by Group Internal Audit and regular updates on the implementation are also provided to the Group Risk Committee and the Audit Committee. In addition, there is a Group-wide programme of education and training in place, which includes briefings with the Management Team, the Group Chief Financial Officer, Chief Risk Officer and Chief Information Officer, and independent non-executive directors.

The build phase of the IFRS 9 implementation is underway and testing of the systems will take place in 2017 to embed the changes. The Group will perform a parallel assessment during the second half of 2017 to better understand the implications of IFRS 9. The parallel assessment will allow an evaluation of the impact of the new ECL models on the Group's results, as well as validating the controls and efficiency of new governance and operational processes, including those relating to systems.

#### Classification and measurement

There are three measurement classifications under IFRS 9: amortised cost, fair value through profit or loss (FVTPL) and, for financial assets,

fair value through other comprehensive income (FVOCI). The existing IAS 39 financial asset categories of held to maturity, loans and receivables and available-for-sale (AFS) are removed.

Financial assets are classified into these measurement classifications on the basis of the business model within which they are held, and their contractual cash flow characteristics. Financial assets can only be held at amortised cost if the instruments are held in order to collect the contractual cash flows, and where those contractual cash flows are solely payments of principal and interest (SPPI). Interest in this context represents compensation for the time value of money and associated credit risks together with compensation for other basic lending risks and costs and profit margin.

Financial asset debt instruments that have a hold to collect and sell business model and that meet the SPPI criteria are held at FVOCI, with unrealised gains or losses deferred in reserves until the asset is derecognised. In certain circumstances, non-trading equity instruments can be irrevocably designated as FVOCI but both unrealised and realised gains or losses are recognised in reserves and no amounts other than dividends are recognised in the income statement.

Financial debt instruments that would otherwise be measured at amortised cost or FVOCI can be elected at recognition to be measured at FVTPL. This election is irrevocable and is only available where the Group can demonstrate there is an accounting mismatch. All other financial assets will be held at FVTPL.

The requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39, including the ability to designate financial liabilities as FVTPL. However, the requirements relating to financial liabilities designated at fair value through profit or loss have been amended to require that the change in the fair value of an entity's own credit risk is presented within other comprehensive income rather than net trading income. These amounts would not be recycled to the income statement, even on derecognition of the instrument. The Group has decided to early adopt this change (as permitted by IFRS 9) before the mandatory effective date. Please refer to note 1.

The derecognition requirements under IFRS 9 have been carried forward unchanged from IAS 39. Where the contractual cash flows of a financial instrument not measured at FVTPL have been modified, however, a modification gain or loss is recognised in the income statement if the modification does not result in derecognition. The gain or loss represents the difference in the present value of the contractual cash flows as a result of the modification, discounted at the original effective interest rate.

#### Implementation status

The Group has completed an initial assessment of its business models and, where the business model is "hold to collect" or "hold to collect and sell", has completed the initial analysis of the cash flow characteristics of products within those portfolios. In assessing the business models, the Group has considered, among other factors, what the objective of the business is, how performance is managed and how staff are rewarded. In assessing the cash flow characteristics of products, the Group has reviewed the underlying contractual terms to determine whether the SPPI criteria have been met.

The Group does not currently anticipate that there will be a material change in the measurement classifications under IFRS 9 compared to IAS 39. We expect the majority of loans and advances to banks and customers to continue to be measured at amortised cost. Debt securities classified as available-for-sale will be classified either as FVOCI or amortised cost, depending on the business model. Equity instruments will be held as FVTPL; the Group is not currently proposing to designate any equity instruments as FVOCI.

#### Impairment

Impairment losses under IAS 39 are only recognised when a loss has been incurred. Where this is separately identified at the balance sheet

## 40. IFRS 9 FINANCIAL INSTRUMENTS continued

date, an individual impairment provision is recognised. Where this is not separately identified, a provision is recognised based on past experience for losses that have been incurred at the balance sheet date within the portfolio but have not yet been separately identified. The Group does not currently calculate portfolio impairment provisions for AFS assets or off balance sheet exposures.

Under IFRS 9 the measurement of loan loss provisions will move from the IAS39 incurred loss model to a forward-looking ECL model. This model will be applied to all financial assets measured at amortised cost and FVOCI, lease receivables, and certain loan commitments and financial guarantees. ECL will be recognised regardless of whether a credit loss has been incurred. As a result, together with the increased scope and forward-looking nature of the ECL model, the stock of impairment provisions under IFRS9 is likely to be higher than IAS39.

Under the IFRS 9 ECL approach, an ECL provision is recognised at the time of initial recognition for all financial assets that are in the scope of ECL including off balance sheet exposures in respect of default events that may occur over the next 12 months (so-called "stage 1 assets" with provisions equivalent to 12-months expected credit losses). ECL continues to be determined on this basis until there is either a significant increase in credit risk or the asset becomes credit impaired.

If a financial asset (or portfolio of financial assets) experiences a significant increase in credit risk since initial recognition, however, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset (so-called "stage 2 assets" with provisions equivalent to lifetime expected credit losses). A significant increase in credit risk is assessed in the context of an increase in the risk of a default occurring over the life of the financial instrument when compared to that expected at the time of initial recognition. It is not assessed in the context of an increase in the expected credit loss.

Similar to the current IAS 39 requirements for individual impairment provisions, lifetime expected credit losses are recognised for loans that are in default or are otherwise credit-impaired (so-called 'stage 3 assets').

Financial assets may be reclassified out of stage 3 if they are no longer considered credit-impaired. Financial assets in stage 2 may be reclassified to stage 1 if the conditions that led to a significant increase in credit risk no longer apply.

The measurement of expected credit losses across all stages is required to reflect an unbiased and probability weighted amount that is determined by evaluating a range of reasonably possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Where credit losses are non-linear in nature, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes. The period considered when measuring expected credit loss is the contractual term of the financial asset. However, certain revolving portfolios, including credit cards, would be measured over the period that the Group is exposed to credit risk rather than the contractual term.

As IFRS 9 ECL is more forward looking than IAS 39, the impairment charge will be susceptible to changes in period to period forecasts of macroeconomic conditions. The quantum of ECL will also be impacted by the tenor of the portfolios and expected life for revolving facilities.

For assets measured at amortised cost, the balance sheet amount reflects the gross asset less the allowance for expected credit losses. For instruments held at FVOCI, the balance sheet amount reflects the instrument's fair value, with the expected credit loss held as a separate reserve within other comprehensive income. Expected credit loss allowances on off-balance sheet instruments are held as liability provisions, if the ECL can be separately identified.

### Implementation status

For material portfolios, the Group has adopted a sophisticated approach for determining expected credit losses that makes extensive use of credit

modelling. Where available, the Group is leveraging existing advanced internal rating based (AIRB) regulatory models. For portfolios that follow a standardised regulatory approach, the Group has developed new models where those portfolios are sufficiently material. For less material portfolios, which are predominantly within Retail, the Group intends to use simplified approaches based on historical roll rates or loss rates.

The sophisticated credit models that are used to derive ECL have three main components – forward-looking probability of default (PD), loss given default (LGD) and exposure at default (EAD). These elements are defined as follows:

**Probability of default (PD):** the probability that a counterparty will default, calibrated over the 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2) and incorporating forward looking information.

**Loss given default (LGD):** the loss that is expected to arise on default, incorporating forward-looking information where relevant.

**Exposure at default (EAD):** the expected balance sheet exposure at the time of default, incorporating expectations on drawdowns, amortisation, pre-payments and forward looking information where relevant.

Although the IFRS 9 models leverage the existing Basel risk components, a number of significant adjustments are required to ensure the resulting outcome is in line with the IFRS 9 requirements.

	Basel Expected Loss (EL)	IFRS 9 Expected Credit Loss (ECL)
<b>Rating philosophy</b>	Mix of point-in-time, through-the-cycle or hybrid	Point-in-time, forward-looking
<b>Parameters calibration</b>	Often conservative, due to regulatory floors and downturn calibration	Best estimate, based on conditions known at the balance sheet date
<b>Timeframe</b>	12 month period	12 month and lifetime
<b>Discounting</b>	Discounting at the weighted average cost of capital to the time of default	Discounting at the effective interest rate (EIR) to the balance sheet reporting date

The PD used in assessing both significant increases in credit risk and in the overall computation of expected credit losses will incorporate the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts. These factors collectively reflect the Group's most likely view of future economic conditions across its footprint and will be consistent to those used for strategic planning purposes. In order to account for the potential non-linearity in credit risk, multiple forecast economic scenarios will also be incorporated into the PD (and other parameters, where relevant) and the calculation of ECL, conditioned on the Group's primary economic forecasts. The Group currently intends to incorporate this aspect through the use of a Monte Carlo based approach.

In assessing whether a financial asset or portfolio has experienced a significant increase in credit risk, the Group will consider a number of indicators across its portfolios, including changes in PD since origination, early alert watch lists and external indicators such as credit default swap spreads. As a backstop, financial assets that are 30 or more days past due will be considered to have experienced a significant increase in credit risk.

An asset is only considered credit impaired if there is observed objective evidence of impairment. These factors are similar to the current objective evidence of impairment indicators under IAS 39. This includes, among others, default, significant financial difficulty or forbearance actions (see page 215 for further information on forbearance). The Group intends to align its definition of default to the current regulatory requirements, such that all financial assets that are 90 days or more past due or are considered unlikely to pay will be

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considered as defaulted assets. The determination of credit-impaired ECL provisions will be similar to the current IAS 39 approach; for example, provisions within Corporate & Institutional Banking will continue to be based on the present value of estimated future cash flows for individual clients under a range of scenarios. Where these cash flows include realisable collateral, the values used will incorporate forward-looking information.

The Group's policy on write-offs is expected to remain unchanged.

### Hedge accounting

#### Summary

IFRS 9 aligns hedge accounting more closely with risk management activities and establishes a more principle-based approach to hedge accounting. The IASB is working on a separate project to address the accounting for hedges of open portfolios, usually referred to as 'macro hedge accounting'. 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.

#### Implementation status

The Group's current expectation is that it will continue to apply the existing hedge accounting requirements in IAS 39 until there is further clarification on the IASB's 'macro hedge accounting' project.

#### Impact on capital planning

The introduction of IFRS 9 is likely to have an impact on the Group's capital, in particular arising from the anticipated increase in the provisioning base under an expected credit loss model compared to the current IAS 39 incurred loss approach as there are currently no changes proposed to the overall regulatory framework in response to IFRS 9 before the effective date of 1 January 2018.

For IRB portfolios, the impact on capital will be mitigated to the extent that there is a current deduction for excess regulatory expected losses (EL). Where the IFRS 9 accounting provisions exceed regulatory EL, the excess accounting provisions will reduce the capital base. This means the CET1 capital base could become more volatile as the accounting reflects current conditions whereas the regulatory EL is less volatile as it looks across the economic cycle as a whole. If regulatory EL exceeds the accounting provisions, then the current treatment continues. From a total capital perspective, if there is an excess of accounting provisions, this is added back to the Tier 2 capital base but only up to a limit of 0.6 per cent of credit risk-weighted assets (RWAs).

For standardised portfolios, there will be a direct flow through to capital for any increase in provisions as there is no shortfall of regulatory EL to offset the increase. Risk weights will not be adjusted.

In October 2016 the BCBS initiated a consultation around whether a period of transition relief would be appropriate to spread the initial impact of IFRS 9 over a number of years; it also issued a discussion paper in respect of what changes in the longer term could be made to the regulatory framework given accounting will now reflect expected loss through IFRS 9.

The basis of incorporating IFRS 9 into the Group's internal and external stress testing processes continues to be assessed.



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# Supplementary financial information

## Five-year summary

	2016 \$million	2015 \$million	2014 \$million	2013 \$million	2012 \$million
Operating profit before impairment losses and taxation	<b>3,849</b>	4,116	7,289	8,584	8,061
Impairment losses on loans and advances and other credit risk provisions	<b>(2,791)</b>	(4,976)	(2,141)	(1,617)	(1,196)
Other impairment	<b>(612)</b>	(855)	(1,161)	(1,129)	(196)
Profit/(loss) before taxation	<b>409</b>	(1,523)	4,235	6,064	6,851
(Loss)/profit attributable to shareholders	<b>(247)</b>	(2,194)	2,613	4,090	4,887
Loans and advances to banks <sup>1</sup>	<b>72,609</b>	64,494	83,890	83,702	67,797
Loans and advances to customers <sup>1</sup>	<b>252,719</b>	257,356	284,695	290,708	279,638
Total assets	<b>646,692</b>	640,483	725,914	674,380	631,208
Deposits by banks <sup>1</sup>	<b>36,894</b>	37,611	54,391	43,517	36,427
Customer accounts <sup>1</sup>	<b>371,855</b>	350,633	405,353	381,066	372,874
Shareholders' equity	<b>44,368</b>	46,204	46,432	46,246	45,362
Total capital resources <sup>2</sup>	<b>68,181</b>	70,364	69,685	67,238	64,643
<b>Information per ordinary share</b>					
Basic (loss)/earnings per share	<b>(14.5)c</b>	(91.9)c	97.3c	156.5c	190.1c
Underlying earnings/(loss) per share	<b>3.4c</b>	(6.6)c	138.9c	194.2	214.3c
Dividends per share	<b>–</b>	13.71c	81.85c	81.85c	79.95c
Net asset value per share	<b>1,307.8c</b>	1,366.0c	1,833.9c	1,872.8c	1,852.3c
Net tangible asset value per share	<b>1,163.9c</b>	1,244.1c	1,610.9c	1,597.6c	1,526.5c
Return on assets <sup>3</sup>	<b>0.0%</b>	(0.3)%	0.4%	0.6%	0.8%
<b>Ratios</b>					
Statutory return on ordinary shareholders' equity	<b>(1.1)%</b>	(5.3)%	5.5%	9.0%	5.1%
Underlying return on ordinary shareholders' equity	<b>0.3%</b>	(0.4)%	7.8%	11.2%	12.8%
Basic cost-income ratio	<b>72.6%</b>	73.1%	60.2%	54.3%	57.1%
Cost-income ratio – underlying basis	<b>72.2%</b>	67.8%	58.9%	54.4%	53.7%
Capital ratios:					
CET1/Tier 1 capital <sup>4</sup>	<b>13.6%</b>	12.6%	10.5%	10.9%	13.4%
Total capital <sup>4</sup>	<b>21.3%</b>	19.5%	16.7%	17.0%	17.4%

1. Excludes amounts held at fair value through profit or loss

2. Shareholders' funds, non-controlling interests and subordinated loan capital

3. Represents profit attributable to shareholders divided by the total assets of the Group

4. Unaudited

### Analysis of underlying performance by key country

The following tables provide information for key countries in which the Group operates. The numbers are prepared on a management view. Refer to note 2 for details.

