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STANDARD CHARTERED PLC

渣打集團有限公司

(Incorporated as a public limited company in England and Wales with registered number 966425)

(Stock Code: 02888)

RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2017 – PART 2

Standard Chartered PLC – Additional Financial information

The following pages provide additional information related to the announcement results for the year ended 31 December 2017.

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PRINCIPAL UNCERTAINTIES

In 2017 we undertook a thorough review of our principal uncertainties, using the approach described in the Enterprise Risk Management Framework section. The key results of the review are detailed below

Key changes to our principal uncertainties

The following items have been removed as principal uncertainties:

- 'Evolving financial crime and fraud' and 'cyber crime'. These form part of our Principal Risk Types which we control and mitigate through distinct risk type frameworks, policies and Board-approved Risk Appetite
- 'Operational performance eroding confidence in the Group' as the Group has a clear Strategic Plan on which it has now started to deliver

The following items have been added as new principal uncertainties:

- 'Climate-related physical risks and transition risks'. There is growing stakeholder interest in these risks, including investors, regulators and civil society, and it is anticipated that climate change will inform future regulatory approaches
- 'New technologies and digitisation. The rapid development of new technologies and digitisation, accompanied by changes in consumer behaviour, could disrupt many elements of banking

Our list of principal uncertainties, based on our current knowledge and assumptions, is set out below:

Geopolitical considerations (Risk ranked according to severity)

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
Increase in trade protectionism driven by nationalist agenda 1 Potential impact: High Likelihood: Medium Velocity of change: Steady	⇔	• Protectionist policies driven by nationalist agendas could disrupt established supply chains and invoke retaliatory actions. Countries could introduce tariffs on goods and services available domestically or from other economies. Such actions would impact global trade • Several authorities in our footprint continue to adopt stringent standards on outsourcing or offshoring activities and there is an increased focus on priority sector lending requirements • The Group has a significant revenue stream from supporting cross-border trade and material off-shore support operations	• We assessed the impact of a severe world trade downturn triggered by rising protectionism as part of our 2017 stress tests. The insights gained as part of these were reviewed through internal governance and we continue to build measures to link stress test outcomes to business objectives in order to mitigate potential downside risk from trade disruption
Korean peninsula geopolitical tensions 2 Potential impact: High Likelihood: Low Velocity of change: Fast	⇧	• Tensions could exacerbate weak investment spending and low growth in the developed world • The Group has a material presence in South Korea and nearby countries	• Country level crisis management and contingency plans are in place for South Korea focused on the business activities, credit risk, liquidity and capital risk, operations and employee safety. We have enhanced the process for daily monitoring of key indicators and actively review geopolitical risk levels • A North Korea stress scenario is run weekly as part of the global stress test of market and traded risk • We are also assessing contagion risks arising from Korean geopolitical risk levels and associated contingency plans • Regular stress testing on exposures to South Korea and Japan are conducted to support any required action plans

Middle East political situation 3 **Potential impact: Medium** **Likelihood: Medium** **Velocity of change: Steady**	⇔	• In June 2017, the governments of Kingdom of Saudi Arabia, Bahrain, United Arab Emirates and Egypt announced that they were severing diplomatic ties with Qatar escalating tensions in the Middle East region • A number of prominent Saudi Arabian princes, government ministers, and business people were arrested in Saudi Arabia in November 2017 • A decision by the US president to recognise Jerusalem as the capital of Israel, and start preparations for the US to move its embassy from Tel Aviv, has the potential to further increase tensions across the Middle East • The Group has a material presence across the region	• The impact of the diplomatic crisis on our portfolio has been limited so far, however we are closely monitoring a small number of clients which have been affected. • Tightened controls over transactions and general governance have been put in place • Potential for further event risks is constantly monitored at country and regional level
Post-Brexit implications 4 **Potential impact: Low** **Likelihood: High** **Velocity of change: Moderate**	⇔	• The outcome of the UK referendum to leave the European Union (Brexit) could have implications on economic conditions globally because of changes in policy direction, which might in turn influence the economic outlook for the eurozone. The uncertainties linked to the Brexit negotiations process could delay corporate investment decisions until there is more clarity • Both the EU and UK have indicated their support for a transition period following the UK's formal departure from the EU in March 2019, although it is not clear how long this period will be for • The full implications of Brexit will only be known over the next 12-18 months as negotiations progress. • The first order impact of Brexit on the Group is limited given the nature of the Group's activity	• We continue to assess and manage post-Brexit risk and the practical implications through the Brexit Executive Committee chaired by a Management Team Member • We are setting up a new European Union (EU) subsidiary and optimising our EU structure to mitigate any potential impact to our clients, our staff and the Group as a result of Brexit, including loss of EU passporting rights

Macroeconomic considerations

Principal uncertainties	Risk trend since 2016	Context	How these are mititgated/next steps
Moderation of growth in key footprint markets led by China 5 **Potential impact: High** **Likelihood: Medium** **Velocity of change: Steady**	⇔	• Asia remains the main driver of global growth supported by internal drivers, led by China • Debt levels in China and the pace of transition to more consumption-led growth remain a concern • Highly trade oriented economies such as Hong Kong and Singapore with close ties to China would weaken in the event of an economic slowdown in China. Regional supply chain economies such as Korea, Taiwan and Malaysia would be impacted from a fall in economic activity • Greater China and South East Asian economies remain key strategic regions for the Group	• As part of our stress tests, severe stress in the global economy associated with a sharp slowdown in China was assessed in 2017 and a refreshed scenario will be run in 2018 • Exposures that result in material loan impairment charges and risk-weighted assets inflation under stress tests are regularly reviewed and actively managed • A global downturn with shocks concentrated on China and countries with close trade links with China is one of the regular market and traded risk stress tests
Sharp interest rate rises and asset price corrections 6 **Potential impact: High** **Likelihood: Medium** **Velocity of change: Moderate**	⇧	• Significant increases in interest rates from the historically low levels currently prevailing in many markets could have an impact on the highly leveraged corporate sector, as well as countries with high current account deficits or high foreign currency share of domestic debt. Property, commodities and asset prices would also come under pressure • Such sharp increases in interest rates could adversely impact the credit quality of the Group's exposures, and our ability to reprice these exposures in response to changes in the interest rate environment	• We monitor on a centralised basis the contractual and behavioural interest rate risk exposures, and manage these within a clearly defined risk management framework and Risk Appetite • In many of our markets we have implemented loan-to-value and debt-to-income restrictions in response to rising property prices • The Group has been actively managing its commodities portfolio, including energy, metals and mining exposures over the last few years. For new business, we are focused on deals that are resilient to further price volatility • Relevant scenarios will be run as part of our stress test programme in 2018

Environmental and social considerations

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
Climate-related physical risks and transition risks[1] 7 Potential impact: Medium Likelihood: Medium Velocity of change: Steady	NEW	• National governments have, through the UN Framework Convention on Climate Change (UNFCCC) process and Paris Agreement, made commitments to enact policies which support the transition to a lower-carbon economy, limiting global warming to less than 2ºC and therefore mitigating the most severe physical effects of climate change. • Such policies may however have significant impacts, for example, on energy infrastructure developed in our markets, and thus present 'transition' risks for our clients • Conversely, if governments fail to enact policies which limit global warming, the Group's markets are particularly susceptible to 'physical' risks of climate change such as droughts, floods, sea level change and average temperature change • There is growing stakeholder interest in these risks, including investors, regulators and civil society	• We are developing an approach for assessing energy utilities clients' power generation assets against a range of physical and transition risks, under multiple climate scenarios and a range of time horizons. We are considering how we extend this to other sectors in 2018 • We have, over time, reduced our Risk Appetite to carbon-intensive sectors by introducing technical standards for coal-fired power plants, and restrictions on new coal mining clients and projects. These standards are reviewed on a regular basis • We have made a public commitment to fund and facilitate $4 billion toward clean technology between 2016 and 2020

Legal considerations

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
Regulatory reviews and investigations, legal proceedings 8 Potential impact: High Likelihood: High Velocity of change: Moderate	⇔	• The Group has been, and may continue to be, subject to regulatory actions, reviews, requests for information (including subpoenas and requests for documents) and investigations across our markets, the outcomes of which are generally difficult to predict and could be material to the Group • The Group is also party to legal proceedings from time to time, which may give rise to financial losses or adversely impact our reputation in the eyes of our customers, investors and other stakeholders • In recent years, authorities have exercised their discretion to impose increasingly severe penalties on financial institutions that have been accused of violated laws and regulations, and there can be no assurance that future penalties will not be of increased severity	• We have invested in improving compliance controls, including increasing the capacity and capabilities of compliance resources, enhancing systems and controls, and implementing remediation programmes (where relevant) • We are cooperating with all relevant ongoing reviews, requests for information and investigations

1 Physical risk refers to the risk of increased extreme weather events while transition risk refers to the risk of changes to market dynamics due to governments' responses to climate change

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
Regulatory changes and tax reforms 9 Potential impact: Medium Likelihood: High Velocity of change: Fast	⇔	• Revised rules have been defined in many key areas of regulation that could impact our business model and how we manage our capital and liquidity. In particular, the upcoming Basel III proposed changes to capital calculation methodology for credit and operational risk, revised framework for Securitisation and Credit Valuation Adjustment (CVA) risk, Fundamental Review of the Trading Book, Large Exposures and implementation of Margin Reforms, and Bank Recovery and Resolution Directive for Total Loss Absorbing Capacity (TLAC) • Increased global efforts in detecting tax evasion through the use of offshore bank accounts and facilitating cross-border tax compliance require the Group to comply with five extraterritorial client tax information regimes. These tax regimes impact the jurisdictions in which the Group operates, as well as all client segments and products • There may be implications on cross-border tax compliance for our clients following the recent US tax reform • There is increasing regulatory scrutiny and emphasis on local responsibilities of remotely booked business. The degree of reliance on global controls is reducing, and the focus is on local controls and governance	• We actively monitor regulatory initiatives across our footprint to identify any potential impact and change to our business model • With respect to Basel III: – We are closely monitoring developments, and conducting sensitivity analyses on the potential headwinds and opportunities – We continuously review a menu of prospective capital accretive actions, along with impact to the Group Strategy and financial performance • We have established specific programmes to ensure effective and efficient implementation of changes required by new or existing tax regulations and reforms • Relevant product areas have implemented project management or programme oversight to review and improve the end-to-end process, including oversight and accountability, policies and standards, transparency and management information, permission and controls, legal-entity level limits and training

Technological considerations

Principal uncertainties	Risk trend since 2016	Context	How these are mitigated/next steps
New technologies and digitisation 10 Potential impact: High Likelihood: High Velocity of change: Moderate	NEW	• New technologies, accompanied by changes in consumer behaviour and digitisation, are likely to significantly disrupt both, the basis of competition and the economics of many elements of banking • The banking landscape for retail banking, for example, is witnessing a significant change where start-ups, Fintechs and existing payment players are able to offer traditional retail banking products and services in real-time with competitive pricing. In addition, regulators are also encouraging Fintechs and start-ups. The impact to the banking sector arises by way of migration of clients and balances to competition or Fintechs due to a more user-friendly client experience • There is a risk of business model disruption arising from inability or failure of the bank to adapt to changing client and regulatory requirements or expectations due to rapidly evolving product and technology innovation	• We continuously monitor developments in the technology space which affect the banking sector, to keep abreast of the latest trends and announced partnerships. The Management Team has increased its focus on business innovation, given that a large driver of uncertainty is the possible disruption to banking from new entrants and the blurring of barriers between sectors • The Group continuously scans the market for innovative companies that can bring value to the bank through collaborations. Our Exellerator (the Group's innovation lab) in Singapore and Hong Kong engages with start-ups and established companies that can bring specific capabilities to support the Bank with our digitisation agenda. Our SC Studios in San Francisco identifies companies that we believe can bring significant advancements to our business • We also participate in industry-wide initiatives, such as the Ripple Consortium, to allow us to build our own capabilities and be able to capitalise on opportunities, should such technologies 'take-off'

ENTERPRISE RISK MANAGEMENT FRAMEWORK

Risk management is essential to consistent and sustainable performance for all of our stakeholders and is therefore a central part of the financial and operational management of the Group. The Group adds value to clients and therefore the communities in which they operate and generates returns for shareholders by taking and managing risk

Key changes

- Refreshing our risk culture and Risk Appetite Statements for our Principal Risk Types
- Changing our Principal Risk Types including:
  - Elevating Conduct, Compliance, Financial crime and Information and cyber security to Principal Risk Types
  - Broadening the scope of Country cross border risk to cover Country risk
  - Pension risk is now a risk sub-type of Market risk
  - Integrating Strategy risk as part of the overall Framework. See section on Strategic Risk Management on the right which explains how the Group approaches Strategic risk
  - Consolidating Capital and Liquidity risk types into one Principal Risk Type
- Strengthening risk assessment by introducing a dynamic risk identification process
- Further clarity on accountability and responsibility by strengthening of the three lines of defence and alignment with the objectives of the Senior Managers' Regime

Through our Enterprise Risk Management Framework we manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our risk appetite.

In 2017 we completed a thorough review of our Enterprise Risk Management Framework and the following key changes were approved by the Board:

The new revised Enterprise Risk Management Framework is effective from 22 January 2018 and will be further embedded in 2018.

Risk culture

The Group's risk culture provides guiding principles for the behaviours expected from our people when managing risk. The Board has approved a risk culture statement that encourages the following behaviours and outcomes:

- An enterprise level ability to identify and assess current and future risks, openly discuss these and take prompt actions
- The highest level of integrity by being transparent and proactive in disclosing and managing all types of risks
- A constructive and collaborative approach in providing oversight and challenge, and taking decisions in a timely manner
- Everyone to be accountable for their decisions and feel safe using their judgement to make these considered decisions

We acknowledge that banking inherently involves risk-taking and undesired outcomes will occur from time to time; however, we shall take the opportunity to learn from our experience and formalise what we can do to improve. We expect managers to demonstrate a high awareness of risk and control by self-identifying issues and managing them in a manner that will deliver lasting change.

Strategic risk management

The Group approaches strategic risk management by:

- Including in the strategy review process an impact analysis on the risk profile from the growth plans, strategic initiatives and business model vulnerabilities with the aim of proactively identifying and managing new risks or existing risks that need to be reprioritised
- Including in the strategy review process a confirmation that growth plans and strategic initiatives can be delivered within the approved Risk Appetite and/or proposing additional Risk Appetite for Board consideration
- Validating the Corporate Plan against the approved or proposed Risk Appetite Statement to the Board. The Board approves the strategy review and the five year Corporate Plan with a confirmation from the Group Chief Risk Officer that it is aligned with the Enterprise Risk Management Framework and the Group Risk Appetite Statement where

projections allow

Roles and responsibilities

Three Lines of Defence model

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence has a specific set of responsibilities for risk management and control as shown in the following table.

Senior Managers' Regime

Roles and responsibilities under the revised Enterprise Risk Management Framework are aligned to the objectives of the Senior Managers' Regime. The Group Chief Risk Officer is responsible for the overall development and maintenance of the Group's Enterprise Risk Management Framework and for identifying material risk types to which the Group may be potentially exposed. The Group Chief Risk Officer delegates effective implementation of the Principal Risk Type frameworks to risk framework owners who provide Second Line of Defence oversight for the Principal Risk Types.

Lines of Defence	Definition	Key responsibilities include
1st	The businesses and functions engaged in or supporting revenue generating activities that own and manage risks	• Identify, monitor and escalate risks and issues to the Second Line and senior management[1] and promote a healthy risk culture and good conduct • Manage risks within Risk Appetite and ensure laws and regulations are being complied with • Ensure systems meet risk data aggregation, risk reporting and data quality requirements set by the Second Line
2nd	The control functions independent of the First Line that provide oversight and challenge of risk management to provide confidence to the Group Chief Risk Officer, the management team and the Board	• Identify, monitor and escalate risks and issues to the Group Chief Risk Officer, senior management[1] and the Board and promote a healthy risk culture and good conduct • Oversee and challenge First Line risk taking activities and review First Line risk proposals • Propose Risk Appetite to the Board, monitor and report adherence to Risk Appetite and intervene to curtail business if it is not in line with existing or adjusted Risk Appetite • Set risk data aggregation, risk reporting and data quality requirements
3rd	The independent assurance provided by the Group Internal Audit Function, of the effectiveness of controls that support First Line's risk management of business activities, and the processes maintained by the Second Line. Its role is defined and overseen by the Audit Committee of the Board	• Independently assess whether management has identified the key risks in the business and whether these are reported and governed in line with the established risk management processes • Independently assess the adequacy of the design of controls and their operating effectiveness

1 Senior management in this table refers to individuals designated as Senior Management Functions (SMF) under the FCA and PRA Senior Managers' Regime (SMR)

The Risk and Compliance function

The Group Chief Risk Officer directly manages the Risk and Compliance function that is separate and independent from the origination, trading and sales functions of the businesses. The role of the function is:

- To maintain the Enterprise Risk Management Framework, ensuring it remains appropriate to the Group's activities, is effectively communicated and implemented across the Group, and to administer related governance and reporting processes
- To uphold the overall integrity of the Group's risk/return decisions, and in particular to ensure that risks are properly assessed, that risk/return decisions are made transparently on the basis of this proper assessment, and that risks are controlled in accordance with the Group's standards and Risk Appetite
- To oversee and challenge the management of credit, country, market, operational, reputational, compliance, conduct, information and cyber security and financial crime risk types

The independence of the Risk and Compliance function is to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues.

In addition, the Risk and Compliance function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the broader organisation.

Risk Appetite and profile

We recognise the following constraints which determine the risks that we are willing to take in pursuit of our strategy and the development of a sustainable business:

- **Risk capacity** is the maximum level of risk the Group can assume, given its current capabilities and resources,

before breaching constraints determined by capital and liquidity requirements and internal operational capability (including but not limited to technical infrastructure, risk management capabilities, expertise), or otherwise failing to meet the expectations of regulators and law enforcement agencies

- Risk Appetite is defined by the Group and approved by the Board. It is the maximum amount and type of risk the Group is willing to assume in pursuit of its strategy. Risk Appetite cannot exceed risk capacity

The Board has approved a Risk Appetite Statement, which is underpinned by a set of financial and operational control parameters known as Risk Appetite metrics and associated thresholds. These directly constrain the aggregate risk exposures that can be taken across the Group. The Risk Appetite Statement is supplemented by an overarching statement outlining the Group's Risk Appetite Principles.

Risk Appetite Principles

The Group Risk Appetite is in accordance with our overall approach to risk management and our risk culture. We follow the highest ethical standards required by our stakeholders and ensure a fair outcome for our clients, the effective operation of financial markets, while at the same time meeting expectations of regulators and law enforcement agencies. We set our Risk Appetite to enable us to grow sustainably and to avoid shocks to earnings or our general financial health and to manage our reputational risk in a way that does not materially undermine the confidence of our investors and all internal and external stakeholders.

Risk Appetite Statement

The Group will not compromise adherence to its Risk Appetite in order to pursue revenue growth or higher returns.

Risk control tools such as exposure limits, underwriting standards, scorecard cut-offs and policies and other operational control parameters are used to keep the Group's risk profile within risk appetite (and therefore also risk capacity). The Group's risk profile is its overall exposure to risk at a given point in time, covering all applicable risk types. Status against Risk Appetite is reported to the Board Risk Committee and the Group Risk Committee, including the status of breaches and remediation plans where applicable.

The Group Risk Committee, the Group Financial Crime Risk Committee, the Group Operational Risk Committee and the Group Asset and Liability Committee are responsible for ensuring that our risk profile is managed in compliance with the Risk Appetite set by the Board. The Board Risk Committee and the Board Financial Crime Risk Committee (for Financial Crime Compliance) advise the Board on the Risk Appetite Statement and monitor the Group's compliance with it.

Risk identification and assessment

Identification and assessment of potential adverse risk events is an essential first step in managing the risks of any business or activity. To ensure consistency in communication we use Principal Risk Types to classify our risk exposures. Nevertheless, we also recognise the need to maintain an overall perspective since a single transaction or activity may give rise to multiple types of risk exposure, risk concentrations may arise from multiple exposures that are closely correlated, and a given risk exposure may change its form from one risk type to another.

To facilitate the above, the Group maintains a dynamic risk scanning process with inputs on the internal and external risk environment, as well as potential threats and opportunities from the business and client perspectives.

Stress testing

The objective of stress testing is to support the Group in assessing that it:

- Does not have a portfolio with excessive concentrations of risk that could produce unacceptably high losses under severe but plausible scenarios
- Has sufficient financial resources to withstand severe but plausible scenarios
- Has the financial flexibility to respond to extreme but plausible scenarios
- Understands the Group's key business model risks, considers what kind of event might crystallise those risks – even if extreme with a low likelihood of occurring – and identifies, as required, actions to mitigate the likelihood or the impact

Enterprise stress tests include Capital and Liquidity Adequacy Stress Tests including in the context of recovery and resolution, and stress tests that assess scenarios where our business model becomes unviable, such as reverse stress tests.

Stress tests are performed at Group, country, business and portfolio level. Bespoke scenarios are applied to our market and liquidity positions as described in the sections Market risk and Liquidity and funding risk. In addition to these, our stress tests also focus on the potential impact of macroeconomic, geopolitical and physical events on relevant regions, client segments and risk types.

The Board delegates approval of stress tests to the Board Risk Committee, who reviews the recommendations from the Stress Testing Committee. The Stress Testing Committee is appointed by the Group Risk Committee to review and challenge the stress test scenarios, assumptions and results.

Based on the stress test results, the Group Chief Risk Officer and Group Chief Financial Officer can recommend strategic actions to ensure that the Group Strategy remains within the Board-approved Risk Appetite.