	2016							
	Hong Kong \$million	Korea \$million	China \$million	Singapore \$million	India \$million	UAE \$million	UK \$million	US \$million
<b>Operating income</b>	<b>3,138</b>	<b>881</b>	<b>696</b>	<b>1,489</b>	<b>960</b>	<b>754</b>	<b>791</b>	<b>661</b>
<b>Operating expenses</b>	<b>(1,789)</b>	<b>(761)</b>	<b>(647)</b>	<b>(967)</b>	<b>(569)</b>	<b>(513)</b>	<b>(496)</b>	<b>(658)</b>
<b>Operating profit before impairment losses and taxation</b>	<b>1,349</b>	<b>120</b>	<b>49</b>	<b>522</b>	<b>391</b>	<b>241</b>	<b>295</b>	<b>3</b>
Impairment losses on loans and advances and other credit risk provisions	(194)	(83)	(108)	(106)	(414)	(272)	(411)	(79)
Other impairment	(44)	(2)	—	—	(1)	—	1	—
Profit from associates and joint ventures	—	—	167	—	—	—	—	—
<b>Underlying profit/(loss) before taxation</b>	<b>1,111</b>	<b>35</b>	<b>108</b>	<b>416</b>	<b>(24)</b>	<b>(31)</b>	<b>(115)</b>	<b>(76)</b>
<b>Total assets</b>	<b>137,239</b>	<b>43,917</b>	<b>26,540</b>	<b>83,853</b>	<b>24,729</b>	<b>20,776</b>	<b>122,779</b>	<b>47,609</b>
<b>Of which: Loans to customers</b>	<b>60,866</b>	<b>28,637</b>	<b>10,182</b>	<b>39,141</b>	<b>14,974</b>	<b>10,951</b>	<b>29,996</b>	<b>12,184</b>
<b>Total liabilities</b>	<b>125,697</b>	<b>37,548</b>	<b>24,460</b>	<b>85,198</b>	<b>15,321</b>	<b>14,622</b>	<b>119,111</b>	<b>53,356</b>
<b>Of which: Customer accounts</b>	<b>102,409</b>	<b>28,964</b>	<b>19,920</b>	<b>57,290</b>	<b>11,860</b>	<b>10,721</b>	<b>57,575</b>	<b>27,464</b>
<b>Capital expenditure</b>	<b>1,040</b>	<b>26</b>	<b>21</b>	<b>547</b>	<b>21</b>	<b>3</b>	<b>76</b>	<b>3</b>

	2015							
	Hong Kong \$million	Korea \$million	China \$million	Singapore \$million	India \$million	UAE \$million	UK \$million	US \$million
<b>Operating income</b>	<b>3,442</b>	<b>1,149</b>	<b>889</b>	<b>1,580</b>	<b>997</b>	<b>801</b>	<b>885</b>	<b>799</b>
<b>Operating expenses</b>	<b>(1,736)</b>	<b>(916)</b>	<b>(727)</b>	<b>(951)</b>	<b>(585)</b>	<b>(542)</b>	<b>(512)</b>	<b>(731)</b>
<b>Operating profit before impairment losses and taxation</b>	<b>1,706</b>	<b>233</b>	<b>162</b>	<b>629</b>	<b>412</b>	<b>259</b>	<b>373</b>	<b>68</b>
Impairment losses on loans and advances and other credit risk provisions	(414)	(240)	(239)	(264)	(945)	(350)	(234)	(51)
Other impairment	(7)	(10)	(10)	—	(18)	—	18	—
Profit from associates and joint ventures	—	—	172	—	—	—	—	—
<b>Underlying profit/(loss) before taxation</b>	<b>1,285</b>	<b>(17)</b>	<b>85</b>	<b>365</b>	<b>(551)</b>	<b>(91)</b>	<b>157</b>	<b>17</b>
<b>Total assets</b>	<b>131,517</b>	<b>44,252</b>	<b>26,354</b>	<b>87,380</b>	<b>24,840</b>	<b>22,568</b>	<b>118,836</b>	<b>56,356</b>
<b>Of which: Loans to customers</b>	<b>54,927</b>	<b>27,552</b>	<b>12,268</b>	<b>47,394</b>	<b>15,996</b>	<b>12,456</b>	<b>23,897</b>	<b>11,506</b>
<b>Total liabilities</b>	<b>121,439</b>	<b>38,364</b>	<b>23,250</b>	<b>90,372</b>	<b>14,244</b>	<b>17,136</b>	<b>106,826</b>	<b>54,828</b>
<b>Of which: Customer accounts</b>	<b>97,848</b>	<b>28,055</b>	<b>19,526</b>	<b>60,158</b>	<b>11,110</b>	<b>13,545</b>	<b>47,901</b>	<b>18,321</b>
<b>Capital expenditure</b>	<b>897</b>	<b>19</b>	<b>9</b>	<b>2</b>	<b>8</b>	<b>2</b>	<b>43</b>	<b>3</b>

**Analysis of operating income by product and segment**

The following tables provide a breakdown of the Group's underlying operating income by product and client segment.

	2016					
	Total \$million	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million
Transaction Banking	<b>2,884</b>	<b>2,168</b>	<b>12</b>	<b>703</b>	<b>1</b>	<b>–</b>
Trade	<b>1,199</b>	<b>787</b>	<b>12</b>	<b>399</b>	<b>1</b>	<b>–</b>
Cash Management and Custody	<b>1,685</b>	<b>1,381</b>	<b>–</b>	<b>304</b>	<b>–</b>	<b>–</b>
Financial Markets	<b>2,729</b>	<b>2,486</b>	<b>–</b>	<b>243</b>	<b>–</b>	<b>–</b>
Foreign Exchange	<b>1,150</b>	<b>973</b>	<b>–</b>	<b>177</b>	<b>–</b>	<b>–</b>
Rates	<b>677</b>	<b>659</b>	<b>–</b>	<b>18</b>	<b>–</b>	<b>–</b>
Commodities	<b>190</b>	<b>168</b>	<b>–</b>	<b>22</b>	<b>–</b>	<b>–</b>
Credit and Capital Markets	<b>364</b>	<b>359</b>	<b>–</b>	<b>5</b>	<b>–</b>	<b>–</b>
Other Financial Markets	<b>348</b>	<b>327</b>	<b>–</b>	<b>21</b>	<b>–</b>	<b>–</b>
Corporate Finance	<b>1,897</b>	<b>1,801</b>	<b>–</b>	<b>96</b>	<b>–</b>	<b>–</b>
Wealth Management	<b>1,483</b>	<b>–</b>	<b>1,199</b>	<b>4</b>	<b>280</b>	<b>–</b>
Retail Products	<b>3,658</b>	<b>–</b>	<b>3,458</b>	<b>7</b>	<b>193</b>	<b>–</b>
CCPL and other unsecured lending	<b>1,557</b>	<b>–</b>	<b>1,556</b>	<b>–</b>	<b>1</b>	<b>–</b>
Deposits	<b>1,287</b>	<b>–</b>	<b>1,124</b>	<b>7</b>	<b>156</b>	<b>–</b>
Mortgage and Auto	<b>739</b>	<b>–</b>	<b>703</b>	<b>–</b>	<b>36</b>	<b>–</b>
Other Retail Products	<b>75</b>	<b>–</b>	<b>75</b>	<b>–</b>	<b>–</b>	<b>–</b>
Asset and Liability Management	<b>308</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>308</b>
Lending and Portfolio Management	<b>476</b>	<b>236</b>	<b>–</b>	<b>240</b>	<b>–</b>	<b>–</b>
Principal Finance	<b>(217)</b>	<b>(219)</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>–</b>
Other	<b>590</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>22</b>	<b>568</b>
<b>Total underlying operating income</b>	<b>13,808</b>	<b>6,472</b>	<b>4,669</b>	<b>1,295</b>	<b>496</b>	<b>876</b>

	2015 <sup>1</sup>					
	Total \$million	Corporate & Institutional Banking \$million	Retail Banking \$million	Commercial Banking \$million	Private Banking \$million	Central & other items \$million
Transaction Banking	<b>3,250</b>	<b>2,448</b>	<b>11</b>	<b>790</b>	<b>1</b>	<b>–</b>
Trade	<b>1,481</b>	<b>983</b>	<b>11</b>	<b>486</b>	<b>1</b>	<b>–</b>
Cash Management and Custody	<b>1,769</b>	<b>1,465</b>	<b>–</b>	<b>304</b>	<b>–</b>	<b>–</b>
Financial Markets	<b>2,921</b>	<b>2,533</b>	<b>–</b>	<b>388</b>	<b>–</b>	<b>–</b>
Foreign Exchange	<b>1,401</b>	<b>1,077</b>	<b>–</b>	<b>324</b>	<b>–</b>	<b>–</b>
Rates	<b>758</b>	<b>729</b>	<b>–</b>	<b>29</b>	<b>–</b>	<b>–</b>
Commodities	<b>259</b>	<b>226</b>	<b>–</b>	<b>33</b>	<b>–</b>	<b>–</b>
Credit and Capital Markets	<b>365</b>	<b>362</b>	<b>–</b>	<b>3</b>	<b>–</b>	<b>–</b>
Other Financial Markets	<b>138</b>	<b>139</b>	<b>–</b>	<b>(1)</b>	<b>–</b>	<b>–</b>
Corporate Finance	<b>1,837</b>	<b>1,733</b>	<b>–</b>	<b>102</b>	<b>2</b>	<b>–</b>
Wealth Management	<b>1,633</b>	<b>–</b>	<b>1,263</b>	<b>5</b>	<b>365</b>	<b>–</b>
Retail Products	<b>3,970</b>	<b>–</b>	<b>3,790</b>	<b>15</b>	<b>165</b>	<b>–</b>
CCPL and other unsecured lending	<b>1,909</b>	<b>–</b>	<b>1,908</b>	<b>1</b>	<b>–</b>	<b>–</b>
Deposits	<b>1,185</b>	<b>–</b>	<b>1,050</b>	<b>14</b>	<b>121</b>	<b>–</b>
Mortgage and Auto	<b>798</b>	<b>–</b>	<b>754</b>	<b>–</b>	<b>44</b>	<b>–</b>
Other Retail Products	<b>78</b>	<b>–</b>	<b>78</b>	<b>–</b>	<b>–</b>	<b>–</b>
Asset and Liability Management	<b>371</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>371</b>
Lending and Portfolio Management	<b>720</b>	<b>414</b>	<b>–</b>	<b>306</b>	<b>–</b>	<b>–</b>
Principal Finance	<b>54</b>	<b>53</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>–</b>
Other	<b>683</b>	<b>–</b>	<b>43</b>	<b>(1)</b>	<b>–</b>	<b>641</b>
<b>Total underlying operating income</b>	<b>15,439</b>	<b>7,181</b>	<b>5,107</b>	<b>1,605</b>	<b>534</b>	<b>1,012</b>

1. The 2015 comparatives have been requested to reflect the reorganisation of the Group's client segments and products. Refer to Note 1 and Note 2 for details.

## Average balance sheets and yields, volume and price variances and five-year summary

### 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 2016 and 31 December 2015. For the purpose of these tables, average balances have been determined on the basis of daily balances, except for certain categories, for which balances have been determined less frequently. The Group does not believe that the information presented in these tables would be significantly different had such balances been determined on a daily basis.