The individual Principal Risk Types' Risk Appetite Statements along with the key associated Risk Appetite metrics approved by the Board are set out in the Principal Risks section

Principal Risk Types

Principal risks are those risks that are inherent in our strategy and our business model. These risks are managed through distinct Risk Type Frameworks (RTF). The RTFs are approved by the Group Chief Risk Officer. The principal risks and associated Risk Appetite Statements are approved by the Board.

As part of the overall risk management framework review in 2017 we also reviewed our Principal Risk Types. The table below shows the current Group's principal risks.

Principal Risks Types	Definition
Credit risk	• Potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Group
Country risk	• Potential for default or losses due to political or economic events in a country
Market risk	• Potential for loss of economic value due to adverse changes in financial market rates or prices
Capital & liquidity risk	• Capital: potential for insufficient level or composition of capital to support our normal activities • Liquidity: potential for failure where we may not have sufficient stable or diverse sources of funding or financial resources to meet our obligations as they fall due
Operational risk	• Potential for loss resulting from inadequate or failed internal processes and systems, human error, or from the impact of external events
Reputational risk	• Potential for loss of earnings or market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions
Compliance	• Potential for regulatory sanctions or loss from a failure on our part to comply with laws or regulations
Conduct	• Potential regulatory sanctions or loss from a failure on our part to abide by the Group's Conduct Risk Management Framework
Information and cyber security	• Potential for loss from a breach of confidentiality, integrity and availability of the Group's information systems and assets through cyber attack, insider activity, error or control failure
Financial crime	• Potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to International Sanctions, Anti-Money Laundering and Anti-Bribery and Corruption

Further details of our principal risks and how these are being managed are set out in the Principal Risks section

Executive and Board risk oversight

Overview

The Board has ultimate responsibility for risk management and is supported by the six Board-level committees. The Board approves the Enterprise Risk Management Framework based on the recommendation from the Board Risk Committee, which also recommends the Group Risk Appetite Statement other than financial crime risk. Financial crime risk related Risk Appetite is reviewed and recommended to the Board by the Board Financial Crime Risk Committee.

The Board appoints the Standard Chartered Bank Court to maintain a sound system of internal control and risk management. The Group Risk Committee, through its authority received from the Court, oversees effective implementation of the Enterprise Risk Management Framework. The Group Chief Risk Officer, as Chair of the Group Risk Committee, approves the use of sub-committees to support the Group Risk Committee overseeing risk at Business, Regional, Country, or Principal Risk Type level.

The Board Risk Committee receives regular reports on risk management, including the Group's portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference. The Board Risk Committee also conducts deep dive reviews on a rolling basis of different sections of the consolidated risk information report that is provided at each scheduled committee meeting.

Group Risk Committee

The Group Risk Committee is responsible for ensuring the effective management of risk throughout the Group in support of the Group's strategy. The Group Chief Risk Officer chairs the Group Risk Committee, whose members are drawn from the management team. The Committee determines the overall Enterprise Risk Management Framework for the Group, including the delegation of any part of its authorities to appropriate individuals or properly constituted sub-committees.

The Committee requests and receives information to fulfil its governance mandates relating to the risks to which the Group is exposed. As with the Board Risk Committee, the Group Risk Committee and Group Asset and Liability Committee receive reports that include information on risk measures, Risk Appetite metrics and thresholds, risk concentrations, forward-looking assessments, updates on specific risk situations and actions agreed by these committees to reduce or manage risk.

Group Risk Committee sub-committees

The Corporate & Institutional Banking Risk Committee (CIBRC) covers risks arising from activities in Corporate & Institutional Banking globally and in the Europe & Americas region as well as Group-wide Market and Traded Credit Risk. The CIBRC is chaired by the Chief Risk Officer, Corporate & Institutional Banking.

The Private Banking Risk Committee covers risks arising in Private Banking globally including wealth management. It is chaired by the Chief Risk Officer, Commercial Banking and Private Banking.

The three regional risk committees, chaired by the Chief Risk Officer for each respective region, cover risks arising from their respective region including Commercial and Retail Banking.

The Group Reputational Risk Committee oversees the implementation of the reputational risk framework and takes decisions on material and thematic reputational risk issues.

The Group Operational Risk Committee, chaired by the Group Head, Operational Risk, ensures effective management of operational risk throughout the Group.

The Group Financial Crime Risk Committee, chaired by the Group Chief Risk Officer, provides oversight of the effectiveness of the Group's policies, procedures, systems, controls and assurance arrangements designed to identify, assess, manage, monitor, prevent and/or detect money laundering, non-compliance with sanctions, bribery, corruption and tax crime by third parties.

The Stress Testing Committee, chaired by the Global Head, Enterprise Risk Management, ensures the effective management of capital and liquidity related enterprise-wide stress testing in line with the Group's enterprise-wide stress testing policy and applicable regulatory requirements. The Committee also enforces model governance for Credit risk, Traded Credit risk and Market risk throughout the Group in line with Risk Appetite and in support of Group strategy. In addition, the Committee approves and provides oversight over stress testing models pertaining to Credit risk, Traded Credit and Market risk, Liquidity risk and valuation models.

The Group Information Management Governance Committee, chaired by the Group Chief Information Officer, ensures that an effective Group strategy and approach to data quality management framework, data quality management strategy, priorities, standards and metrics are in place and maintained taking into account the information-related requirements of internal and external stakeholders.

The IFRS 9 Impairment Committee, chaired by the Global Head, Enterprise Risk Management, ensures the effective management of expected credit loss computation as well as stage allocation of financial assets for quarterly financial reporting within the authorities set by the Group Risk Committee.

Group Asset and Liability Committee

Members of the Group Asset and Liability Committee are drawn principally from the Court. The Group Asset and Liability Committee is chaired by the Group Chief Financial Officer. The Group Asset and Liability Committee is responsible for determining the Group's approach to balance sheet management and ensuring that, in executing the Group's strategy, the Group operates within internally approved Risk Appetite and external requirements relating to capital, liquidity and leverage risk. It is also responsible for policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange, and interest rate exposure and tax exposure.

Combined United States Operations Risk Committee

The Combined United States Operations Risk Committee was established in 2016 to comply with the Dodd-Frank Act section 165 Enhanced Prudential Standards (EPS Rules). The EPS Rules legislated a number of enhanced obligations on the US operations commensurate with its structure, risk profile, complexity, activities and size. The Committee receives its authority from the Court of Standard Chartered Bank and is chaired by the Group Chief Risk Officer with membership drawn from the Court of Standard Chartered Bank and one iNED of Standard Chartered PLC. Its responsibilities are drawn from the EPS Rules and pertain to liquidity, risk governance and oversight.

PRINCIPAL RISKS

We manage and control our Principal Risk Types through distinct risk type frameworks, policies and Board-approved Risk Appetite

Credit risk

The Group defines Credit risk as the potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Group

Risk Appetite Statement

The Group manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors

Roles and responsibilities

The Credit Risk Framework for the Group is set by the Chief Risk Officers for the Corporate & Institutional Banking, Commercial Banking and Private Banking, and Retail Banking segments. The Credit Risk function is the second line control function that performs independent challenge, monitoring and oversight of the credit risk management practices of the business and functions engaged in or supporting revenue generating activities which constitute the first line of defence. The first and second lines of defence are supported by the organisation structure, job descriptions and delegated authorities. Additionally, to ensure that credit risks are properly assessed and are transparent, credit decisions are controlled in accordance with the Group's Risk Appetite and credit policies and procedures. All segment Credit Officers in Group, regional and country roles are accountable to the segment Chief Risk Officers for credit risk management strategy, policy and performance.

Mitigation

Group-wide credit policies and standards are established and approved by the Group Risk Committee or individuals with authority delegated by the Risk Authorities policy. The Group Risk Committee oversees the delegation of credit approval and loan impairment provisioning authorities. The principles for the delegation, review and maintenance of credit approval authorities are defined in the Risk Authorities policy. In addition, there are other Group-wide policies integral to credit risk management such as those relating to stress testing, risk measurement and impairment provisioning.

Policies and procedures specific to each customer segment are established by individuals authorised via the Risk Authorities policy. These are consistent with our Group-wide credit policies, but are more detailed and adapted to reflect the different risk characteristics across customer segments. Policies are regularly reviewed and monitored to ensure they remain effective and consistent with the risk environment and Risk Appetite.

The Group credit policies set out the key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements. Potential credit losses from any given account, client or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees. The reliance that can be placed on risk mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation, correlation and counterparty risk of the protection provider. The requirement for risk mitigation is, however, not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

Collateral types that are eligible as risk mitigants include: cash; account receivables; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; risk participations; guarantees; derivatives; credit insurance; and standby letters of credit. Physical collateral, such as property, fixed assets and commodities, and financial collateral must be independently valued and an active secondary resale market must exist. The collateral must be valued prior to drawdown and regularly thereafter as required. The valuation frequency is at minimum annual, and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. For financial collateral to be eligible for recognition, the collateral must be sufficiently liquid, and its value over time sufficiently stable, to provide appropriate certainty as to the credit protection achieved. Risk mitigation benefits may be reduced or removed where the collateral value is not supported by a recent independent valuation.

Documentation must be held to enable the Group to realise the collateral without the cooperation of the obligor in the event that this is necessary. For certain types of lending, typically mortgages or asset financing where a first charge over the risk mitigant must be attained, the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. Physical collateral is required to be insured at all times against risk of physical loss or damage.

Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of liquidation. Stress tests are performed on changes in collateral

values for key portfolios to assist senior management in managing the risks in those portfolios. The Group also seeks to diversify its collateral holdings across asset classes and markets.

Where guarantees, credit insurance, standby letter of credit or credit derivatives are used as credit risk mitigation, the creditworthiness of the protection provider is assessed and monitored using the same credit approval process applied to the obligor. The main types of guarantors include banks, insurance companies, parent companies, governments and export credit agencies.

Governance Committee Oversight

At a Board level, the Board Risk Committee oversees the effective management of Credit risk and the Board Audit Committee approves the Group Impairment provisioning policy and reviews judgements made by Management on key accounting issues and significant accounting estimates.

At the executive level, the Group Risk Committee delegates the authority for the management of credit risk to several committees – the Corporate & Institutional Banking Risk Committee, Private Banking Risk Committee as well as the regional risk committees for Greater China and North Asia, ASEAN and South Asia and Africa and Middle East. These committees are responsible for overseeing the credit risk profile of the Group within the respective business areas and regions. Meetings are held regularly and the committees monitor all material credit risk exposures, key internal developments and external trends, and ensure that appropriate action is taken.

In addition, there is a Credit Approval Committee and an Underwriting Committee.The Credit Approval Committee, appointed by the Group Risk Committee, reviews and approves major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures. The Underwriting Committee, appointed by the Corporate & Institutional Banking Risk Committee, approves limits for the underwriting of securities to be held for sale, and ensures effective risk management of underwritten debt securities and syndicated loans.

Decision making authorities and delegation

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Credit Approval Committee.

All other credit approval authorities are delegated by the Group Risk Committee to individuals based both on their judgement and experience. These individuals further delegate credit authorities to individual credit officers by applying Group Risk Committee approved delegated Credit Authorities matrices by customer type or portfolio. These matrices establish the maximum limits that the delegated credit officers are authorised to approve, based on risk-adjusted scales which take account of the estimated maximum expected loss from a given customer or portfolio. In Corporate & Institutional Banking, Commercial & Private Banking, the individuals delegating the credit authorities perform oversight by reviewing on a monthly basis a sample of the limit applications approved by the delegated credit officers. In Retail Banking, credit decisions are subject to periodic quality control assessment and assurance checks.

All credit proposals are subject to a robust credit risk assessment. It includes a comprehensive evaluation of the client's credit quality, including willingness, ability and capacity to repay. The primary lending consideration is based on the client's credit quality and the repayment capacity from operating cashflows for counterparties; and personal income or wealth for individual borrowers. The risk assessment gives due consideration to the client's liquidity and leverage position. Where applicable, the assessment includes a detailed analysis of the credit risk mitigation arrangements to determine the level of reliance on such arrangements as the secondary source of repayment in the event of a significant deterioration in a client's credit quality leading to default. Lending activities that are considered as higher risk or non-standard are subjected to stricter minimum requirements and require escalation to a senior credit officer or authorised body.

Monitoring

We regularly monitor credit exposures, portfolio performance, and external trends that may impact risk management outcomes.

Internal risk management reports that are presented to risk committees contain information on key political and economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance.

Credit risk committees meet regularly to assess the impact of external events and trends on the Group's credit risk portfolios and to define and implement our response in terms of the appropriate changes to portfolio shape, portfolio and underwriting standards, risk policy and procedures.

Clients or portfolios are subjected to additional review when they display signs of actual or potential weakness; for example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, non-performance of an obligation within the stipulated period, or there are concerns relating to ownership or management.

Such accounts and portfolios are subjected to a dedicated process overseen by the Credit Issues Committees in the

relevant countries where client account strategies and credit grades are re-evaluated. In addition, remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of Group Special Assets Management, our specialist recovery unit for Corporate & Institutional Banking, Commercial Banking & Private Banking.

For Retail Banking exposures, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and considered for lending decisions. Accounts that are past due or charged-off are subject to a collections or recovery process respectively, and managed independently by the Risk function. In some countries, aspects of collections and recovery activities are outsourced.

Credit rating and measurement

Risk measurement plays a central role, along with judgement and experience, in informing risk-taking and portfolio management decisions.

Since 1 January 2008, we have used the advanced internal ratings-based approach under the Basel II regulatory framework to calculate credit risk capital requirements.

A standard alphanumeric credit risk grade system for Corporate & Institutional Banking and Commercial Banking is used. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower numeric credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers, while credit grade 13 and 14 are assigned to non-performing or defaulted customers. An analysis by credit quality of those loans that are neither past due nor impaired is set out in the Risk Profile section.

Retail Banking internal ratings-based portfolios use application and behaviour credit scores that are calibrated to generate a probability of default and then mapped to the standard alphanumeric credit risk grade system. We refer to external ratings from credit bureaus (where these are available); however, we do not rely solely on these to determine Retail Banking credit grades.

Advanced internal ratings-based models cover a substantial majority of our exposures and are used in assessing risks at a customer and portfolio level, setting strategy and optimising our risk return decisions. Material internal ratings-based risk measurement models are approved by the Stress Testing Committee on the recommendation of the Credit Model Assessment Committee. The Credit Model Assessment Committee approves all other internal ratings-based risk measurement models, with key decisions noted to the Stress Testing Committee. Prior to review by the Credit Model Assessment Committee, all internal ratings-based models are validated in detail by a model validation team which is separate from the teams that develop and maintain the models. Models undergo annual validation by the model validation team. Reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process which takes place between the annual validations.

Credit concentration risk

Credit concentration risk may arise from a single large exposure to a counterparty or a group of connected counterparties, or from multiple exposures across the portfolio that are closely correlated. Large exposure concentration risk is managed through concentration limits set by a counterparty or a group of connected counterparties based on control and economic dependence criteria. Risk Appetite metrics are set at portfolio level and monitored to control concentrations, where appropriate, by industry, specific products, tenor, collateralisation level, top 20 concentration and exposure to holding companies. Single name credit concentration thresholds are set by a Client Group depending on credit grade, and by customer segment. For concentrations that are material at a Group level, breaches and potential breaches are monitored by the respective governance committees and reported to the Group Risk and Board Risk Committees.

Traded products

Credit risk from traded products derives from the positive mark-to- market value of the underlying instruments, and an additional component to cater for potential future market movements. This counterparty credit risk is managed within the Group's overall credit Risk Appetite for corporate and financial institutions. In addition to analysing potential future movements, the Group uses various single and multi-risk factor stress test scenarios to identify and manage counterparty credit risk across derivatives and securities financing transactions.

The Group uses bilateral and multilateral netting to reduce pre-settlement and settlement counterparty credit risk. Pre-settlement risk exposures are normally netted using bilateral netting documentation in legally approved jurisdictions. Settlement exposures are generally netted using Delivery versus Payments or Payment versus Payments systems. Master netting agreements are generally enforced only in the event of default. In line with International Accounting Standards (IAS) 32, derivative exposures are presented on a net basis in the financial statements only if there is a legal right to offset and there is intent to settle on a net basis or realise the assets and liabilities simultaneously.

In addition, the Group enters into credit support annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Further details on CSAs are set out in the Risk Profile section. The netting and collateral enforceability status of previously approved jurisdictions is periodically reviewed. This is undertaken as and when industry opinions are updated or where a change in the law or significant event in a relevant jurisdiction requires a re-assessment of the conclusions previously drawn under the existing opinion.

Wrong-way risk occurs when an exposure increase is coupled with a decrease in the credit quality of the obligor. Specifically, as the mark-to-market on a derivative contract or a repurchase agreement contract increases in favour of the Group, the driver of this mark-to-market change also reduces the ability of the counterparty to meet its payment, margin call or collateral posting requirements. The Group employs various policies and procedures to ensure that wrong-way risk exposures are identified, measured and managed.

Securities

The limits for the underwriting of securities to be held for sale are approved by the Underwriting Committee, under the authority of the Corporate & Institutional Banking Risk Committee. The limits contain the overall size of the securities inventory, the maximum holding period, the daily value at risk, the sensitivity to interest rate and credit spread moves. The Underwriting Committee approves individual proposals to underwrite new security issues for our clients.

Day-to-day credit risk management activities for traded securities are carried out by a specialist team within the Risk function whose activities include oversight and approval within the levels delegated by the Underwriting Committee. Issuer credit risk, including settlement and pre-settlement risk, and price risks are controlled by the Risk function. Where an underwritten security is held for a period longer than the target sell-down period, the final decision on whether to sell the position rests with the Risk function.

Loan impairment

A loan is impaired when we assess that we will not recover a portion of the contractual cashflows. Impaired loans are classified as follows:

- In Corporate & Institutional Banking, Commercial Banking & Private Banking, a loan is considered impaired where analysis and review indicate that full payment of either interest or principal, including the timeliness of such payment, is questionable, or as soon as payment of interest or principal is 90 days overdue. Impaired accounts are managed by our Group Special Assets Management recovery unit, GSAM, which is independent from our main businesses
- In Retail Banking, a loan is considered impaired when it meets certain defined threshold conditions in terms of overdue payments (contractual impairment) or meets other objective conditions such as bankruptcy, debt restructuring, fraud or death. A loan is considered delinquent (or past due), when the customer has failed to make a principal or interest payment in accordance with the loan contract. These threshold conditions are defined in policy and are set at the point where empirical evidence suggests that the client is unlikely to meet their contractual obligations or a loss of principal is expected

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and advances. Individually impaired loans are those loans against which individual impairment provisions (IIP) have been raised.

Provisions are taken in the form of:

- Individually impaired provisions (IIP)
- Portfolio impairment provisions (PIP) held to cover the inherent risk of losses which, although not identified, are known through experience to be present in any loan portfolio

More information on the components of these calculations for Corporate & Institutional Banking, Commercial Banking & Private Banking, as well as Retail Banking, can be found in note 8 of the financial statements.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the balance sheet date are determined by taking into account past loss experience as a result of uncertainties arising from the economic environment, and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported, for example, as a result of uncertainties arising from the economic environment.

The total amount of the Group's impairment provision is inherently uncertain, being sensitive to changes in economic and credit conditions across the regions in which the Group operates. Economic and credit conditions are interdependent within each geography and as a result there is no single factor to which the Group's loan impairment provisions as a whole are sensitive. It is possible that actual events over the next year will differ from the assumptions built into our model, resulting in material adjustments to the carrying amount of loans and advances.

Effective from 1 January 2018, the impairment requirements of IFRS 9 Financial Instruments are being adopted. More information can be found in note 41 of the financial statements.

Country risk

Risk Appetite Statement

The Group manages its country cross-border exposures following the principle of diversification across geographies and controls the business activities in line with the level of jurisdiction risk

The Group defines Country risk as the potential for default or losses due to political or economic events in a country

Roles and responsibilities

The Global Head, Enterprise Risk Management is responsible for the management and control of Country Risk across the Group with the day-to-day management and control activities delegated to the Global Head, Country Risk. They are supported by the Regional Chief Risk Officers and Country Chief Risk Officers who provide second line oversight and challenge to the first line country risk management activities. The first line ownership of country risk resides with the country CEOs who are responsible for the implementation of policy and allocation of approved country risk limits across relevant businesses and product lines, as well as the identification and measurement of country risks and communication of these and any non-compliance to policy to the second line.

Mitigation

Policies and procedures are developed and deployed to put in place standards and controls that all countries must follow to ensure effective management of country risk. The policies include standards for the acceptance and effective management of country risk in particular around identification, measurement, reporting and setting, and the calibration and allocation of country risk limits. The procedures outline the process for country risk limit setting, monitoring and reporting exposures.

Governance Committee Oversight

At a Board level, the Board Risk Committee oversees the effective management of Country risk. At the executive level, the Group Risk Committee is responsible for approving policies and control risk parameters, monitoring material risk exposures and directing appropriate action in response to material risk issues or themes that come to the Committee's attention that relate to Country risk. The Group Risk Committee delegates the management of Country risk to the Group Country Risk function. At a country level, the Country Risk Committee (or Executive Risk Committee for subsidiaries) is responsible for monitoring all risk issues for their given country, including Country risk.

Decision making authorities and delegation

Decision making and approval authorities are guided by reference levels for countries. Reference levels are guidelines to set country limits in respect of Country risk. The reference levels are assessed by the Group Country Risk function and are functionally derived from factors including: Group Tier 1 capital, sovereign risk grade, with adjustment for transfer risk; Group strategy, through Country tiering; portfolio composition (short and medium-term) and Country's total foreign currency earnings.