	2016			
	Average non-interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield %
<b>Assets</b>				
Cash and balances at central banks	26,395	44,360	213	0.5
Gross loans and advances to banks	4,077	77,298	1,282	1.7
Gross loans and advances to customers	–	267,068	8,749	3.3
Impairment provisions against loans and advances to banks and customers	–	(6,458)	–	–
Investment securities	2,599	126,388	2,766	2.2
Property, plant and equipment and intangible assets	9,502	–	–	–
Prepayments, accrued income and other assets	93,401	–	–	–
Total average assets	135,974	508,656	13,010	2.6
<b>2015</b>				
	Average non-interest earning balance \$million	Average interest earning balance \$million	Interest income \$million	Gross yield %
<b>Assets</b>				
Cash and balances at central banks	17,405	62,960	238	0.4
Gross loans and advances to banks	3,573	79,489	1,020	1.3
Gross loans and advances to customers	76	290,624	10,373	3.6
Impairment provisions against loans and advances to banks and customers	–	(4,232)	–	–
Investment securities	7,009	126,654	2,982	2.4
Property, plant and equipment and intangible assets	9,729	–	–	–
Prepayments, accrued income and other assets	103,964	–	–	–
Total average assets	141,756	555,495	14,613	2.6

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	2016			
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid %
<b>Liabilities</b>				
Deposits by banks	6,691	42,169	494	1.2
Customer accounts:				
Current accounts and savings deposits	43,432	146,480	852	0.6
Time and other deposits	4,859	180,001	2,335	1.3
Debt securities in issue	449	61,636	700	1.1
Accruals, deferred income and other liabilities	90,792	11	–	–
Subordinated liabilities and other borrowed funds	1,426	20,229	835	4.1
Non-controlling interests	105	–	–	–
Shareholders' funds	48,271	–	–	–
Total average liabilities and shareholders' funds	196,025	450,526	5,216	1.2
Net yield				1.4
Net interest margin				1.5
	2015			
	Average non-interest bearing balance \$million	Average interest bearing balance \$million	Interest expense \$million	Rate paid %
<b>Liabilities</b>				
Deposits by banks	6,516	51,803	396	0.8
Customer accounts:				
Current accounts and savings deposits	44,663	160,569	971	0.6
Time and other deposits	5,325	182,148	2,501	1.4
Debt securities in issue	264	77,736	773	1.0
Accruals, deferred income and other liabilities	100,962	5	–	–
Subordinated liabilities and other borrowed funds	878	21,895	565	2.6
Non-controlling interests	113	–	–	–
Shareholders' funds	47,312	–	–	–
Total average liabilities and shareholders' funds	206,033	494,156	5,206	1.1
Net yield				1.5
Net interest margin				1.7

### Volume and price variances

The following table analyses the estimated change in the Group's net interest income attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities, and changes in their respective interest rates for the years presented. Volume and rate variances have been determined based on movements in average balances and average exchange rates over the year and changes in interest rates on average interest-earning assets and average interest-bearing liabilities.

	2016 versus 2015		
	(Decrease)/increase in interest due to:	Rate \$million	Net (decrease)/ increase in interest \$million
	Volume \$million	Rate \$million	Net (decrease)/ increase in interest \$million
<b>Interest-earning assets</b>			
Cash and unrestricted balances at central banks	(89)	64	(25)
Loans and advances to banks	(36)	298	262
Loans and advances to customers	(741)	(883)	(1,624)
Investment securities	(6)	(210)	(216)
Total interest-earning assets	(872)	(731)	(1,603)
<b>Interest-bearing liabilities</b>			
Subordinated liabilities and other borrowed funds	(69)	339	270
Deposits by banks	(113)	211	98
Customer accounts:			
Current accounts and savings deposits	(82)	(37)	(119)
Time and other deposits	(28)	(138)	(166)
Debt securities in issue	(183)	110	(73)
Total interest bearing liabilities	(475)	485	10

	2015 versus 2014		
	Increase/(decrease) in interest due to:	Rate \$million	Net (decrease)/ increase in interest \$million
	Volume \$million	Rate \$million	Net (decrease)/ increase in interest \$million
<b>Interest-earning assets</b>			
Cash and unrestricted balances at central banks	15	(23)	(8)
Loans and advances to banks	(89)	(97)	(186)
Loans and advances to customers	(446)	(1,448)	(1,894)
Investment securities	95	(378)	(283)
Total interest earning assets	(425)	(1,946)	(2,371)
<b>Interest-bearing liabilities</b>			
Subordinated liabilities and other borrowed funds	(50)	(123)	(173)
Deposits by banks	–	(12)	(12)
Customer accounts:			
Current accounts and savings deposits	(57)	19	(38)
Time and other deposits	(270)	(189)	(459)
Debt securities in issue	22	(115)	(93)
Total interest-bearing liabilities	(355)	(420)	(775)

**Convenience translation of selected financial statements into Indian rupees**

In compliance with clause 37(3) of Indian Depository Receipts Listing agreement, the Consolidated financial statements on pages 199 to 205 are presented in Indian rupees (INR) using a US dollar/Indian rupee exchange rate of 67.9547 will occur when and to the extent that the whole or part of a debt is considered irrecoverable. Amounts have been translated using the said exchange rate including totals and sub-totals and any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

**Condensed consolidated income statement (translated to INR)**

For the year ended 31 December 2016

	2016 Rs.million	2015 Rs.million
Interest income	884,091	993,022
Interest expense	(354,452)	(353,772)
<b>Net interest income</b>	<b>529,639</b>	639,250
Fees and commission income	249,462	277,799
Fees and commission expense	(29,900)	(32,686)
<b>Net fees and commission income</b>	<b>219,562</b>	245,113
Net trading income	128,163	61,975
Other operating income	78,080	92,622
<b>Non-interest income</b>	<b>425,805</b>	399,710
<b>Operating income</b>	<b>955,444</b>	1,038,960
Staff costs	(428,318)	(483,770)
Premises costs	(54,160)	(56,470)
General administrative expenses	(161,189)	(173,896)
Depreciation and amortisation	(50,219)	(45,122)
<b>Operating expenses</b>	<b>(693,886)</b>	(759,258)
<b>Operating profit before impairment losses and taxation</b>	<b>261,558</b>	279,702
Impairment losses on loans and advances and other credit risk provisions	(189,662)	(338,143)
Other impairment		
Goodwill	(11,280)	(33,162)
Other	(30,308)	(24,939)
(Loss)/profit from associates and joint ventures	(2,514)	13,047
<b>Profit/(loss) before taxation</b>	<b>27,794</b>	(103,495)
Taxation	(40,773)	(45,734)
<b>Loss for the year</b>	<b>(12,979)</b>	(149,229)
<b>Profit/(loss) attributable to:</b>		
Non-controlling interests	3,806	(136)
Parent company shareholders	(16,785)	(149,093)
<b>Loss for the year</b>	<b>(12,979)</b>	(149,229)

	Rupees	Rupees
<b>Earnings per share:</b>		
Basic earnings per ordinary share	(9.9)	(62.5)
Diluted earnings per ordinary share	(9.9)	(62.5)
<b>Dividends per ordinary share:</b>		
Final dividend recommended/paid	–	–
Interim dividend	–	9.32
Total dividend for the year	–	9.32

	Rs.million	Rs.million
<b>Total dividend:</b>		
Final dividend recommended/paid	–	–
Interim dividend	–	24,871
Total dividend for the year	–	24,871

**Consolidated statement of comprehensive income (translated to INR)**

For the year ended 31 December 2016

	2016 Rs.million	2015 Rs.million
<b>Loss for the year</b>	<b>(12,979)</b>	(149,229)
<b>Other comprehensive loss</b>	<b>(30,239)</b>	(4,553)
<b>Items that will not be reclassified to income statement:</b>		
Own credit losses on financial liabilities designated at fair value through profit and loss	(25,279)	–
Actuarial losses on retirement benefit obligations	(7,135)	(3,873)
Taxation relating to components of other comprehensive income	2,175	(680)
<b>Items that may be reclassified subsequently to income statement:</b>		
Exchange differences on translation of foreign operations:		
Net losses taken to equity	(55,519)	(136,113)
Net gains on net investment hedges	2,039	6,116
Share of other comprehensive loss from associates and joint ventures	(748)	–
Available-for-sale investments:		
Net valuation gains/(losses) taken to equity	3,262	(3,873)
Reclassified to income statement	(12,775)	(22,289)
Cash flow hedges:		
Net losses taken to equity	(5,368)	(4,825)
Reclassified to income statement	3,873	7,271
Taxation relating to components of other comprehensive income	(544)	2,378
Other comprehensive loss for the year, net of taxation	(96,019)	(155,887)
<b>Total comprehensive loss for the year</b>	<b>(108,998)</b>	(305,116)
<b>Total comprehensive loss attributable to:</b>		
Non-controlling interests	3,058	(2,718)
Parent company shareholders	(112,056)	(302,398)
	<b>(108,998)</b>	(305,116)

SUPPLEMENTARY FINANCIAL INFORMATION

**Consolidated balance sheet (translated to INR)**

As at 31 December 2016

	2016 Rs.million	2015 Rs.million
<b>Assets</b>		
Cash and balances at central banks	4,804,805	4,438,257
Financial assets held at fair value through profit or loss	1,364,327	1,590,208
Derivative financial instruments	4,451,644	4,290,864
Loans and advances to banks	4,934,123	4,382,670
Loans and advances to customers	<b>17,173,444</b>	17,488,550
Investment securities	7,405,160	7,798,957
Other assets	2,510,247	2,327,584
Current tax assets	32,211	26,366
Prepayments and accrued income	152,083	147,734
Interests in associates and joint ventures	131,085	131,628
Goodwill and intangible assets	320,678	315,446
Property, plant and equipment	492,807	489,885
Deferred tax assets	87,933	71,964
Assets held for sale	85,215	23,716
<b>Total assets</b>	<b>43,945,761</b>	43,523,830
<b>Liabilities</b>		
Deposits by banks	2,507,121	2,555,844
Customer accounts	<b>25,269,295</b>	23,827,160
Financial liabilities held at fair value through profit or loss	1,127,912	1,418,350
Derivative financial instruments	4,465,439	4,209,046
Debt securities in issue	3,173,484	4,069,127
Other liabilities	2,252,426	2,170,405
Current tax liabilities	22,221	52,257
Accruals and deferred income	354,927	370,421
Subordinated liabilities and other borrowed funds	1,326,680	1,484,946
Deferred tax liabilities	23,988	19,911
Provisions for liabilities and charges	14,474	14,610
Retirement benefit obligations	35,676	30,240
Liabilities included in disposal groups held for sale	65,576	4,893
<b>Total liabilities</b>	<b>40,639,220</b>	40,227,212
<b>Equity</b>		
Share capital	481,867	481,663
Other reserves	783,110	827,824
Retained earnings	1,750,037	1,830,292
<b>Total parent company shareholders' equity</b>	<b>3,015,014</b>	3,139,779
Other equity instruments	269,712	135,026
<b>Total equity excluding non-controlling interests</b>	<b>3,284,726</b>	3,274,805
Non-controlling interests	21,813	21,813
<b>Total equity</b>	<b>3,306,540</b>	3,296,618
<b>Total equity and liabilities</b>	<b>43,945,761</b>	43,523,830

### Consolidated statement of changes in equity (translated to INR)

For the year ended 31 December 2016

	Share capital and share premium account Rs.million	Capital and merger reserve <sup>1</sup> Rs.million	Own credit adjustment reserve Rs.million	Available-for-sale reserve Rs.million	Cash flow hedge reserve Rs.million	Translation reserve Rs.million	Retained earnings Rs.million	Parent company shareholders' equity Rs.million	Other equity instruments Rs.million	Non-controlling interests Rs.million	Total Rs.million
As at 1 January 2015	456,520	845,289	–	30,987	(3,873)	(213,921)	2,040,272	3,155,273	–	20,794	3,176,067
Loss for the year	–	–	–	–	–	–	–	(149,093)	(149,093)	–	(136) (149,229)
Other comprehensive (loss)/income	–	–	–	(22,017)	748	(127,619)	(4,417) <sup>2</sup>	(153,306)	–	(2,582) (155,888)	
Distributions	–	–	–	–	–	–	–	–	–	(1,767)	(1,767)
Shares issued, net of expenses	25,143	318,232	–	–	–	–	–	343,375	–	–	343,375
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	135,026	–	135,026
Net own shares adjustment	–	–	–	–	–	–	(3,941)	(3,941)	–	–	(3,941)
Share option expense, net of taxation	–	–	–	–	–	–	10,057	10,057	–	–	10,057
Dividends, net of scrip <sup>3</sup>	–	–	–	–	–	–	(62,586)	(62,586)	–	–	(62,586)
Other movements <sup>4</sup>	–	–	–	–	–	–	–	–	–	5,504	5,504
As at 31 December 2015	<b>481,663</b>	<b>1,163,521</b>	–	<b>8,970</b>	<b>(3,125)</b>	<b>(341,540)</b>	<b>1,830,292</b>	<b>3,139,779</b>	<b>135,026</b>	<b>21,813</b>	<b>3,296,618</b>
Transfer of own credit adjustment <sup>5</sup>	–	–	<b>42,879</b>	–	–	–	<b>(42,879)</b>	–	–	–	–
(Loss)/profit for the year	–	–	–	–	–	–	<b>(16,785)</b>	<b>(16,785)</b>	–	<b>3,805</b>	<b>(12,979)</b>
Other comprehensive (loss)/income	–	–	(23,241)	(9,242)	(2,650)	(52,937)	(7,203) <sup>2</sup>	(95,272)	–	(748) (96,020)	
Distributions	–	–	–	–	–	–	–	–	–	(2,514)	(2,514)
Shares issued, net of expenses	204	476	–	–	–	–	–	680	–	–	680
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	134,686	–	134,686
Net own shares adjustment	–	–	–	–	–	–	(3,126)	(3,126)	–	–	(3,126)
Share option expense, net of taxation	–	–	–	–	–	–	5,436	5,436	–	–	5,436
Dividends, net of scrip <sup>3</sup>	–	–	–	–	–	–	(15,698)	(15,698)	–	–	(15,698)
Other movements <sup>6</sup>	–	–	–	–	–	–	–	–	–	(544)	(544)
As at 31 December 2016	<b>481,867</b>	<b>1,163,997</b>	<b>19,638</b>	<b>(272)</b>	<b>(5,775)</b>	<b>(394,477)</b>	<b>1,750,037</b>	<b>3,015,014</b>	<b>269,712</b>	<b>21,812</b>	<b>3,306,539</b>

1. Includes capital reserve of Rs.340 million and capital redemption reserve of Rs.883 million

2. Comprises actuarial loss, net of taxation and share from associates and joint ventures of Rs.7,203 million (2015: Rs.4,485 million)