Monitoring

Monitoring and reporting is included in the policy and procedures and covers the monitoring of exposures relative to Risk Appetite thresholds and limits, and the reporting of material exposures to internal committees and externally. The Group Risk Committee monitors Risk Appetite thresholds on a traffic-light indicator basis which provide an early warning indicator of stress and concentration risk. An escalation process to the Board Risk Committee is in place based on the traffic-light indicators monitoring system. In addition, the Group Risk Committee and the Board Risk Committee receive regular reports on exposures in excess of 1 per cent of total Group assets.

Market risk

The Group defines Market risk as the potential for loss of economic value due to adverse changes in financial market rates or prices

Risk Appetite Statement

The Group should control its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Group's franchise

Roles and responsibilities

The Market Risk Framework, which sets the roles and responsibilities in respect of Market risk for the Group, is owned by the Global Head, Market and Traded Credit Risk (MTCR). The front office acting as first line of defence is responsible for the effective management of market risks. The Market Risk Function is the second line control function that performs independent challenge, monitoring and oversight of the market risk management practices of the first line of defence. The first and second lines of defence are supported by the organisation structure, job descriptions and authorities delegated by market risk control owners.

Mitigation

The Group controls its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Group's franchise by assessing the various market risk factors. These are captured and analysed using proprietary and custom built analytical tools, in addition to risk managers' specialist market and product knowledge.

MTCR has market risk policies and procedures in place ensuring that appropriate market risk limits are implemented. The Group's market risk exposure is aligned with its appetite for market risk and assessing potential losses that might be incurred by the Group as a consequence of extreme but plausible events.

Market risk limits are applied as required by the Market Risk Limits Policy and related procedures. All businesses incurring market risk must do so in compliance with the Market Risk Limits Policy. The Policy requires that market risk limits are defined at a level appropriate to ensure that the Group remains within market Risk Appetite. The market Risk Appetite metrics are defined in terms of VaR and stress loss, therefore all material market risks must be captured by these metrics. All exposures throughout the Group that the MTCR function is responsible for aggregate up to MTCR's Group-level reporting. This aggregation approach ensures that the limits structure across the Group is consistent with the Group's Risk Appetite.

The Market Risk Stress Testing Policy is designed to ensure that adherence to Group market risk stress appetite is achieved. Stress testing aims at supplementing other risk metrics used within the bank by providing a forward-looking view of positions and an assessment of their resilience to stressed market conditions. Stress testing is performed on all Group businesses with market risk exposures, either where the risk is actively traded or where material risk remains. This additional information is used to inform the management of the market risks taken within the Group. The outcome of stress tests is discussed across the various business lines and management levels so that existing and potential risks can be reviewed and related management actions can be decided upon where appropriate.

Policies are reviewed and approved by the Global Head, MTCR annually to ensure their ongoing effectiveness and sustainability.

Stress testing

Losses beyond the 97.5 per cent confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of losses in tail event situations.

The VaR measurement is complemented by weekly stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are deemed rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books. The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. The MTCR function reviews stress testing results and, where necessary, enforces reductions in overall market risk exposure. The Group Risk Committee considers the results of stress tests as part of its supervision of Risk Appetite.

Regular stress test scenarios are applied to interest rates, credit spreads, exchange rates, commodity prices and equity prices. This covers all asset classes in the Financial Markets banking and trading books.

Ad hoc scenarios are also prepared, reflecting specific market conditions and for particular concentrations of risk that arise within the business.

Governance Committee Oversight

At a Board level, the Board Risk Committee oversees the effective management of Market risk. At the executive level, the Group Risk Committee delegates responsibilities to the Corporate & Institutional Banking Risk Committee (CIBRC) to act as the primary risk governance body for market risk and to the Stress Testing Committee for stress testing and model risk. The Group Risk Committee also delegates limit authority to the Global Head, MTCR who is responsible for the market risk.

Decision making authorities and delegation

The Group's Risk Appetite Statement, along with the key associated Risk Appetite metrics, is approved by the Board, and responsibility for market risk limits is then tiered accordingly.

Subject to the Group's Risk Appetite for market risk, the Group Risk Committee sets Group-level market risk limits and delegates authority for the supervision of all other market risk limits to the CIBRC and Market & Traded Credit Risk.

Major business limits are reviewed and approved by the CIBRC. The committee is responsible for determining which major business limits meet the criteria for categorisation. The CIBRC is appointed by the Group Risk Committee.

All other market risk limit approval authorities are delegated by the Global Head, MTCR to individual market risk managers. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. Authorities are reviewed at least annually to ensure they remain appropriate and to assess the quality of decisions taken by the authorised individual. Key risk-taking decisions are made only by certain individuals or committees with the skills, judgement and perspective to ensure that the Group's control standards and risk-return objectives are met.

Authority delegators are responsible for monitoring the quality of the risk decisions taken by their delegates and the ongoing suitability of their authorities.

VaR

The Group applies VaR as a measure of the risk of losses arising from future potential adverse movements in market rates, prices and volatilities. VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit and loss outcome.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced six times per year.

The Group applies two VaR methodologies:

- Historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors and the majority of specific (credit spread) risk VaR;
- Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets

In both methods a historical observation period of one year is chosen and applied.

VaR is calculated on our exposure as at the close of business, generally UK time. Intra-day risk levels may vary from those reported at the end of the day.

A small proportion of market risk generated by trading positions is not included in VaR or cannot be appropriately captured by VaR. This is recognised through a Risks-not-in-VaR framework, which estimates these risks and applies capital add-ons.

To assess their ongoing performance, VaR models are backtested against actual results.

See an analysis of VaR and backtesting results in 2017 in the Risk Profile section.

Monitoring

MTCR monitors the overall portfolio risk and ensures that it is within specified limits and therefore Risk Appetite. The annual and mid-year limit review processes provide opportunities for the business and MTCR to review risk in light of performance.

Market risk exposures are monitored daily against approved limits. Intra-day risk exposures may vary from those reported at the end of the day. Limit excess approval decisions are informed by factors such as an assessment of the returns that will result from an incremental increase to the business risk exposure. Limits and excesses can only be approved by a market risk manager with the appropriate delegated authority.

Stress testing is the basis for internal economic capital and economic profit reporting for market risk. Incremental Risk Charge is also used to reflect credit default and migration risk. Financial Markets traders may adjust their market risk exposures within approved limits and assess risk/reward trade-offs according to market conditions.

In addition, stress scenario analysis is performed on all market risk exposures in Financial Markets and in portfolios outside Financial Markets such as Syndicated Loans and Principal Finance. MTCR reports and monitors limits applied to stressed exposures. Stress loss excesses are discussed with the business and approved where appropriate based on delegated authority levels. Stress loss excesses are reported to CIBRC. Where required by local statute or regulation, MTCR's Group and business-wide stress and scenario testing will be supplemented by entity stress testing at a country level. This stress testing is coordinated at the country level and subject to the relevant local governance.

Capital and liquidity risk

Risk Appetite Statement

The Group maintains a strong capital position, including the maintenance of management buffers sufficient to support its strategic aims, and holds an adequate buffer of high quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support

The Group defines capital risk as the potential for insufficient level or composition of capital to support our normal activities, and liquidity risk as the potential for failure where we may not have sufficient stable or diverse sources of funding or financial resources to meet our obligations as they fall due

Roles and responsibilities

The Treasurer is responsible for developing a risk framework for capital and liquidity risk and for complying with regulatory requirements at a Group level. The Treasury and Finance functions provide independent challenge and oversight of the first line risk management activities relating to capital and liquidity risk. In country, the Treasurer is supported by Treasury and Finance in implementing the capital and liquidity framework.

Mitigation

The Group develops policies to address material capital and liquidity risks and aims to constrain its risk profile within Risk Appetite. Risk Appetite is set for the Group and cascaded down to the countries as limits. The Group also maintains a Recovery Plan which is a live document to be used by management in a liquidity or solvency crisis. The Recovery Plan includes a set of Recovery Indicators, an escalation framework and a set of management actions that could be effectively implemented in a liquidity stress. A Recovery Plan is also maintained within each major country.

The approach to mitigation is detailed further below:

Capital Planning

On an annual basis, strategic business and capital plans are drawn up covering a five-year horizon and are approved by the Board. The capital plan ensures that adequate levels of capital and an efficient mix of the different components of capital are maintained to support our strategy and business plans. Treasury is responsible for the ongoing assessment of the demand for capital and the updating of the Group's capital plan.

Capital planning takes the following into account:

- Current regulatory capital requirements and our assessment of future standards
- Demand for capital due to the business and loan impairment outlook and potential market shocks or stresses
- Available supply of capital and capital raising options

The Funding Plan is also developed to ensure we have a credible plan to manage the future demand and supply of funds in a prudent yet commercially effective manner.

Structural FX Risk

The Group's structural position results from the Group's non-USD investment in the share capital and reserves of subsidiaries and branches. The FX translation gains or losses are recorded in the Group's 'Translation Reserves' with a direct impact on the Group's CET1 ratio.

The Group contracts hedges to manage its structural FX position in accordance with a Board-approved Risk Appetite, and as a result the Group has taken net investment hedges (using a combination of derivative and non-derivative financial investments) to partly cover its exposure to the Korean won, Chinese renminbi and Taiwanese dollar to mitigate the FX impact of such positions on its capital ratios.

Liquidity and Funding Risk

At Group and country level we implement various business-as-usual and stress risk metrics and monitor these against limits. This ensures that the Group maintains an adequate and well-diversified liquidity buffer and stable funding base.

The approach to managing the risks and the Board-approved Risk Appetite metrics are assessed annually through the Internal Liquidity Adequacy Assessment Process.

Earnings Risk

Interest rate re-pricing risk is managed centrally by Treasury Markets within market risk limits. The governance of Earnings Risk will develop through 2018 in line with regulatory guidelines for interest rate risk in the banking book. This will focus on implementing this risk type within the Group's Enterprise Risk Management Framework supported by formal delegations of authority, additional policies and methodologies, data and model governance, a broader suite of Risk Appetite metrics, limits, and ongoing reporting and monitoring of exposures against these.

Stress testing

Stress testing and scenario analysis are an integral part of the capital and liquidity framework, and are used to ensure that the Group's internal assessment of capital and liquidity consider the impact of extreme but plausible scenarios on its risk profile. They provide an insight into the potential impact of significant adverse events on the Group's capital and liquidity position and how these could be mitigated through appropriate management actions to ensure the Group remains within the approved Risk Appetite and regulatory limits.

Governance Committee Oversight

At a Board level, the Board Risk Committee oversees the effective management of Capital and Liquidity risk. At the executive level, the Group Asset and Liability Committee informs the Group's strategy on balance sheet matters and ensures that the Group operates within internally approved Risk Appetite and regulatory requirements. This relates to capital, loss absorbing capacity, liquidity, leverage, earnings risk and structural foreign exchange risk. The Group Asset and Liability Committee also ensures that the Group meets internal and external recovery and resolution planning requirements. The Group Asset and Liability Committee delegates responsibilities to the Operational Balance Sheet Committee to ensure that, in executing the Group's strategy, the Group operates within internal and regulatory requirements, with a focus on ensuring alignment with business objectives.