3. Comprises dividends paid of Rs. nil (2015: Rs.51,306 million) and dividends on preference shares classified as equity and Additional Tier 1 securities Rs.15,698 million (2015: Rs.11,280 million)

4. Additional investment from non-controlling interests in one of the Group's subsidiary undertakings

5. Following the Group early adopting IFRS 9 Financial Instruments to present own credit adjustments within other comprehensive income (rather than net trading income)

6. Predominantly due to completion of sale of business with non-controlling interests in Pakistan and issuance of shares to non-controlling interests in Angola

**SUPPLEMENTARY FINANCIAL INFORMATION**

**Cash flow statement (translated to INR)**

For the year ended 31 December 2016

	Group		Company	
	2016 Rs.million	2015 Rs.million	2016 Rs.million	2015 Rs.million
<b>Cash flows from operating activities</b>				
Profit/(loss) before taxation	27,793	(103,495)	13,047	60,004
Adjustments for non-cash items and other adjustments included within income statement	313,611	472,217	47,772	(16,717)
Change in operating assets	(563,073)	2,501,548	7,475	14,203
Change in operating liabilities	888,847	(4,773,410)	(42,064)	(3,873)
Contributions to defined benefit schemes	(6,660)	(7,407)	–	–
UK and overseas taxes paid	(87,458)	(87,322)	(815)	(1,563)
<b>Net cash from/(used in) operating activities</b>	<b>573,061</b>	(1,997,868)	<b>25,415</b>	52,053
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(13,251)	(8,834)	–	–
Disposal of property, plant and equipment	1,563	7,407	–	–
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired	(16,173)	–	(373,751)	(237,841)
Dividends received from associates and joint ventures	204	815	13,863	66,120
Disposal of subsidiaries	43,219	45,326	–	–
Purchase of investment securities	(14,085,242)	(14,237,801)	(271,819)	–
Disposal and maturity of investment securities	14,328,724	13,282,222	88,341	–
<b>Net cash from/(used in) investing activities</b>	<b>259,043</b>	(910,865)	<b>(543,366)</b>	(171,722)
<b>Cash flows from financing activities</b>				
Issue of ordinary and preference share capital, net of expenses	680	343,375	680	343,375
Exercise of share options	340	680	340	680
Purchase of own shares	(3,466)	(4,621)	(3,466)	(4,621)
Issue of Additional Tier 1 capital, net of expenses	134,686	135,026	134,686	135,026
Proceeds from issue of subordinated liabilities	84,943	–	84,943	–
Interest paid on subordinated liabilities	(62,518)	(73,527)	(41,045)	(41,181)
Repayment of subordinated liabilities	(181,167)	(340)	(7,135)	–
Proceeds from issue of senior debt	370,557	366,140	297,981	288,672
Repayment of senior debt	(439,667)	(472,081)	(267,809)	(309,058)
Interest paid on senior debts	(30,851)	(39,686)	(24,803)	(31,259)
(Investment in)/repayment from non-controlling interests	(544)	5,572	–	–
Dividends paid to non-controlling interests and preference shareholders	(18,212)	(13,047)	(15,698)	(11,280)
Dividends paid to ordinary shareholders, net of scrip	–	(51,306)	–	(51,306)
<b>Net cash (used in)/from financing activities</b>	<b>(145,219)</b>	196,185	<b>158,674</b>	319,048
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>686,886</b>	(2,712,548)	<b>(359,277)</b>	199,379
Cash and cash equivalents at beginning of the year	6,009,098	8,825,277	1,394,227	1,194,847
Effect of exchange rate movements on cash and cash equivalents	(105,941)	(103,631)	–	–
<b>Cash and cash equivalents at end of the year</b>	<b>6,590,043</b>	6,009,098	<b>1,034,950</b>	1,394,227

**Company balance sheet (translated to INR)**

As at 31 December 2016

	2016 Rs.million	2015 Rs.million
<b>Non-current assets</b>		
Investments in subsidiary undertakings	<b>2,300,470</b>	1,928,622
<b>Current assets</b>		
Derivative financial instruments	35,948	43,423
Investment securities	1,019,932	836,454
Amounts owed by subsidiary undertakings	1,034,950	1,394,227
	<b>2,090,830</b>	2,274,104
<b>Current liabilities</b>		
Derivative financial instruments	104,718	97,719
Other creditors	27,114	26,298
Taxation	951	1,563
	<b>132,783</b>	125,580
<b>Net current assets</b>	<b>1,958,047</b>	2,148,524
<b>Total assets less current liabilities</b>	<b>4,258,517</b>	4,077,146
<b>Non-current liabilities</b>		
Debt securities in issue	1,164,200	1,175,141
Subordinated liabilities and other borrowed funds	990,915	933,426
	<b>2,155,115</b>	2,108,567
<b>Total assets less liabilities</b>	<b>2,103,402</b>	1,968,579
<b>Equity</b>		
Share capital and share premium	481,867	481,663
Other reserves	1,163,996	1,163,452
Retained earnings	187,827	188,438
<b>Total shareholders' equity</b>	<b>1,833,690</b>	1,833,553
Other equity instruments	269,712	135,026
<b>Total equity</b>	<b>2,103,402</b>	1,968,579

**Company statement of changes in equity (translated to INR)**

For the year ended 31 December 2016

	Share capital and share premium account Rs.million	Capital and merger reserve <sup>1</sup> Rs.million	Retained earnings Rs.million	Other equity instruments Rs.million	Total Rs.million
As at 1 January 2015	456,520	845,289	184,429	—	1,486,237
Profit for the year	—	—	60,004	—	60,004
Shares issued, net of expenses	25,143	318,232	—	135,026	478,401
Net own shares adjustment	—	—	(3,941)	—	(3,941)
Share option expense	—	—	10,465	—	10,465
Dividends, net of scrip <sup>2</sup>	—	—	(62,586)	—	(62,586)
As at 31 December 2015	<b>481,663</b>	<b>1,163,520</b>	<b>188,371</b>	<b>135,026</b>	<b>1,968,580</b>
Profit for the year	—	—	12,843	—	12,843
Shares issued, net of expenses	204	476	—	—	680
Other equity instruments issued, net of expenses	—	—	—	134,686	134,686
Net own shares adjustment	—	—	(3,126)	—	(3,126)
Share option expense	—	—	5,436	—	5,436
Dividends, net of scrip <sup>2</sup>	—	—	(15,698)	—	(15,698)
As at 31 December 2016	<b>481,867</b>	<b>1,163,996</b>	<b>187,826</b>	<b>269,712</b>	<b>2,103,402</b>

1. Includes capital reserve of Rs.340 million and capital redemption reserve of Rs.838 million

2. Comprises dividends paid Rs. Nil (2015: Rs. 51,306 million) and dividends on preference shares classified as equity and Additional Tier1 securities Rs. 15,698 million (2015: Rs. 11,280 million)

**Summary of significant differences between****Indian GAAP and IFRS**

The consolidated financial statements of the Group for the year ended 31 December 2016 with comparatives as at 31 December 2015 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 loss attributable to parent company shareholders for the years ended 31 December 2016 and 31 December 2015 and total parent company shareholders' equity as at the same dates. This section does not provide a comprehensive analysis of such differences. In particular, this description considers only those Indian GAAP pronouncements for which adoption or application is required in financial statements for years ended on or prior to 31 December 2016. The Group has not quantified the effect of differences between IFRS and Indian GAAP, nor prepared consolidated financial statements under Indian GAAP, nor undertaken a reconciliation of IFRS and Indian GAAP financial statements. Had the Group undertaken any such quantification or preparation or reconciliation, other potentially significant accounting and disclosure differences may have come to its attention which are not identified below. Accordingly, the Group does not provide any assurance that the differences identified below represent all the principal differences between IFRS and Indian GAAP relating to the Group. Furthermore, no attempt has been made to identify future differences between IFRS and Indian GAAP. In addition, no attempt has been made to identify all differences between IFRS and Indian GAAP that may affect the financial statements as a result of transaction or events that may occur in the future.

In making an investment decision, potential investors should consult their own professional advisors for an understanding of the differences between IFRS and Indian GAAP and how those differences may have affected the financial results of the Group. The summary does not purport to be complete and is subject and qualified in its entirety by reference to the pronouncements of the International Accounting Standards Board (IASB), together with the pronouncements of the Indian accounting profession.

**Changes in accounting policy*****IFRS (IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)***

Changes in accounting policy are applied retrospectively. Comparatives are restated and the effect of period(s) not presented is adjusted against opening retained earnings of the earliest year presented. Policy changes made on the adoption of a new standard are made in accordance with that standard's transitional provisions.

***Indian GAAP (AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies)***

The cumulative amount of the change is included in the income statement for the period in which the change is made except as specified in certain standards (transitional provision) where the change during the transition period resulting from adoption of the standard has to be adjusted against opening retained earnings and the impact disclosed.

Where a change in accounting policy has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such an amount is not ascertainable, this fact should be indicated.

**Functional and presentation currency*****IFRS (IAS 21 The Effects of Changes in Foreign Exchange Rates)***

An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency.

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 which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction
- Non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined

**Consolidation*****IFRS (IFRS 10 Consolidated Financial Statements)***

Entities are consolidated when the Group controls an entity. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. This also includes entities where control is not derived through voting rights such as structured entities.

***Indian GAAP (AS 21 Consolidated Financial Statements)***

Guidance is based on the power through the ability to govern the financial and operating policies of an entity so as to obtain benefits while not taking into consideration potential voting rights.

No specific guidance is given by Indian GAAP on consolidation of structured entities.

**Business combinations*****IFRS (IFRS 3 Business Combinations)***

All business combinations are treated as acquisitions. Assets, liabilities and contingent liabilities acquired are measured at their fair values. Pooling of interest method is prohibited.

For acquisitions occurring on or after 1 January 2004, IFRS 3 Business Combinations requires that, when assessing the value of the assets of an acquired entity, certain identifiable intangible assets must be recognised and if considered to have a finite life, amortised through the income statement over an appropriate period.

Adjustments to provisional fair values are permitted provided those adjustments are made within 12 months from the date of acquisition, with a corresponding adjustment to goodwill. After 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. 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. 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 they are deemed separable and arise from contractual or other legal rights. Assets with a finite useful life are amortised on a systematic basis over their useful life. An asset with an indefinite useful life and which is not yet available for use should be tested for impairment annually.

#### *Indian GAAP (AS 26 Intangible Assets)*

Intangible assets are capitalised if specific criteria are met and are amortised over their useful life, generally not exceeding 10 years. The recoverable amount of an intangible asset that is not available for use or is being amortised over a period exceeding 10 years should be reviewed at least at each financial year end even if there is no indication that the asset is impaired.

#### **Property, plant and equipment**

##### *IFRS (IAS 16 Property, Plant and Equipment, IAS 23 Borrowing Costs)*

Fixed assets are recorded at cost or revalued amounts. The Group has elected the cost model.

Foreign exchange gains or losses relating to the procurement of property, plant and equipment, under very restrictive conditions, can be capitalised as part of the asset. Depreciation is recorded over the asset's estimated useful life. The residual value and the useful life of an asset and the depreciation method shall be reviewed at least at each financial year end. The Group has the option to capitalise borrowing costs incurred during the period that the asset is getting ready for its intended use.

#### *Indian GAAP (AS 10 Fixed Assets, AS 16 Borrowing Cost and AS 6 Depreciation Accounting)*

Fixed assets are recorded at historical costs or revalued amounts. Relevant borrowing costs are capitalised if certain criteria in AS 16 are met. Depreciation is recorded over the asset's useful life. Schedule II (Part C) of the Companies Act 2013 and Banking Regulations prescribe minimum rates of depreciation and these are typically used as the basis for determining useful life.

#### **Recognition and measurement of financial instruments**

##### *IFRS (IAS 39 Financial Instruments: Recognition and Measurement)*

IAS 39 requires all financial instruments to be initially measured at their fair value, which is usually to be the transaction price. In those cases where the initial fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement, but is amortised to the income statement until the inputs become observable, the transaction matures or is terminated.

At the time of initial recognition, IAS 39 requires all financial assets to be classified as either:

- a) Held at fair value through profit or loss (as a trading instrument or as designated by management), with realised and unrealised gains or losses reflected in profit or loss
- b) Available-for-sale at fair value, with unrealised gains and losses reflected in shareholders' equity and recycled to the income statement when the asset is sold or is impaired
- c) Held-to-maturity at amortised cost, where there is the intent and the ability to hold them to maturity
- d) As loans and receivables at amortised cost

At the time of initial recognition, IAS 39 requires all financial liabilities to be classified as either:

- e) 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
- f) At amortised cost

A financial asset or financial liability, other than one held for trading, can be designated as being held at fair value through profit or loss if it meets the criteria set out below:

- g) The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis
- h) A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis, or
- i) 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.

Following the EU adoption of IFRS 9 Financial Instruments in 2016, the Group early elected IFRS 9 requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss. Fair value movements in these instruments relating to own credit are recorded in other comprehensive income rather than in net trading income, and never recycled to the profit or loss.

**Indian GAAP (AS 13 Investments)**

AS 13 requires investments to be categorised as follows:

- a) Current investments, which are those readily realisable and intended to be held for less than one year, are carried at the lower of cost and fair value, with changes in fair value taken directly to profit or loss
- b) Long-term investments, which are those investments not classified as current, are carried at cost unless there is a permanent diminution in value, in which case a provision for diminution is required to be made by the entity.

For investments, the Reserve Bank of India (RBI) outlines similar classifications to IFRS, but the classification criteria and measurement requirements differ from those set out in IFRS. Financial liabilities are usually carried at cost. There is no ability to designate instruments at fair value.