Country oversight under the capital and liquidity framework resides with country Asset and Liability Committees. Countries must ensure they remain in compliance with Group capital and liquidity policies and practices, as well as local regulatory requirements.

The Stress Testing Committee ensures the effective management of capital and liquidity related enterprise-wide stress testing in line with the Group's enterprise-wide stress testing policy and applicable regulatory requirements. The Stress Testing Committee reviews, challenges and approves stress scenarios, results and management actions as part of the Internal Capital Adequacy Assessment Process, as well as assumptions and results as part of the Internal Liquidity Adequacy Assessment Process.

Decision making authorities and delegation

The Group Chief Financial Officer has overall responsibility for determining the Group's approach to capital and liquidity risk management and delegates this authority to the Treasurer. The Treasurer has the authority to delegate second line responsibilities to the Treasury and Finance functions to relevant and suitably qualified individuals. This includes the delegation of policy and metric development, implementation and limit setting, as well as oversight and challenge of first line processes and controls and is delegated to the most appropriate individuals.

Monitoring

On a day-to-day basis the management of capital and liquidity is performed by the country Chief Executive Officer and Treasury Markets respectively. The Group regularly reports and monitors capital and liquidity risks inherent in its business activities and those that arise from internal and external events. The management of capital and liquidity is monitored by Treasury for the Group with appropriate escalation processes in place for any breach of limits.

Internal risk management reports covering the balance sheet and the capital and liquidity position of the Group are presented to the Operational Balance Sheet Committee and the Group Asset and Liability Committee. The reports contain key information on balance sheet trends, exposures against Risk Appetite and supporting risk measures which enable members to make informed decisions around the overall management of the Group's balance sheet. Oversight at a country level is provided by the country Asset and Liability Committee, with a focus on the local capital and liquidity risks, local prudential requirements and risks that arise from local internal and external events.

Operational risk

The Group defines Operational Risk as the potential for loss resulting from inadequate or failed internal processes and systems, human error, or from the impact of external events

Risk Appetite Statement

The Group aims to control operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise

Roles and responsibilities

The Operational Risk Framework (ORF) is set by the Group Head, Operational Risk and approved by the Group Operational Risk Committee. Group Operational Risk, in its role as the second line of defence, develops the Operational Risk Framework and monitors its application across the Group. The Operational Risk function challenges process owners in ensuring the Group's operational risk profile is within Risk Appetite.

Mitigation

The ORF sets out the Group's overall approach to the management of operational risk in line with the Group's Risk Appetite. The approach reinforces the three lines of defence and serves to continually improve the Group's ability to anticipate and control material risks. It also requires the need for clear ownership and accountability for all processes across the Group. Risk assessment is used to determine the design strength and reliability of each process to prevent risks.

The operational risk management approach requires:

- All processes and risks to be identified, owned, and recorded in the Process Universe
- Control tolerance standards to be set for each control for quantity, materiality and timeliness of detection and rectification of defects
- Monitoring of control performance against tolerance standards
- Residual risks to be assessed by process owners and approved by risk framework owners
- Prompt execution of treatment actions

The Group fulfills the requirements of the approach by defining and maintaining a process universe for all client segments, products, and functions. The Process Universe is the complete set of processes that collectively describe the activities of the Group and is the common reference for the approach to operational risk management. Each process is owned by a named individual who is responsible for the outcomes of the process and the design, monitoring and effectiveness of the control environment.

Potential failures in processes are identified by process owners and risk framework owners using their expert judgment. These potential failures are risk assessed against a pre-defined operational risk assessment matrix which must be approved by individuals delegated within the Risk Authorities policy. Risks that fall above the Group's Risk Appetite levels require a time-bound treatment plan to address the potential failures, and are monitored until the risk is reduced to within acceptable levels.

Stress testing

As part of the operational risk management approach, the Group conducts stress testing using scenario analysis. Fifteen scenarios are identified that test the robustness of the Group's processes, and assess the potential impact to the Group. These scenarios include anti-money laundering, sanctions, information and cyber security and external fraud.

In 2017, we also participated in the Bank of England stress test exercise and the annual Internal Capital Adequacy Assessment Process.

Governance Committee Oversight

At a Board level, the Board Risk Committee oversees the effective management of Operational risk. At the executive level, the Group Operational Risk Committee (GORC) oversees the operational risk profile of the Group within the boundaries of the Group's Risk Appetite and any limits and policies set by authorised bodies of the Group. The GORC has the authority to challenge, constrain and, if required, stop business activities where risks are not aligned with the Group's Risk Appetite.

The GORC is supported by Business Process Governance Committees (PGCs) and Function Operational Risk Committees (FORCs) which provide global oversight of all operational risks arising from processes within the Business and Function at the Group level. In addition, the Country Operational Risk Committees (CORCs) oversee the management of operational risks at the country (or entity) level.

The GORC monitors the effectiveness of the PGCs, FORCs and CORCs and challenges the risk decisions made within these committees to remain within the Group's Risk Appetite.

Decision making authorities and delegation

Authority to make risk-related decisions is delegated to individuals or committees with the requisite skills, judgement, and perspective to ensure that the Group's control standards and risk/return objectives are met. The Group has prescribed policies defining the scope and responsibility of the authorised individuals. The authorities are reviewed at least annually to ensure they remain appropriate to assess the quality of decisions taken by the authorised individual.

To ensure the appropriate infrastructure, people, processes, and controls are in place to support change and product management, including mitigation of all operational risks within Risk Appetite, minimum governance standards are set at the Group and Country levels. Significant changes to internal and external environments may give rise to operational risks. Such changes with impact to client segments, products and functions are subject to process governance at a PGC or FORC. Standards for business products are owned by Business Heads and Business PGCs. All products must be approved to the standards set out in the policy, including completion of an operational risk assessment.

Monitoring

Operational Risk Appetite metrics are set against each top risk. These are included as part of the operational risk profile which comprises the following elements:

- Top Risk performance against Risk Appetite
- Losses, near misses and related insights
- Changes to the internal or external environment
- Results of audit and regulatory reviews, or other independent findings

The operational risk profile is aggregated and reported at relevant committees defined at Group, business, regional, country and function level. This provides senior management with the relevant information to inform their risk decisions. The completeness of the operational risk profile ensures appropriate prioritisation and promptness of risk decisions, including risk acceptances with treatment plans for risks that are beyond the acceptable threshold.

Reputational risk

The Group defines reputational risk as the potential for loss of earnings or market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions

Risk Appetite Statement

The Group aims to protect the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight

Roles and responsibilities

In February 2017, second line ownership of reputational risk was transferred from the Group Head, Corporate Affairs to the Group Chief Risk Officer, with responsibility delegated to the Global Head, Enterprise Risk Management. At country level, the responsibility of reputational risk management is delegated to Country Chief Risk Officers. Both the Global Head, Enterprise Risk Management and Country Chief Risk Officers constitute the second line of defence, overseeing and challenging the first line which resides with the CEOs, Business Heads and Product Heads in respect of risk management activities of reputational-related risks.

Mitigation

The Group's reputational risk policy sets out the principal sources of reputational risk and the responsibilities and procedures for identifying, assessing and escalating reputational risks. The policy also defines the control and oversight standards to effectively manage reputational risk.

The Group takes a structured approach to the assessment of risks associated with how individual client, transaction, product and strategic coverage decisions may affect perceptions of the organisation and its activities. Wherever a potential for stakeholder concerns is identified, issues are subject to prior approval by a management authority commensurate with the materiality of matters being considered. Such authorities may accept, decline the risk or impose conditions upon proposals, to protect the Group's reputation. The Group recognises that there is also the potential for consequential reputational risk should it fail to control other Principal Risk Types. Such secondary reputational risks are managed by the owners of each Principal Risk Type.

Stress testing

Reputational risk is incorporated into the Group's stress testing scenarios. For example, the Group may consider what impact a hypothetical event leading to loss of confidence among liquidity providers in a particular market might have, or what the implications might be for supporting part of the organisation in order to protect the brand.

Governance Committee Oversight

The Brand, Values and Conduct Committee retains Board level oversight responsibility for reputational risk. Oversight from an operational perspective falls under the remit of the Group Risk Committee and the Board Risk Committee. The Group Reputational Risk Committee appointed by the Group Risk Committee in May 2017 ensures the effective management of Reputational Risk across the Group. The Group Reputational Risk Committee's remit is to:

- Challenge, constrain and if required, to stop business activities where risks are not aligned with the Group's Risk Appetite
- Make decisions on reputational risk matters assessed as high or very high based on the Group's reputational risk materiality assessment matrix, and matters escalated from the Regions or Client Businesses
- Provide oversight of material reputational risk and/or thematic issues arising from the potential failure of other risk types

Decision making authorities and delegation

The Group Risk Committee provides Group-wide oversight on reputational risk, approves policy and monitors material risks. The Group Reputational Risk Committee is authorised to approve or decline reputational risk aspects of any business transaction, counterparty, client, product, line of business and market within the boundaries of the Group's Risk Appetite, and any limits and policies set by authorised bodies of the Group.

Monitoring

Reputational risk policies and procedures are applicable to all Group entities. However local regulators in some markets may impose additional requirements on how banks manage and track reputational risk. In such cases, these are complied with in addition to Group policies and procedures. Exposure to reputational risk is monitored through:

- A requirement that process owners establish triggers to prompt consideration of reputational risk and escalation where necessary
- The tracking of risk acceptance decisions
- The tracking of thematic trends in secondary risk arising from other Principal Risk Types
- The analysis of prevailing stakeholder concerns

Compliance risk

The Group defines compliance risk as the potential for regulatory sanctions or loss from a failure on our part to comply with laws or regulations

Risk Appetite Statement

The Group has no appetite for breaches in laws and regulations; whilst recognising that regulatory non-compliance cannot be always entirely avoided, the Group strives to reduce this to an absolute minimum

Roles and responsibilities

The Group Head, Compliance sets standards for compliance, establishes and maintains risk-based compliance frameworks and a programme for monitoring compliance; provides support to senior management on regulatory and compliance matters; and is the Risk Framework Owner for Compliance Risk.

The Compliance Risk Framework sets out the roles and responsibilities in respect of compliance risk for the Group. Businesses and functions acting as the first line of defence are responsible for ensuring that their processes operate in a way that ensures continued compliance with all applicable laws and regulations. The compliance function is the second line that provides oversight and challenge of the first line risk management activities that relate to compliance risk.

The Compliance Risk Framework defines risk sub-types and delegates these to the most appropriate control function to ensure that the Compliance function as second line, can effectively provide oversight and challenge of the first line risk management activities.