**Derivatives*****IFRS (IAS 39 Financial Instruments: Recognition and Measurement)***

IAS 39 requires that all derivatives be recognised on balance sheet at fair value. Changes in the fair value of derivatives that are not hedges are reported in the income statement. Changes in the fair value of derivatives that are designated as hedges are either offset against the change in fair value of the hedged asset or liability through earnings or recognised directly in equity until the hedged item is recognised in earnings, depending on the nature of the hedge. The ineffective portion of the hedge's change in fair value is immediately recognised in earnings. A derivative may only be classified as a hedge if an entity meets stringent qualifying criteria in respect of documentation and hedge effectiveness.

IAS 39 requires the separation of derivatives embedded in a financial instrument if it is not deemed to be closely related to the economic characteristics of the underlying host instrument.

***Indian GAAP***

Foreign exchange contracts held for trading or speculative purposes are carried at fair value, with gains and losses recognised in the income statement. In the absence of specific guidance, equity options are carried at the lower of cost or market value.

For banks, there are guidelines prescribed by the RBI on measurement and accounting of Interest Rate Swaps and Forward Rate Agreements entered into for hedging purposes.

**Impairment of financial assets*****IFRS (IAS 39 Financial Instruments: Recognition and Measurement)***

At each balance sheet date, an assessment is made as to whether there is any objective evidence of impairment. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment.

***Assets held at amortised cost***

If objective evidence of impairment exists, an assessment is made to determine what, if any, impairment loss should be recognised. The impairment loss is the difference between the asset's carrying amount and its estimated recoverable amount.

The recoverable amount is determined based on the present value of expected future cash flows, discounted at the instrument's original effective interest rate, either individually or collectively. Individually assessed assets for which there is no objective evidence of impairment are collectively assessed for impairment.

***Available-for-sale assets***

If objective evidence of impairment exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any previously recognised impairment) is removed from equity and recognised in the income statement.

Market recoveries leading to a reversal of an impairment provision for available-for-sale debt securities are recognised in the income statement. Impairment losses for equity instruments classified as available-for-sale are not permitted to be reversed through profit or loss.

**Indian GAAP (AS 13 Investments)**

Long-term investments are written down when there is a decline in fair value, which is deemed to be other than temporary. Impairments may be reversed through the income statement in subsequent periods if the investment rises in value or the reasons for the impairment no longer exist.

In accordance with RBI regulations, in respect of available-for-sale investments, impairments are required to be reversed through Investment Reserve Account (equity reserve) if the investment rises in value or the reasons for the impairment no longer exist.

For loans and advances, the RBI regulations stipulate minimum provisions based on days past due. Additionally, RBI regulations require banks to hold provisions in respect of standard assets, specific country risk exposures and unhedged foreign currency exposure.

**De-recognition 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 de-recognition of financial assets. Securitised financial assets can only be de-recognised if the originator has surrendered control over the assets. Control is not surrendered where the securitised assets are not beyond the reach of the creditors of the originator or where the transferee does not have the right to pledge, sell, transfer or exchange the securitised asset for its own benefit, or where there is an option that entitles the originator to repurchase the financial assets transferred under a securitisation transaction from the transferee.

**Liabilities and equity*****IFRS (IAS 39 Financial Instruments: Recognition and Measurement)***

A financial instrument is classified as a liability where there is a contractual obligation to deliver either cash or another financial asset to the holder of that instrument, regardless of the manner in which the contractual obligation will be settled. Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

***Indian GAAP***

Classification is based on the legal form rather than substance.

**Provisions for liabilities and charges*****IFRS (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)***

The amount recognised as a provision is the best estimate at the balance sheet date of the expenditure required to settle the obligation, discounted using a pre-tax market discount rate if the effect is material.

***Indian GAAP (AS 29 Provisions, Contingent Liabilities and Contingent Assets)***

Provisions are recognised and measured on a similar basis to IFRS, except that there is no requirement for discounting the provision or liability.

**Pension obligations*****IFRS (IAS 19 Employee Benefits)***

For defined contribution plans, contributions are charged to operating expenses. For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans, the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds. Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of

other comprehensive income in the period they arise. The net interest expense on the net defined liability for the year is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payment. Net interest expense and other expense related to defined benefit plans are recognised in the income statement.

#### **Indian GAAP (AS 15 Employee Benefits)**

The discount rate to be used for determining defined benefit obligations is established by reference to market yields at the balance sheet date on government bonds. The expected return on plan assets is based on market expectation for the returns over the entire life of the related obligation. Actuarial gains or losses are recognised immediately in the statement of income.

#### **Share-based compensation**

##### **IFRS (IFRS 2 Share-based payments)**

IFRS 2 requires that all share-based payments are accounted for using a fair value method. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For equity-settled awards, the total amount to be expensed over the vesting period must be determined by reference to the fair value of the options granted (determined using an option pricing model), excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions must be included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards must be revalued at each balance sheet date on an intrinsic value basis (being the difference between the market price of the share at the measurement date and the exercise price) with any changes in fair value charged or credited to staff costs in the income statement.

Deferred tax is recognised based on the intrinsic value of the award and is recorded in the income statement if the tax deduction is less than or equal to the cumulative share-based compensation expense or equity if the tax deduction exceeds the cumulative expense.

#### **Indian GAAP**

Entities may either follow the intrinsic value method or the fair value method for determining the costs of benefits arising from share-based compensation plans. Although the fair value approach is recommended, entities may use the intrinsic value method and provide fair value disclosures.

Deferred tax is not recognised as it is not considered to represent a timing difference.

Entities are also permitted the option of recognising the related compensation cost over the service period for the entire award (that is, over the service period of the last separately vesting portion of the award), provided that the amount of compensation cost recognised at any date at least equals the fair value of the vested portion of the award at that date.

#### **Deferred taxation**

##### **IFRS (IAS 12 Income Taxes)**

Deferred tax is determined based on temporary differences, being the difference between the carrying amount and tax base of assets and liabilities, subject to certain exceptions.

Deferred tax assets are recognised if it is probable (more likely than not) that sufficient future taxable profits will be available to utilise to deferred tax assets.

#### **Indian GAAP (AS 22 Accounting for Taxes on Income)**

Deferred tax is determined based on timing differences, being the difference between accounting income and taxable income for a period that is capable of reversal in one or more subsequent periods.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### **Interest income and expense**

##### **IFRS (IAS 18 Revenue)**

Interest income and expense is recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

#### **Indian GAAP (AS 9 Revenue Recognition)**

As per AS 9, interest is recognised on a time proportion basis, taking into account the amount outstanding and the rate applicable. In the absence of a specific effective interest rate requirement, premiums and discounts are usually amortised on a straight-line basis over the term of the instrument.

#### **Dividends**

##### **IFRS (IAS 10 Events after the reporting date)**

Dividends to holders of equity instruments, when proposed or declared after the balance sheet date, should not be recognised as a liability on the balance sheet date. A company, however, is required to disclose the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue.

#### **Indian GAAP**

Accounting and disclosure of dividends is similar to IFRS with effect from 1 April 2016.

# Supplementary people information

## Countries

	2016	2015	2014
Global	68	67	71

## Workforce profile

### Headcount

	2016	2015	2014
Global total	86,693	84,076	90,940
of which businesses	43,286	42,036	49,638
of which support services	43,407	42,040	41,302
(Decline)/growth	2,617	(6,864)	4,300
(Decline)/growth percentage	3%	(8%)	5%

### Location of employees (by region)

	2016 %	2015 %	2014 %
Greater China North Asia	24	26	27
ASEAN and South Asia	55	52	50
Africa and Middle East	17	18	19
Europe and Americas	4	4	4

### Employee attrition

	2016 %	2015	2014
Employee turnover rate	19.0	21.7	18.5
Employee voluntary turnover rate	14.4	16.7	15.1

### Years of service

	2016 %	2015	2014
0-5 years	60	59	61
5-10 years	21	23	22
> 10 years	19	18	17

### Age of employees

	2016 %	2015	2014
< 30 years	29	29	32
30-50 years	65	65	62
> 50 years	6	6	6

### Gender

	2016 %	2015	2014
Female representation global total	46	47	47
By region:			
Greater China North Asia	63	63	60
ASEAN and South Asia	41	41	42
Africa and Middle East	41	41	41
Europe and Americas	44	44	44
Female management <sup>1</sup>	25	25	23
Female senior management <sup>2</sup>	14	12	15
Female executive and non-executive director	23	23	11

1. Includes Executive Director and Bands 1 to 4

2. Includes Executive Director and Bands 1 to 2

2016 data as at 31 December 2016

Nationalities (aggregate number)	2016	2015	2014
Global	130	135	133
Senior management <sup>1</sup>	33	32	29
Nationalities (percentage of total workforce)	2016 %	2015 %	2014 %
Greater China North Asia	23	25	26
ASEAN and South Asia	54	52	49
Africa and Middle East	15	16	17
Europe and Americas	6	5	5
Others (includes markets where no operations)	2	2	3
Learning	2016	2015	2014
Employees receiving training (%)	95	93	94
High potential employee receiving training (%)	98	91	97
Average number of training days per employee	3.5	3.3	3.2
Average spend on training per employee (\$)	677	781	764
Performance and reward	2016	2015	2014
Performance review	2016 %	2015 %	2014 %
Employees with completed objectives	99	99	100
Employees reviewed and appraised against performance objectives (achievement, values and behaviour)	99	99	98
Staff cost	2016	2015	2014
Total staff costs (\$million)	6,303	7,119	6,788
Discretionary incentive pool (\$million)	1,039	993	1,098
Absenteeism	2016 %	2015 %	2014 %
Sick leave absence/days lost	0.9	0.8	0.8
Employees that have taken sick leave	43.4	42.7	37.0

1. Includes Executive Director and Bands 1 to 2

2016 data as of 31 December 2016

# Supplementary sustainability information

## Contributing to sustainable economic growth

Microfinance	2016	2015	2014
Loans extended (\$million)	409.9	271.6	318.1
Clean technology	2016	2015 <sup>1</sup>	2014
Value of funds provided and facilitated (\$million)	800.8	968.0	798.6

1. Data in this table has been restated from 2015

## Environmental and social risk management

Employees trained in environmental and social risk management	2016	2015	2014
Employees trained <sup>1</sup>	118	1,708	2,477

1. Employees targeted for training are those in client-facing roles and relevant support teams. During 2014 a new policy framework was launched, requiring a significant level of training to be delivered between 2014 and 2015 and thus a one-off increase in training attendance

## Equator Principles

	Project finance mandates			Project-related corporate loans			Project advisory mandates
	Cat A <sup>1</sup>	Cat B <sup>2</sup>	Cat C <sup>3</sup>	Cat A	Cat B	Cat C	
Total 2013	9	29	3	–	–	–	4
Total 2014	3	11	–	1	4	–	5
Total 2015	4	9	–	–	1	–	0
<b>Total 2016</b>	<b>7</b>	<b>6</b>	–	–	–	–	<b>2</b>
<b>2016</b>							
Sector							
Mining	1	–	–	–	–	–	N/A
Infrastructure	–	3	–	–	–	–	N/A
Oil & Gas	2	–	–	–	–	–	N/A
Renewables	–	–	–	–	–	–	N/A
Telecoms	–	–	–	–	–	–	N/A
Power	2	3	–	–	–	–	N/A
Other	2	–	–	–	–	–	N/A
Region							
Greater China	1	1	–	–	–	–	N/A
North East Asia	–	–	–	–	–	–	N/A
South Asia	1	1	–	–	–	–	N/A
ASEAN	–	–	–	–	–	–	N/A
MENAP	3	4	–	–	–	–	N/A
Africa	2	–	–	–	–	–	N/A
Americas	–	–	–	–	–	–	N/A
Europe	–	–	–	–	–	–	N/A
Designation <sup>4</sup>							
Designated	–	–	–	–	–	–	N/A
Non-designated	7	6	–	–	–	–	N/A
Independent review							
Yes	7	6	–	–	–	–	N/A
No	–	–	–	–	–	–	N/A

1. 'Cat A' or Category A are projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented

2. 'Cat B' or Category B are projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures

3. 'Cat C' or Category C are projects with minimal or no adverse environmental and social risks and/or impacts

4. 'Designation' is split into designated and non-designated countries. Designated countries are deemed by the Equator Principles to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment. Non-designated countries are countries that are not found on the list of designated countries. The list of countries can be found at equator-principles.com