Mitigation

The Compliance function develops and deploys relevant policies and procedures setting out standards and controls for adherence by the Group to ensure continued compliance with applicable laws and regulations. Through a combination of control monitoring and attestation, the Compliance Risk Framework Owner seeks to ensure that all policies are operating as expected to mitigate the risk that they cover.

Governance Committee Oversight

Compliance risk and the risk of non-compliance with laws and regulations resulting from failed processes and controls are overseen by Process Governance Committees and Functional Operational Risk Committees, and Country Operational Risk Committees that are in place for each business, function and country. The Compliance and Regulatory Risk Committee has a consolidated view of these risks and ensures that appropriate governance is in place for these. In addition, the Committee ensures that elevated levels of Compliance Risk are reported to the Group Operational Risk Committee, Group Risk Committee and Board Audit Committee.

Decision making authorities and delegation

Decision making and approval authorities follow the Enterprise Risk Management Framework approach and risk thresholds. The Group Head, Compliance has the authority to delegate second line responsibilities within the Compliance function to relevant and suitably qualified individuals. In addition, second line responsibilities including policy development, implementation and validation as well as oversight and challenge of first line processes and controls are delegated based on the most appropriate control function for certain compliance risk sub-types.

Monitoring

The monitoring of controls designed to mitigate the risk of regulatory non-compliance in processes is carried out in line with the Operational Risk Framework. The Group has a monitoring and reporting process in place for compliance Risk Appetite metrics, which includes escalation and reporting to Compliance and Regulatory Risk Committee, Group Risk Committee and Board Risk Committee as appropriate. In addition, there is a Group Regulatory Reform team set up to monitor regulatory reforms in key markets and establish a protocol for horizon scanning.

Conduct risk

The Group defines Conduct Risk as the potential regulatory sanctions or loss from a failure on our part to abide by the Group's Conduct Risk Management Framework

Risk Appetite Statement

The Group strives to maintain the standards in our Code of Conduct and outcomes of our Conduct Framework, by continuously demonstrating that we "Do The Right Thing" in the way we conduct business

Roles and responsibilities

Conduct risk management and abiding by the Group Code of Conduct is the responsibility of all employees in the Group. The first line businesses and functions are responsible for reviewing their processes and identifying conduct-related outcomes and ensuring controls are in place to mitigate these risks. The compliance function as second line for conduct risk is responsible for providing oversight and challenge to the first line to ensure the adequacy of the conduct risk management and that we remain within Risk Appetite.

Mitigation

The Group Conduct Risk Management Framework is designed to enable dynamic risk control implementation and risk-based decision making in line with the Group's Enterprise Risk Management Framework. The framework is supported by policies including the Group conduct management policy and the Group code of conduct as well as a range of other policies and procedures which address conduct related aspects in further granular detail. The management of conduct risk includes the monitoring of Risk Appetite metrics and limits that are reported to relevant governance committees.

Conduct risk identification and mitigation are embedded in businesses and functions through an end-to-end review of the Bank's critical processes. Controls are put in place for conduct related risks that have been identified within these processes. In-country workshops are conducted to assist CEOs and management teams to identify conduct related risks in their businesses and country strategies while leader-led training on conduct issues and dilemmas are rolled out across businesses and functions as we seek to ensure conduct is seen in the broader context, as opposed to behavioural conduct.

Governance Committee Oversight

The Board Risk Committee, Brand Values and Conduct Committee, Group Risk Committee, Group Operational Risk Committee and the Compliance Regulatory Risk Committee are responsible for ensuring that the Group remains within conduct Risk Appetite. As Risk Framework Owner for conduct risk, compliance sets reporting thresholds for escalation of conduct risks to the Group Operational Risk Committee and Group Risk Committee. The Board Risk Committee and the Brand Values and Conduct Committee receive periodic reports on conduct risk assurance against businesses and functions.

Decision making authorities and delegation

Conduct risk authority is delegated through the Group ensuring appropriate spans of control and suitable persons holding roles. Responsibilities are clearly articulated and ensure the split between ‘doing’ and ‘oversight’.

Monitoring

The Group regularly monitors the effectiveness of mitigating controls and performance against Risk Appetite. Risk Appetite metrics are defined at granular levels and take into consideration measures such as the outcome of speaking up cases in individual countries and collectively as a group. To further support managers with their responsibilities in respect of conduct risk, a conduct dashboard is in development which will provide managers with a snapshot of each respective business and function.

Information and cyber security risk

The Group defines Information and cyber security risk as the potential for loss from a breach of confidentiality, integrity or availability of the Group’s information systems and assets through cyber attack, insider activity, error or control failure

Risk Appetite Statement

The Group seeks to avoid risk and uncertainty for our critical information assets and systems and has a low appetite for material incidents affecting these or the wider operations and reputation of the Group

Roles and responsibilities

In 2017 we introduced the Chief Information Security Officer function in Risk & Compliance and announced a revised operating model to address information and cyber security as a business risk, incorporating this into our overall risk management strategy. The Chief Information Security Officer (CISO) has overall responsibility for strategy, governance and oversight of information and cyber security across the Group and operates as the second line of defence.

The CISO defines policy for information and cyber security overseeing and challenging the operational implementation of controls at the first line, which includes both technical and business responsibilities. The Technology Information Security Office (TISO) operate within the ITO function at the first line, ensuring security of the Group’s technology applications and infrastructure.

Mitigation

Information and cyber security risk is managed through a structured framework comprised of a risk assessment methodology and supporting policies, procedures and standards which are aligned to industry best practice models.

The Chief Information Security Officer function is responsible for the information and cyber security risk framework and associated policy documents. The framework model and policy documents must be reviewed and updated at least biennially and / or following material change to a control environment.

Stress testing

Stress testing of technical controls relating to information and cyber security risk are performed annually by an external independent party. Results of these stress tests are reported to the Chief Information Security Officer function for consideration and action. Identified actions are overseen to appropriate conclusion by the Chief Information Security Officer function with progress reports provided to the Group Operational Risk Committee.

Governance Committee Oversight

The information and cyber security risk within the bank is currently governed via the Board Risk Committee who has responsibility for approving the definition of information and cyber risk and the Group appetite. Close and continuous oversight of information and cyber security risk in the Bank is performed by the Technology Operations Risk Committee (TORC) and the Group Operational Risk Committee (GORC), with the GORC being appointed by the Group Risk Committee. Escalation of risks which fall outside the defined appetite for the Group are overseen by these committees to ensure effective mitigation.

Decision making authorities and delegation

Measurement and decision making relating to the approval and or sign off of information and cyber security risk follows the below principles:

- All first line and second line process owner roles in Information and cyber security must be covered, leaving no gaps in risk management and regulatory compliance
- Delegation authority must be consistent with the Group Enterprise Risk Management Framework, apply to IT and non-IT processes impacting in-country information and cyber security risk, cover local and Group processes

impacting in-country cyber risk

- Must consider the cost to the Group and take into account any regulatory requirements
- Geographic resource span of control must be consistent with Group models

Monitoring

Following the introduction of the Chief Information Security Officer function in 2017, we are extending monitoring capability for information and cyber security risk with further enhancements planned to take place during 2018.

We have a range of roles and activities in both the Chief Information Security Officer function and the TISO that look at monitoring information and cyber security risks.

CISO activities include:

- The Business Information Security Officers who support business activities relating to information and cyber security at a country or operation level
- Control testing (e.g. phishing simulation exercises)
- Strategic assurance activities (e.g. enterprise-wide security risk assessment)
- Dispensation assessment and approval
- Deployment of the Third Party Security Assessment model

TISO activities include:

- Operation of technical controls (e.g. email monitoring)
- Security Incident response, etc.

Financial crime risk

The Group defines Financial crime risk as the potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to International Sanctions, Anti-Money Laundering and Anti-Bribery and Corruption

Risk Appetite Statement

The Group has no appetite for breaches in laws and regulations related to Financial Crime, recognising that whilst incidents are unwanted, they cannot be entirely avoided

Roles and responsibilities

The Global Head, Financial Crime Compliance has overall responsibility for financial crime risk and is responsible for the establishment and maintenance of effective systems and controls to meet legal and regulatory obligations in respect of Financial Crime. The Global Head, Financial Crime Compliance is the Group's Money Laundering Reporting Officer and performs the Financial Conduct Authority controlled function and senior management function in accordance with the requirements set out by the Financial Conduct Authority[1], including those set out in their 'Systems and Controls' Handbook.

As the first line, the business unit process owners have responsibility for the application of policy controls and the identification and measurement of risks relating to financial crime. Business units must communicate risks and any policy non-compliance to the second line for review and approval following the model for delegation of authority.

Mitigation

There are three Group policies in support of the Financial crime compliance Risk Type Framework:

- Anti-bribery and corruption as set out in the Group Anti-Bribery and Corruption Policy
- Anti-money laundering as set out in the Group Anti-Money Laundering and Terrorist Financing Policy
- Sanctions as set out in the Group Sanctions Policy.

These policies are approved by the Global Head, Financial Crime Compliance.

The Group operates risk-based controls in support of its Financial Crime programme, including (but not limited to):

- Client Due Diligence, to meet "Know Your Customer" requirements
- Surveillance, including Transaction Screening, Name Screening and Transaction Monitoring
- Global Risk Assessment; to understand and quantify the Inherent and Residual Financial Crime risk across the

organisation

The strength of these controls are tested and assessed through the Group's Operational Risk Framework, in addition to oversight by the Financial Crime Compliance Assurance and Group Internal Audit functions.

Governance Committee Oversight

Financial crime risk within the Group is governed by the Group Financial Crime Risk Committee which is appointed by and reports into the Group Risk Committee. The Group Financial Crime Risk Committee is responsible for ensuring the effective management of operational risk relating to Financial crime compliance throughout the Group in support of the Group's strategy and in line with the Group's Risk Appetite, Enterprise Risk Management Framework and Group Operational Risk Procedures.

The Board Financial Crime Risk Committee is appointed by the Board, to provide oversight of the effectiveness of the Group's policies, procedures, systems, controls and assurance mechanism designed to identify, assess, manage, monitor, detect or prevent money laundering, non-compliance with sanctions, bribery, corruption, and tax crime by third parties.

Decision making authorities and delegation

The Global Head, Financial Crime Compliance is the Risk Framework Owner for financial crime under the Group's Enterprise Risk Management Framework, and has been allocated overall responsibility within the Group for the establishment and maintenance of effective systems and controls to meet legal and regulatory obligations in relation to Financial crime. Certain aspects of Financial crime compliance second line oversight and challenge are delegated within the Financial Crime Compliance function.

Approval frameworks are in place to allow for risk-based decisions on client on-boarding, for potential breaches of Sanctions regulation or Policy, and for situations of potential Money Laundering and Anti-Bribery and Corruption concerns.

Monitoring

The Group monitors Financial crime compliance risk against a set of Risk Appetite metrics that are approved by the Board. These metrics are reviewed periodically and reported regularly to both the Group Financial Crime Risk Committee and Board Financial Crime Risk Committee.