**Being a responsible company****Environment**

	Measured	Scaled-up	Measured	Scaled-up	Measured	Scaled-up
	2016		2015		2014	
Offices reporting	<b>189</b>		190	–	201	–
Net internal area of occupied property (m <sup>2</sup> )	<b>840,510</b>	<b>1,237,043</b>	846,480	1,261,320	891,338	1,308,959
Green lease clause inclusion <sup>1</sup> (%)	<b>71</b>	–	67	–	–	–
Occupied net internal area where data is collected (%)	<b>72</b>	–	73	–	75	–
Full-time employees (FTE)	<b>58,699</b>	<b>86,693</b>	58,528	84,076	78,216	90,940
Annual operating income from 1 October to 30 September (\$m)	–	<b>12,515</b>	–	17,566	–	18,105
<b>Greenhouse gas emissions – Absolute (tonnes CO<sub>2</sub>eq/year)</b>						
Scope 1 emissions (combustion of fuels)	<b>6,312</b>	<b>13,562</b>	8,865	16,904	11,307	20,144
Scope 2 emissions (purchased electricity)	<b>136,570</b>	<b>186,553</b>	132,030	184,912	140,825	192,403
Scope 1 & 2 emissions	<b>142,882</b>	<b>200,115</b>	140,895	201,816	152,132	212,547
Scope 3 emissions without distance uplift (air travel)	<b>49,393</b>	<b>52,056</b>	54,519	54,519	54,216	55,296
Scope 3 emissions with distance uplift (air travel)	<b>53,839</b>	<b>56,741</b>	59,426	59,426	59,095	60,273
Scope 1, 2 & 3 emissions	<b>192,275</b>	<b>252,171</b>	195,414	256,335	206,348	267,843
Scope 3 emissions (Global Data Centre) <sup>2</sup>	–	<b>22,653</b>	–	19,339	–	–
<b>Greenhouse gas emissions – Intensity</b>						
Scope 1 & 2 emissions/m <sup>2</sup> (kg CO <sub>2</sub> eq/m <sup>2</sup> /year)	<b>170</b>	<b>162</b>	166	160	171	162
Scope 1 & 2 emissions/FTE (tonnes CO <sub>2</sub> eq/FTE/year)	<b>2.43</b>	<b>2.31</b>	2.41	2.40	1.95	2.34
Scope 3 emissions/FTE without distance uplift (tonnes CO <sub>2</sub> eq/FTE/year)	<b>0.57</b>	<b>0.60</b>	0.64	0.65	0.54	0.54
Scope 3 emissions/FTE with distance uplift (tonnes CO <sub>2</sub> eq/FTE/year)	<b>0.62</b>	<b>0.65</b>	0.69	0.71	0.58	0.58
Scope 1, 2 & 3 emissions/m <sup>2</sup> (kg CO <sub>2</sub> eq/m <sup>2</sup> /year)	<b>229</b>	<b>204</b>	231	203	232	205
Scope 1, 2 & 3 emissions/FTE (tonnes CO <sub>2</sub> eq/FTE/year)	<b>3.28</b>	<b>2.91</b>	3.34	3.05	2.64	2.95
Scope 1 & 2 emissions/\$m operating income (tonnes CO <sub>2</sub> eq/\$m/year)	–	<b>15.99</b>	–	11.49	–	11.74
Scope 1, 2 & 3 emissions/\$m operating income (tonnes CO <sub>2</sub> eq/\$m/year)	–	<b>20.15</b>	–	14.59	–	14.79
<b>Environmental resource efficiency</b>						
Energy						
Indirect non-renewable energy consumption <sup>3</sup> (GWh/year)	<b>185</b>	<b>245</b>	201	284	215	298
Indirect renewable energy consumption <sup>4</sup> (GWh/year)	<b>23</b>	<b>20</b>	14	13	8	8
Direct non-renewable energy consumption <sup>5</sup> (GWh/year)	<b>26</b>	<b>47</b>	36	68	46	86
Direct renewable energy consumption <sup>6</sup> (GWh/year)	–	–	–	–	–	–
On-site renewable energy consumption <sup>7</sup> (MWh/year)	<b>247</b>	<b>247</b>	276	276	115	115
Energy consumption <sup>8</sup> (GWh/year)	<b>234</b>	<b>312</b>	252	365	287	405
Energy consumption/FTE (kWh/FTE/year)	<b>3,986</b>	<b>3,599</b>	4,306	4,341	3,669	4,453
Energy consumption/m <sup>2</sup> (kWh/m <sup>2</sup> /year)	<b>278</b>	<b>252</b>	298	289	322	309
Water						
Water consumption (ML/year)	<b>917</b>	<b>1,181</b>	793	1,037	814	1,191
Water consumption/FTE (m <sup>3</sup> /FTE/year)	<b>16</b>	<b>14</b>	14	12	10	13
Water consumption/m <sup>2</sup> (kL/m <sup>2</sup> /year)	<b>1.09</b>	<b>0.95</b>	0.94	0.82	1.03	0.91
Paper						
Print paper consumption (ktonnes/year)	<b>0.74</b>	<b>1.14</b>	1.04	1.50	1.51	1.75
Print paper consumption/FTE (kg/FTE/year)	<b>12.61</b>	<b>13.15</b>	17.70	17.70	19.25	19.25
Waste						
Waste (ktonnes/year)	<b>5</b>	<b>6.4</b>	5.2	6.6	5.9	7.2
Waste/FTE (kg/FTE/year)	<b>85</b>	<b>74</b>	89	79	75	79
Waste reused or recycled (%)	<b>38</b>	<b>38</b>	27	27	28	28
Retired IT equipment reused or recycled (ktonnes/year) <sup>9</sup>	<b>0.15</b>	<b>0.23</b>	0.19	0.29	0.16	0.28

1. Percentage of green lease clause inclusion in all new and renewed leases within the reporting year, please refer to the eco efficiency criteria for more information

2. Scope 3 emissions calculated from total energy consumption from our outsourced global data centres

3. Indirect non-renewable energy refers to purchased electricity from non-renewable sources

4. Indirect renewable energy refers to purchased electricity from off-site renewable sources

5. Direct non-renewable energy refers to the gross calorific values of fuels consumed on-site

6. Direct renewable energy refers to the gross calorific values of renewable fuels consumed on-site

7. On-site renewable energy refers to renewable energy generated and consumed on-site

8. The 2014 measured energy total of 287 GWh includes an estimated 18 GWh of energy for locations where invoices were not available at the reporting date

9. Data restated from 2015

**Additional notes on environment data**

The emissions within our inventory correspond to a reporting period of 1 October 2015 to 30 September 2016. 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.

'Measured' data is collected from Global Environment Management System (GEMS) properties, defined as all properties that are over 10,000 square feet for energy and water. For paper and business travel, it is defined per full-time employee.

'Scaled-up' data is an extrapolation made from measured data to account for 100 per cent of the Group's occupied property footprint for energy and water. For paper and business travel, it is defined per full-time employee (as at the end of the reporting period).

Carbon abatement benefit from indirect renewable energy is not taken into account.

Total energy use is normalised to reflect periods of vacancy in certain sites during the reporting period.

Net internal areas used for water use intensity do not include sites that have reported zero water consumption in demised areas.

Warehouses, empty land, car parks, unoccupied sites for business continuity purposes, residential properties, space occupied by automated teller machines, vaults and space sub-let to tenants are excluded from this extrapolation.

Scope 3 emissions are drawn from reliable data collected from 20 countries, based on seating class and distance flown.

As we operate largely outside of the UK, all flights domestic or international with flight distance of less than 463km, labelled by the Department for Business, Energy and Industrial Strategy (DBEIS) as 'domestic flights', have been classified as 'short haul'. All flights with distance flown ranging from 463 to 1,108km, labelled by DBEIS as 'short haul' have been classified as 'medium haul'.

The Carbon Trust is our independent third-party assurance provider for Greenhouse Gas (GHG) emissions. In 2016, our measured Scope 1 and Scope 2 emissions were assured by The Carbon Trust, ensuring the accuracy and credibility of our reporting. For additional information, review the Independent Assurance Report at [sc.com/EnvironmentalAssurance](http://sc.com/EnvironmentalAssurance)

**Financial crime prevention**

	2016 %	2015 %
Staff completing anti-money laundering (AML) e-learning	<b>97.7</b>	92.5
Staff completing anti-bribery and corruption (ABC) e-learning	<b>97.9</b>	96.0
Staff completing sanctions e-learning <sup>1</sup>	<b>97.9</b>	–

1. A dedicated e-learning on sanctions was developed and launched during 2016, replacing the sanctions content previously integrated into the AML training

**Investing in communities****Community expenditure**

	2016 \$million	2015 \$million	2014 \$million
Cash contributions	<b>20.8</b>	24.5	25.2
Employee time (non-cash item)	<b>17.3</b>	20.0	23.6
Gifts in Kind (non-cash item) <sup>1</sup>	–	0.1	0.1
Management costs	<b>4.7</b>	5.5	5.8
<b>Total (direct investment by the Group)</b>	<b>42.8</b>	50.1	54.7
Leverage <sup>2</sup>	<b>9.5</b>	10.2	9.5
<b>Total (incl. leverage)</b>	<b>52.3</b>	60.3	64.2
<b>Percentage of prior year operating profit (PYOP)<sup>3</sup></b>	–	1.42	1.06

1. Gifts in Kind comprises all non-monetary donations

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

3. This metric is not meaningful based on 2015 operating profit

# Shareholder information

## Dividend and interest payment dates

### Ordinary shares

The Board has taken the decision to pay no final dividend for the year ended 31 December 2016.

Preference shares	1st half yearly dividend	2nd half yearly dividend
7% per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2017	1 October 2017
8½ per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2017	1 October 2017
6.409 per cent Non-cumulative redeemable preference shares of \$5 each	30 January 2017	30 July 2017
7.014 per cent Non-cumulative redeemable preference shares of \$5 each	30 January 2017	30 July 2017

### Annual general meeting

The Annual General Meeting (AGM) details are as follows:

Date and time	Location
Wednesday 3 May 2017	etc venues
11.00am London time (6.00pm Hong Kong time)	200 Aldersgate St Paul's London EC1A 4HD

Details of the business to be transacted at the AGM are included in the Notice of AGM.

 **Details of voting at the Company's AGM and of proxy votes cast can be found on the Company's website at investors.sc.com**

### Interim results

The interim results will be announced to the London Stock Exchange, The 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 2016, on or before 31 December 2017. We have also published our approach to tax and tax policy.

 **This information will be available on the Group's website at sc.com**

### ShareCare

ShareCare is available to shareholders on the Company's UK register who have a UK address and bank account, and allows you to hold your Standard Chartered shares in a nominee account. Your shares will be held in electronic form so you will no longer have to worry about keeping your share certificates safe. If you join ShareCare you will still be invited to attend the Company's AGM and receive any dividend at the same time as everyone else. ShareCare is free to join and there are no annual fees to pay.

 **If you would like to receive more information, please visit our website at investors.sc.com/en/resource.cfm or contact the shareholder helpline on 0370 702 0138.**

### Previous dividend payments (unadjusted for the impact of the 2015/2010/2008 Rights Issues)

Dividend and financial year	Payment date	Dividend per ordinary share	Cost of one new ordinary share under share dividend scheme
Interim 2006	11 October 2006	20.83c/11.14409p/HK\$1.622699	£13.2360/\$25.03589
Final 2006	11 May 2007	50.21c/25.17397p/HK\$3.926106	£14.2140/\$27.42591
Interim 2007	10 October 2007	23.12c/11.39043p/HK\$1.794713	£15.2560/\$30.17637
Final 2007	16 May 2008	56.23c/28.33485p/HK\$4.380092	£16.2420/\$32.78447
Interim 2008	9 October 2008	25.67c/13.96133p/HK\$1.995046	£14.00/\$26.0148
Final 2008	15 May 2009	42.32c/28.4693p/HK\$3.279597	£8.342/\$11.7405
Interim 2009	8 October 2009	21.23c/13.25177p/HK\$1.645304	£13.876/\$22.799
Final 2009	13 May 2010	44.80c/29.54233p/HK\$3.478306	£17.351/\$26.252
Interim 2010	5 October 2010	23.35c/14.71618p/HK\$1.811274/INR0.984124 <sup>1</sup>	£17.394/\$27.190
Final 2010	11 May 2011	46.65c/28.272513p/HK\$3.623404/INR1.9975170 <sup>1</sup>	£15.994/\$25.649
Interim 2011	7 October 2011	24.75c/15.81958125p/HK\$1.928909813/INR1.13797125 <sup>1</sup>	£14.127/\$23.140
Final 2011	15 May 2012	51.25c/31.63032125p/HK\$3.9776083375/INR2.6667015 <sup>1</sup>	£15.723/\$24.634
Interim 2012	11 October 2012	27.23c/16.799630190p/HK\$2.111362463/INR1.349803950 <sup>1</sup>	£13.417/\$21.041
Final 2012	14 May 2013	56.77c/36.5649893p/HK\$4.4048756997/INR2.976283575 <sup>1</sup>	£17.40/\$26.28792
Interim 2013	17 October 2013	28.80c/17.8880256p/HK\$2.233204992/INR1.6813 <sup>1</sup>	£15.362/\$24.07379
Final 2013	14 May 2014	57.20c/33.9211444p/HK\$4.43464736/INR3.354626 <sup>1</sup>	£11.949/\$19.815
Interim 2014	20 October 2014	28.80c/17.891107200p/HK\$2.2340016000/INR1.671842560 <sup>1</sup>	£12.151/\$20.207
Final 2014	14 May 2015	57.20c/37.16485p/HK\$4.43329/INR3.514059 <sup>1</sup>	£9.797/\$14.374
Interim 2015	19 October 2015	14.40c/9.3979152p/HK\$1.115985456/INR0.86139372 <sup>1</sup>	£8.5226/\$13.34383
Final 2015	No dividend declared	N/A	N/A
Interim 2016	No dividend declared	N/A	N/A

1. The INR dividend is per Indian Depository Receipt

**Donating shares to ShareGift**

Shareholders who have a small number of shares often find it uneconomical to sell them. An alternative is to consider donating them to the charity ShareGift (registered charity 1052686), which collects donations of unwanted shares until there are enough to sell, and uses the proceeds to support UK charities. There is no implication for Capital Gains Tax (no gain or loss) when you donate shares to charity, and UK taxpayers may be able to claim income tax relief on the value of their donation.

 Further information can be obtained from the Company's registrars or from ShareGift on 020 7930 3737 or from ShareGift.org

**Bankers' Automated Clearing System (BACS)**

Dividends can be paid straight into your bank or building society account.

 Please register online at [investorcentre.co.uk](http://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 or call the shareholder helpline number on 0370 702 0138.

If you hold your shares on the Hong Kong branch register and you have enquiries, please contact Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

 You can check your shareholding at [computershare.com/hk/investors](http://computershare.com/hk/investors)

If you hold Indian Depository Receipts and you have enquiries, please contact Karvy Computershare Private Limited, Karvy Selenium Tower B, Plot 31-32, Gachibowli, Financial District, Nanakramguda, Hyderabad 500032, India.

**Chinese translation**

If you would like a Chinese version of the 2016 Annual Report and Accounts please contact Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

本年報之中文譯本可向香港中央證券登記有限公司索取，地址：香港灣仔皇后大道東183號合和中心17M樓

Shareholders on the Hong Kong branch register who have asked to receive corporate communications in either Chinese or English can change this election by contacting Computershare.

If there is a dispute between any translation and the English version of this Annual Report and Accounts, the English text shall prevail.

**Taxation**

Information on taxation applying to dividends paid to you if you are a shareholder in the UK, Hong Kong or the US will be sent to you with your dividend documents.

**Electronic communications**

If you hold your shares on the UK register and in future you would like to receive the Annual Report and Accounts electronically rather than by post, please register online at: [investorcentre.co.uk](http://investorcentre.co.uk). Then click on Register and follow the instructions. You will need to have your Shareholder or ShareCare reference number when you log on. You can find this on your share certificate or ShareCare statement. Once registered you can also submit your proxy vote and dividend election electronically, and change your bank mandate or address information.

**Forward-looking statements**

This document may contain 'forward-looking statements' that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as may, could, will, expect, intend, estimate, anticipate, believe, plan, seek, continue or other words of similar meaning. By their very nature, such statements are subject to known and unknown risks and uncertainties and can be

affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. Recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. The factors that could cause actual results to differ materially from those described in the forward-looking statements include (but are not limited to) changes in global, political, economic, business, competitive, market and regulatory forces or conditions, future exchange and interest rates, changes in tax rates, future business combinations or dispositions and other factors specific to the Group.

Any forward-looking statement contained in this document is based on past or current trends and/or activities of the Group and should not be taken as a representation that such trends or activities will continue in the future. No statement in this document is intended to be a profit forecast or to imply that the earnings of the Group for the current year or future years will necessarily match or exceed the historical or published earnings of the Group. Each forward-looking statement speaks only as of the date of the particular statement.

Except as required by any applicable laws or regulations, the Group expressly disclaims any obligation to revise or update any forward-looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

Nothing in this document shall constitute, in any jurisdiction, an offer or solicitation to sell or purchase any securities or other financial instruments, nor shall it constitute a recommendation or advice in respect of any securities or other financial instruments or any other matter.

# Major awards 2016

## Banking awards



### Asia Risk Awards 2016

- Interest Rates House of the Year
- Energy/Commodities House of the Year

### Asia Risk Corporate and Institutional Ranking 2016

- Corporate: Overall: Interest Rate Products (1st placing)
- Corporate: Overall: Currency Products (1st placing)
- Corporate: Interest Rate Products: HKD (1st placing)
- Corporate: Interest Rate Products: IDR (1st placing)
- Corporate: Interest Rate Products: INR (1st placing)
- Corporate: Interest Rate Products: RMB (1st placing)
- Corporate: Currency Rate Products: HKD (1st placing)
- Corporate: Currency Rate Products: THB (1st placing)
- Corporate: Currency Rate Products: INR (1st placing)



### World's Best Trade Finance Providers 2016

- Best Trade Bank – Hong Kong
- Best Bank for Trade Finance in Frontier Markets



### Global Finance Stars of China 2016

- Best Supply Chain Finance Provider
- Best RMB Services
- Best FX and Interest Rate Hedging
- Subcustodian



### World's Best Global Banks 2016

- World's Best Subcustody Bank 2016



### World's Best Digital Banks Awards 2016

- World's Best Consumer Digital Banks in Asia-Pacific – Bangladesh
- World's Best Consumer Digital Banks in Asia-Pacific – Brunei
- World's Best Consumer Digital Banks in Asia-Pacific – Nepal
- World's Best Consumer Digital Banks in Asia-Pacific – Pakistan
- World's Best Consumer Digital Banks in Asia-Pacific – Sri Lanka
- World's Best Consumer Digital Banks in Asia-Pacific – Thailand
- Best Information Security Initiatives

- Best in Mobile Banking
- Best Mobile Banking App
- World's Best Consumer Digital Banks in the Middle East & Africa – Botswana
- World's Best Consumer Digital Banks in the Middle East & Africa – Ghana
- World's Best Consumer Digital Banks in the Middle East & Africa – Kenya
- World's Best Consumer Digital Banks in the Middle East & Africa – Nigeria
- World's Best Consumer Digital Banks in the Middle East & Africa – Tanzania
- World's Best Consumer Digital Banks in the Middle East & Africa – Uganda
- World's Best Consumer Digital Banks in the Middle East & Africa – Zambia
- World's Best Consumer Digital Banks in the Middle East & Africa – Zimbabwe
- World's Best Consumer Digital Banks in Western Europe – Jersey
- World's Best Islamic Digital Banks in Asia – Pakistan
- Best in Treasury and Working Capital – Liquidity Management – Malaysia
- Best Service Provider – MNCs/LLCs – Bangladesh
- Best in Treasury and Working Capital – MNCs/LLCs – Thailand
- Best in Treasury and Working Capital – MNCs/LLCs – Vietnam
- Best in Working Capital and Trade Finance – MENA
- Best in Working Capital and Trade Finance – South Asia
- Best Service Provider – Cash Management – Vietnam
- Best Service Provider – E-solutions and Technology Partner Bank – Vietnam
- Best Service Provider – Best Structured Trade Finance – Indonesia
- Best Service Provider – Trade Finance – Singapore
- Best Service Provider – Trade Finance – Hong Kong
- Best Service Provider – Transaction Bank – Vietnam
- Best Transaction Bank
- Best in Treasury and Working Capital – Best Transaction Bank
- Best in Treasury and Working Capital – Best Working Capital and Trade Finance Bank
- Best in Treasury and Working Capital – Best Structured Trade Finance Bank
- Best in Treasury and Working Capital – Best RMB Bank
- Best Service Providers – Best Regional Specialist Award – Supply Chain Solution
- Best Service Providers – Best Regional Specialist Award – ECA Financing



### The Asset Triple A Transaction Banking Treasury, Trade and Risk Management Awards 2016

- Best in Treasury and Cash Management – MENA
- Best in Treasury and Working Capital – Fis – Vietnam
- Best in Treasury and Working Capital – NBFI – Vietnam
- Best Service Provider – Liquidity Management – Bangladesh

- Best in Treasury and Cash Management – North Asia
- Best in Treasury and Working Capital – MNCs/LLCs – China
- Best in Treasury and Working Capital – Liquidity Management – China
- Best in Treasury and Working Capital – Best Supply Chain Management – Hong Kong
- Best Service Providers – Best RMB Bank – Hong Kong
- Best in Treasury and Working Capital – Best SME Bank – South Korea
- Best in Treasury and Working Capital – Best Treasury and Cash Management – Bangladesh
- Best in Treasury and Working Capital – Best Working Capital and Trade Finance – Bangladesh
- Best in Treasury and Working Capital – Best Structured Trade Finance – Bangladesh
- Best Structured Trade Finance Bank – Best eSolutions and Technology Partner – Bangladesh
- Best in Treasury and Working Capital – Best Working Capital and Trade Finance – India
- Best in Treasury and Working Capital – Best Treasury & Cash Management – Pakistan
- Best in Treasury and Working Capital – Best Working Capital and Trade Finance – Pakistan
- Best in Treasury and Working Capital – Best Structured Trade Finance – Pakistan
- Best in Treasury and Working Capital – Best eSolutions and Technology Partner – Pakistan
- Best in Treasury and Working Capital – Best Treasury and Cash Management – Sri Lanka
- Best in Treasury and Working Capital – Best Working Capital and Trade Finance – Sri Lanka

## Sustainability indices



### The Asset Triple A Asset Servicing, Fund Management and Investors Awards 2016

- Best Custody Specialist – Hong Kong, Highly Commended
- Best Custody Specialist – China, Highly Commended
- Best Custody Specialist – Transfer Agency – MRF Specialist
- Best Custody Specialist, Africa
- Best Fund Administrator – Retail Funds, Vietnam
- Best Subcustodian – Highly Commended, Middle East – subregion
- Best Subcustodian – Jordan
- Best Subcustodian – Korea
- Best Subcustodian – Pakistan

### The Asset Triple A Country Awards 2016

- Best House Bank – Pakistan

### Dow Jones Sustainability Index

We were included in the Dow Jones Sustainability Index (DJSI), World Index. We were noted for our strong performance in corporate governance, tax strategy, environmental reporting, corporate citizenship and anti-crime policy and measures.



### FTSE4Good

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



### IFR Asia Awards 2016

- China Loan House



### CDP

We were selected for the UK FTSE Carbon Disclosure Leadership Index and for the third consecutive year were on the A List: The CDP Climate Performance Leadership Index

# Glossary

## **AT1 or Additional Tier 1 capital**

AT1 capital consists of instruments with no fixed maturity issued by the Group and related share premium that meet the Basel III criteria for inclusion in total capital.

## **Additional value adjustment**

See Prudent valuation adjustment.

## **Advanced Internal Rating Based (AIRB) approach**

The AIRB approach under the Basel II framework is used to calculate credit risk capital based on the Group's own estimates of certain parameters.

## **Advances-to-deposits (ADR) ratio**

The ratio of total loans and advances to customers relative to total customer 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.

## **ASEAN**

Association of South East Asian Nations (ASEAN) which includes the Group's operations in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

## **AUM or Assets under management**

Total market value of assets such as deposits, securities and funds held by the Group on behalf of its clients.

## **Basel II**

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the *International Convergence of Capital Measurement and Capital Standards*.

## **Basel III**

Global framework issued by the BCBS in December 2010, revised in June 2011, which sets regulatory standards on banks' composition of capital, counterparty credit risk, liquidity and leverage ratios. The new requirements will be phased in and fully implemented by 1 January 2019.

## **Basis point (bps)**

One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent.

## **BCBS or Basel Committee on Banking Supervision**

A forum on banking supervisory matters which develops global supervisory standards for the banking industry. Its members are officials from 45 central banks or prudential supervisors from 28 countries and territories.

## **BIPRU**

The PRA's Prudential Sourcebook for Banks, Building Societies and Investment Firms.

## **CRD or Capital Requirements Directive IV**

The Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) that implement the Basel III proposals in Europe.

## **Capital resources**

Sum of Tier 1 and Tier 2 capital after regulatory adjustments.

## **CGU or cash-generating unit**

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

## **Claw-back**

An individual is required to pay back to the Group variable remuneration under certain circumstances.

## **Collectively assessed loan impairment provisions**

Also known as portfolio impairment provisions (PIP). Impairment assessment on a collective basis for homogeneous groups of loans to cover losses which have been incurred but have not yet been identified at the balance sheet date. Typically Retail clients are assessed on a portfolio basis.

## **CRE or Commercial real estate**

Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multi-family housing buildings, warehouses, garages and industrial properties. Commercial real estate loans are those backed by commercial real estate assets.

## **CET1 (Common Equity Tier 1) capital**

CET1 capital consists of the common shares issued by the Group and related share premium, retained earnings, accumulated other comprehensive income and other disclosed reserves, eligible non-controlling interests and regulatory adjustments required in the calculation of CET1.

## **CET1 ratio**

A measure of the Group's CET1 capital as a percentage of risk-weighted assets under CRD IV.

## **Constant currency**

Constant currency change is derived by applying a simple translation of the previous period functional currency number in each entity using the current average and period end US dollar exchange rates to the income statement and balance sheet respectively.

## **Contractual maturity**

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.

## **CIR or cost to income ratio**

Represents the proportion of total operating expenses to total operating income.

## **Countercyclical capital buffer**

Regulatory Capital of up to 2.5 per cent of risk-weighted assets in a given jurisdiction that is required to be held under Basel III rules to ensure that banks build up surplus capital when macroeconomic conditions indicate excess credit growth.

## **Counterparty credit risk**

The risk that a counterparty defaults before satisfying its obligations under a contract.

## **Cover ratio**

Represents the extent to which non-performing loans are covered by impairment allowances.

## **CCF or Credit Conversion Factor**

An estimate of the amount the Group expects a customer to have drawn down further on a facility limit at the point of default, either prescribed by BIPRU or modelled by the Group.

## **CDS or credit default swap**

A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

## **Credit institutions**

An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

## **Credit risk mitigation**

Credit risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees.

## **CVA or credit valuation adjustments**

An adjustment to the fair value of derivative contracts that reflects the possibility that the counterparty may default such that the Group would

not receive the full market value of the contracts.

## **Customer deposits**

Money deposited by all individuals and companies which are not credit institutions including securities sold under repurchase agreement (see repo/reverse repo). Such funds are recorded as liabilities in the Group's balance sheet under customer accounts.

## **DVA or debit valuation adjustment**

An adjustment to the fair value of derivative contracts that reflect the possibility that the Group may default and not pay the full market value of contracts.

## **Debt securities**

Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

## **Debt securities in issue**

Debt securities in issue are transferable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.

## **DTA or deferred tax asset**

Income taxes recoverable in future periods in respect of deductible temporary differences between the accounting and tax base of an asset or liability that will result in tax deductible amounts in future periods, the carry-forward of tax losses or the carry-forward of unused tax credits.

## **DTL or deferred tax liability**

Income taxes payable in future periods in respect of taxable temporary differences between the accounting and tax base of an asset or liability that will result in taxable amounts in future periods.

## **Defined benefit obligation**

The present value of expected future payments required to settle the obligations of a defined benefit scheme resulting from employee service.

## **Defined benefit scheme**

Pension or other post-retirement benefit scheme other than a defined contribution scheme.

## **Defined contribution scheme**

A pension or other post-retirement benefit scheme where the employer's obligation is limited to its contributions to the fund. Delinquency A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent

when consecutive payments are missed. Also known as arrears.

#### **Deposits by banks**

Deposits by banks comprise amounts owed to other domestic or foreign credit institutions by the Group including securities sold under repo.

#### **Dividend per share**

Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.

#### **Effective tax rate**

The tax on profit/(losses) on ordinary activities as a percentage of profit/(loss) on ordinary activities before taxation.

#### **Encumbered assets**

On-balance sheet assets pledged or used as collateral in respect of certain of the Group's liabilities.

#### **EU or European Union**

The European Union (EU) is a political and economic union of 28 member states that are located primarily in Europe.

#### **Eurozone**

Represents the 19 EU countries that have adopted the euro as their common currency.

#### **Expected loss**

The Group measure of anticipated loss for exposures captured under an internal ratings-based credit risk approach for capital adequacy calculations. It is measured as the Group-modelled view of anticipated loss based on Probability of Default, loss given default and exposure at default, with a one-year time horizon.

#### **Exposures**

Credit exposures represent the amount lent to a customer, together with any undrawn commitments.

#### **EAD or exposure at default**

The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

#### **ECAI or External Credit Assessment Institutions**

For the standardised approach to credit risk for sovereigns, corporates and institutions, external ratings are used to assign risk weights. These external ratings must come from PRA approved rating agencies, known as External Credit Assessment Institutions; which are Moody's, Standard & Poor's and Fitch.

#### **FCA or Financial Conduct Authority**

The Financial Conduct Authority regulates the conduct of financial firms and, for certain firms,

prudential standards in the UK. It has a strategic objective to ensure that the relevant markets function well.

#### **Forbearance**

Forbearance takes place when a concession is made to the contractual terms of a loan in response to an obligor's financial difficulties. The Group classifies such modified loans as either 'Forborne – not impaired loans' or 'Loans subject to forbearance – impaired'. Once a loan is categorised as either of these, it will remain in one of these two categories until the loan matures or is otherwise derecognised.

#### **Forborne – not impaired loans**

Loans where the contractual terms have been modified due to financial difficulties of the borrower, but the loan is not considered to be impaired. See 'Forbearance'.

#### **Free deliveries**

A transaction in which securities, foreign currencies or commodities have been paid for before receiving them or where securities, foreign currencies or commodities have been delivered before receiving payment for them.

#### **Free funds**

Free funds include equity capital, retained reserves, current year unremitted profits and capital injections net of proposed dividends. It does not include debt capital instruments, unrealised profits or losses or any non-cash items.

#### **Funded/unfunded exposures**

Exposures where the notional amount of the transaction is funded or unfunded. Represents exposures where there is a commitment to provide future funding is made but funds have been released/not released.

#### **FVA or funding valuation adjustments**

FVA reflects an adjustment to fair value in respect of derivative contracts that reflect the funding costs that the market participant would incorporate when determining an exit price.

#### **G-SIBs or Global Systemically Important Banks**

Global financial institutions whose size, complexity and systemic interconnectedness mean that their distress or failure would cause significant disruption to the wider financial system and economic activity. The Financial Stability Board established a methodology to identify G-SIBs in November 2011 based on 12 principal indicators. Designation will result in the application of a CET1 buffer. The list of G-SIBs is re-assessed through annual re-scoring of banks and a triennial review of the methodology. Designation will result in the application of a CET1 buffer between 1% and 3.5%, to be phased in by 1 January 2019.

#### **G-SIB buffer**

A capital buffer prescribed in the EU under CRD IV, to address risks in the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigate structural macro-prudential risk.

#### **Impaired loans**

Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

#### **Impairment allowances**

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).

#### **IIP or individually assessed loan impairment provisions**

Impairment that is measured for assets that are individually significant to the Group. Typically assets within the Corporate & Institutional Banking segment of the Group are assessed individually.

#### **Interest rate risk**

The risk of an adverse impact on the Group's income statement due to changes in interest rates.

#### **IRB approach or internal ratings-based approach**

Used to calculate risk-weighted assets in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of certain parameters.

#### **IMA approach or internal model Approach**

The approach used to calculate market risk capital and RWA with an internal market risk model approved by the PRA under the terms of CRD IV/CRR.

#### **IAS or International Accounting Standard**

A standard that forms part of the International Financial Reporting Standards framework.

#### **IASC or International Accounting Standards Board**

An independent standard-setting body responsible for the development and publication of IFRS, and approving interpretations of IFRS standards that are recommended by the IFRS Interpretations Committee (IFRIC).

#### **IFRS or International Financial Reporting Standards**

A set of international accounting standards developed and issued by the International Accounting Standards Board, consisting of principles-based guidance contained within IFRSs and IASs.

All companies that have issued publicly traded securities in the EU are required to prepare annual and interim reports under IFRS and IAS standards that have been endorsed by the EU.

#### **IFRIC**

The IFRS Interpretations Committee supports the IASB in providing authoritative guidance on the accounting treatment of issues not specifically dealt with by existing IFRSs and IASs.

#### **Investment grade**

A debt security, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.

#### **Leverage ratio**

A ratio introduced under CRD IV that compares Tier 1 capital to total exposures, including certain exposures held off balance sheet as adjusted by stipulated credit conversion factors. Intended to be a simple, non-risk based backstop measure.

#### **Liquid Asset Ratio**

Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.

#### **Liquidation portfolio**

A portfolio of assets which is beyond our current risk appetite metrics and is held for liquidation.

#### **LCR or Liquidity Coverage Ratio**

The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible

#### **Loans and advances**

This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument.

#### **Loans to banks**

Amounts loaned to credit institutions including securities bought under Reverse repo.

#### **LTV or loan-to-value ratio**

A calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

#### **Loans past due**

Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made.

#### **Loans subject to forbearance – impaired**

Loans where the terms have been renegotiated on terms not consistent

with current market levels due to financial difficulties of the borrower. Loans in this category are necessarily impaired. See 'Forbearance'.

#### **LGD or loss given default**

The percentage of an exposure that a lender expects to lose in the event of obligor default.

#### **Malus**

An arrangement that permits the Group to prevent vesting of all or part of the amount of an unvested variable remuneration award, due to a specific crystallised risk, behaviour, conduct or adverse performance outcome.

#### **Master netting agreement**

An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.

#### **Mezzanine capital**

Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.

#### **MREL or minimum requirement for own funds and eligible liabilities**

A requirement under the Bank Recovery and Resolution Directive for EU resolution authorities to set a minimum requirement for own funds and eligible liabilities for banks. Similar to Total Loss Absorbing Capacity, MREL is intended to ensure there is sufficient equity and specific types of liabilities to facilitate an orderly resolution that minimises any impact on financial stability and ensures the continuity of critical functions and avoids exposing taxpayers to loss.

#### **Net asset value (NAV) per share**

Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.

#### **Net exposure**

The aggregate of loans and advances to customers/loans and advances to banks after impairment provisions, restricted balances with central banks, derivatives (net of master netting agreements), investment debt and equity securities, and letters of credit and guarantees.

#### **NII or net interest income**

The difference between interest received on assets and interest paid on liabilities.

#### **NIM or net interest margin**

Net interest income divided by average interest earning assets.

#### **NSFR or net stable funding ratio**

The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. It is a

longer-term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one year time horizon.

#### **NPLs or non-performing loans**

Any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is: (a) renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected; or (b) renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no further loss of principal is expected.

#### **Normalised items**

See 'Underlying earnings'.

#### **OTC or over-the-counter derivatives**

A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.

#### **OCA or own credit adjustment**

An adjustment to the Group's issued debt designated at fair value through profit or loss that reflects the possibility that the Group may default and not pay the full market value of the contracts.

#### **Pillar 1**

The first pillar of the three pillars of Basel II/Basel III which provides the approach to calculation of the minimum capital requirements for credit, market and operational risk.

#### **Pillar 2**

The second pillar of the three pillars of Basel II/Basel III which requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available.

#### **Pillar 3**

The third pillar of the three pillars of Basel II/Basel III which aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices.

#### **PIP or portfolio impairment provisions**

See 'Collectively Assessed Loan Impairment Provisions.'

#### **Private equity investments**

Equity securities in operating companies generally not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.

#### **PD or Probability of default**

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

#### **Profit/(loss) attributable to ordinary shareholders**

Profit/(loss) for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.

#### **PVA or prudent valuation adjustment**

A deduction from CET1 capital, to reflect the difference between fair value and prudent value positions, where the application of prudence results in a lower absolute carrying value than recognised in the financial statements.

#### **PRA or Prudential Regulation Authority**

The Prudential Regulation Authority is the statutory body responsible for the prudential supervision of banks, building societies, credit unions, insurers and a small number of significant investment firms in the UK. The PRA is a part of the Bank of England.

#### **Repo/reverse repo**

A repurchase agreement or repo is a short-term funding agreement, which allows a borrower to sell a financial asset, such as asset backed securities or Government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

#### **Residential mortgage**

A loan to purchase a residential property which is then used as collateral to guarantee repayment of the loan. The borrower gives the lender a lien against the property, and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a home loan.

#### **RoE or Return on Equity**

Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.

#### **RoRWA or return on risk-weighted assets**

Profit before tax for year as a percentage of RWA. Profit may be statutory or underlying and is specified where used. See 'RWA' and 'underlying'.

#### **RWA or risk-weighted assets**

A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in

accordance with the Basel Capital Accord as implemented by the PRA.

#### **Risk capital adjusted profit**

A risk-adjusted, profit-based funding mechanism. This is applied as a combination of automatic adjustments and other adjustments determined by the Remuneration Committee for specific risk and control matters that are not already taken into account through automatic adjustments.

#### **Risks-not-in-VaR (RNIV)**

A framework for identifying and quantifying marginal types of market risk that are not captured in the Value at Risk (VaR) measure for any reason, such as being a far-tail risk or the necessary historical market data not being available.

#### **Secured (fully and partially)**

A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Group is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.

#### **Securitisation**

Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a special purpose entity (SPE) which then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors.

#### **Senior debt**

Debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.

#### **Sovereign exposures**

Exposures to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned. Sovereign exposures, as defined by the European Banking Authority, include only exposures to central governments.

#### **Standardised approach**

In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory

defined percentage charge to the gross income of eight specified business lines.

#### **Stressed value at risk**

A regulatory market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.

#### **Structured note**

An investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.

#### **Subordinated liabilities**

Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

#### **Tier 1 capital**

The sum of Common Equity Tier 1 capital and Additional Tier 1 capital.

#### **Tier 1 capital ratio**

Tier 1 capital as a percentage of risk-weighted assets.

#### **Tier 2 capital**

Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provisions and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.

#### **TLAC or Total Loss Absorbing Capacity**

A standard which recommends that GSIBs hold sufficient equity and specified liabilities which can be used to absorb losses and recapitalise a bank in resolution. It is intended to facilitate an orderly resolution that minimises any impact on financial stability, ensures the continuity of critical functions, and avoids exposing taxpayers to loss.

#### **UK bank levy**

A levy that applies to certain UK banks and the UK operations of foreign banks. The levy is payable each year based on a percentage of the chargeable equities and liabilities on the Group's consolidated balance sheet date. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting.

#### **Underlying earnings**

The Group's statutory performance adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period, and items which management and

investors would ordinarily identify separately when assessing performance period-by-period. A reconciliation between underlying and statutory performance is on page 27.

#### **VaR or Value at Risk**

An estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.

#### **ViU or Value-in-Use**

The present value of the future expected cash flows expected to be derived from an asset or CGU.

#### **Write-downs**

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. Write downs will occur when and to the extent that, the whole or part of a debt is considered irrecoverable.

#### **XVA**

The term used to incorporate credit, debit and funding valuation adjustments to the fair value of derivative financial instruments. See 'CVA', 'DVA' and 'FVA'.

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Registered Office: 1 Basinghall Avenue, London EC2V 5DD.

Telephone +44 (0) 20 7885 8888.

Principal place of business in Hong Kong: 32nd Floor, 4-4A Des Voeux Road, Central, Hong Kong.

Registered in England No. 966425.

**Contact information**

**Global headquarters**

Standard Chartered Group  
1 Basinghall Avenue  
London, EC2V 5DD  
United Kingdom

telephone: +44 (0)20 7885 8888  
facsimile: +44 (0)20 7885 9999

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[sc.com/annual-report/2016](http://sc.com/annual-report/2016)

**Shareholder enquiries**

**ShareCare** information  
website: [investors.sc.com/en/resource.cfm](http://investors.sc.com/en/resource.cfm)  
helpline: 0370 702 0138

**ShareGift** information

website: [ShareGift.org](http://ShareGift.org)  
helpline: 020 7930 3737

**Registrar information**

**UK**  
Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol, BS99 7ZY  
helpline: 0370 702 0138

**Hong Kong**

Computershare Hong Kong Investor Services Limited  
17M Floor, Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong  
website: [computershare.com/hk/investors](http://computershare.com/hk/investors)

**Indian Depository Receipts**

Karvy Computershare Private Limited  
Karvy Selenium Tower B, Plot 31-32  
Gachibowli, Financial District  
Nanakramguda  
Hyderabad 500032, India

**Chinese translation**

Computershare Hong Kong Investor Services Limited  
17M Floor, Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

**Register for electronic communications**

website: [investorcentre.co.uk](http://investorcentre.co.uk)

LSE Stock code: STAN.LN

HKSE Stock code: 02888

BSE/NSE Stock code: STAN.IN