1 MLRO is a controlled/Senior Management function (SMF 17 – Money Laundering Reporting Function) under Section 59 of the Financial Services and Markets Act 2000 ("FSMA")

RISK PROFILE

Our risk profile in 2017

Through our well-established risk governance structure and risk management framework, we closely manage our risks with the objective of maximising risk-adjusted returns while remaining in compliance with the Risk Appetite Statement. We manage uncertainties through a framework that provides a forward-looking 12 to 18 month view of the economic, business and credit conditions across the Group's key markets, enabling us to proactively manage our portfolio.

We continue to take action to reposition the Group's corporate portfolio, exiting weaker credit or lower-returning clients and adding new clients selectively. The Group's portfolio is well diversified across dimensions such as industries, geographies and products.

The table below highlights the Group's overall risk profile associated with our business strategy.

Our risk profile in 2017

Revised Enterprise Risk Management Framework and experienced senior team

- In 2017 we reviewed and significantly enhanced our Enterprise Risk Management Framework, in particular around risk culture, the control framework, strategic risk management and Principal Risk Types
- We also embarked on a key initiative to build out the Enterprise Risk Management function, allowing the Group to identify and manage risks holistically, with appropriate governance, oversight and information in place to run a safe, secure and well-controlled organisation
- We have a clear Risk Appetite Statement which is aligned to the Group's strategy; it is approved by the Board and informs the more granular risk parameters within which our businesses operate, with a particular focus on reducing concentrations
- We have an experienced senior risk team and our risk committees are staffed by the Group's most senior leaders
- We continuously monitor our risk profile to ensure it remains within our risk appetite, conduct regular stress tests, and adjust our exposures, underwriting standards and limits

Increasingly diversified short tenor portfolio with reducing concentrations

- Our balance sheet remains resilient and well diversified across a wide range of geographies, industries and products which serves to mitigate risk
- Within the Corporate & Institutional and Commercial Banking portfolios:
  - Loans and advances to the financing, insurance and non-banking industry are 27 per cent of the total customer portfolio, and are mostly to investment grade institutions. All other industry concentrations are at or below 13 per cent of the total customer portfolio
  - The loan portfolio remains predominantly short-dated, with 70 per cent of loans and advances to customers maturing in under one year
  - Our top 20 corporate exposures have reduced to 50 per cent of Tier 1 capital in 2017 (2016: 55 per cent)
  - Exposure to investment grade clients has increased to 57 per cent of the total corporate book in 2017 (2016: 56 per cent).
- We hold a diverse mix of collateral and 55 per cent of long-term sub-investment grade exposures within the corporate portfolio are collateralised
- More than 40 per cent of customer loans and advances are in Retail Products. 68 per cent of the Retail Products are mortgages where the overall loan-to-value ratio is less than 47 per cent
- Within the Retail Banking portfolio, we maintain minimal exposure outside of our core markets.

Strong capital and liquidity position

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

Further details on the Enterprise Risk Management Framework can be found in the Risk Management Approach

Basis of preparation

Unless otherwise stated the balance sheet and income statement information presented within this section is based on the Group's management view. This is principally the location from which a client relationship is managed, which may differ from where it is financially booked and may be shared between businesses and/or regions. This view reflects how the client segments and regions are managed internally.

Credit risk

This section details the Group's credit risk exposure, split as follows:

- Overall exposure to credit risk, for on-balance sheet and off-balance sheet financial instruments, before and after taking into account credit risk mitigation
- Credit quality, which provides an analysis of the loan portfolio by client segment categorised by Strong, Satisfactory and Higher risk, forborne loans, and credit quality by region, and credit quality by industry
- Problem credit management and provisioning, which provides an analysis of non-performing loans and impaired loans
- 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
- Other portfolio analysis, which provides maturity analysis by client segment, and industry and retail products analysis by region
- Selected portfolios, which provide further detail on debt securities and treasury bills and asset backed securities

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.

Maximum exposure to credit risk

The table below presents the Group's maximum exposure to credit risk for its on-balance sheet and off-balance sheet financial instruments as at 31 December 2017, before and after taking into account any collateral held or other credit risk mitigation.

For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk generally represents the contractual notional amounts.

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

The Group's gross maximum exposure to credit risk has increased by $29 billion when compared to 2016, driven by the increase in both on-balance sheet and off-balance sheet exposure. Cash and balances at central banks have decreased by $11.8 billion reflecting lower fluctuating liquidity. Loans and advances to customers and banks have increased by $36.3 billion, mainly driven by customer loan growth and expansion of the reverse repo business in response to client demand and improving the quality of our funding base. Off-balance sheet exposures, mainly arising from trade finance, increased by $13.2 billion, reflecting the business growth.

Investment securities increased by $14.6 billion due to increased holdings benefitting from the higher government yields in the UK and the treasury and liquidity management activities. The Group's credit risk exposure before risk mitigation arising from derivatives decreased by $18.5 billion.

Maximum exposure to credit risk

	2017				2016			
		Credit risk management				Credit risk management		
	Maximum exposure $million	Collateral $million	Master netting agreements $million	Net exposure $million	Maximum exposure $million	Collateral $million	Master netting agreements $million	Net exposure $million
On balance sheet								
Cash and balances at central banks	58,864	–	–	58,864	70,706	–	–	70,706
Loans and advances to customers held at:[1]								
Fair value through profit or loss	3,265				3,177			
Amortised cost	282,288				252,719			
	285,553				255,896			
Loans and advances to banks held at:[1]								
Fair value through profit or loss	3,137				2,060			
Amortised cost	78,188				72,609			
	81,325				74,669			
Total loans and advances to banks and customers[2]	366,878	168,247	–	198,631	330,565	151,310	–	179,255
Investment securities[3]								
As per balance sheet	117,025	–	–	117,025	108,972	–	–	108,972
Held at fair value through profit or loss	21,162	–	–	21,162	14,840	–	–	14,840
Less: equity securities	(2,345)	–	–	(2,345)	(2,564)	–	–	(2,564)
	135,842	–	–	135,842	121,248	–	–	121,248
Derivative financial instruments[4]	47,031	9,825	29,135	8,071	65,509	9,624	40,391	15,494
Accrued income	1,947			1,947	1,639			1,639
Assets held for sale	2			2	1,102			1,102
Other assets[5]	29,922			29,922	33,942			33,942
Total balance sheet	640,486	178,072	29,135	433,279	624,711	160,934	40,391	423,386
Off-balance sheet								
Contingent liabilities	43,521	–	–	43,521	38,302[7]	–	–	38,302
Undrawn irrevocable standby facilities, credit lines and other commitments to lend[6]	63,890	–	–	63,890	55,655	–	–	55,655
Documentary credits and short-term trade-related transactions	3,880	–	–	3,880	4,120	–	–	4,120
Forward asset purchases and forward deposits	–	–	–	–	6	–	–	6
Total off- balance sheet	111,291	–	–	111,291	98,083	–	–	98,083
Total	751,777	178,072	29,135	544,570	722,794	160,934	40,391	521,469

1 An analysis of credit quality is set out in the credit quality analysis section. Further details of collateral held by client segment and held for past due and individually impaired loans are set out in the collateral analysis section
2 Loans and advances include reverse repurchase agreements and other similar secured lending of $55,187 million for 2017 and $44,916 million for 2016
3 Equity shares are excluded as they are not subject to credit risk
4 The Group enters into master netting agreements, which in the event of default result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions.
5 Other assets include Hong Kong certificates of indebtedness, cash collateral, and acceptances, in addition to unsettled trades and other financial assets
6 Excludes unconditionally cancellable facilities
7 Total contingent liabilities of the Group in 2016 were $37.4 billion and have been restated to $38.3 billion

Credit quality analysis

An overall breakdown of the loan portfolio by client segment is provided in the client segment analysis section differentiating between the performing and non-performing book.

Within the performing book, there is an analysis:

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

Credit grade migration

Performing loans constitute 99 per cent of customer loans, which is consistent with the prior period.
A breakdown of the performing loans by credit quality is provided in the credit quality analysis section.

Risk measurement plays a central role in risk-quantification and portfolio management decisions. The Group uses the advanced internal ratings-based (IRB) approach under the Basel regulatory framework to calculate credit risk capital for the majority of its portfolios.

A standard credit risk grade (CG) scale is used for Corporate & Institutional Banking and Commercial Banking. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower numbered credit grades are indicative of a lower likelihood of default. CG 1 to 12 are assigned to performing clients, while CG 13 and 14 are assigned to non-performing or defaulted clients. Further details can be found in the Risk Management Approach.

The Group uses an internal risk mapping to determine the credit quality for loans, as shown in the table below.

Year-on-year, the overall portfolio credit quality of the Group has improved as a result of active portfolio management and steps taken to improve the quality of origination over the last two years. The new originations are in line with our granular risk appetite and diversified across industries, geographies and products. The proportion of Group loans and advances classified as strong has increased from 67 per cent to 70 per cent in 2017, with an increase in strong credit quality exposures observed across all business segments.

In Corporate & Institutional Banking, the strong credit quality category has increased by $12 billion due to increased lending to corporate clients across multiple industries. The largest increases were from financing, insurance & non-banking ($3.0 billion), commercial real estate ($1.8 billion), manufacturing ($1.8 billion) and transportation ($1.7 billion). The satisfactory credit quality category has decreased by $2.6 billion due to actions taken to reduce single name concentration and commodities exposure.

For the rest of the portfolio, the credit quality composition across most sectors and countries is broadly consistent with the prior year, although there has been some deterioration in India and Africa.

In Commercial Banking, the strong credit quality category has increased by $1.2 billion and satisfactory credit quality category has increased by $2.9 billion. This growth was well diversified across multiple countries and industries with an average of $0.1 billion increase per country or per industry.

Retail Banking credit quality remained stable over the past year with overall performing loans growing by 10 per cent ($9.5 billion), predominantly in the strong credit quality category. The implementation of the Risk Decision Framework has continued to show improvements through 2016 and 2017, shaping the portfolio towards preferred segments such as priority and employee banking, and better credit quality customers with optimum risk-return profiles.

The credit quality composition for loans to banks is also consistent with prior periods, with the majority of the growth in this period observed in the strong and satisfactory category.

Performing loans and advances that are past due but not impaired decreased by $0.7 billion in 2017. The past due balances arise substantially in the ‘up to 30 days past due’ category. In the Corporate & Institutional Banking and Commercial Banking segments, across all past due categories, approximately 70 per cent (2016: 73 per cent) of the amounts past due were regularised by 31 January 2018.

Mapping of credit quality

The Group uses the following internal risk mapping to determine the credit quality for loans.

	Corporate & Institutional Banking and Commercial Banking			Private Banking	Retail Banking
Credit quality description	**Default Grade mapping**	**S&P external ratings equivalent**	**PD range**	**Internal ratings**	**Number of days past due**
Strong	Grades 1-5	AAA/AA+ to BB+/BBB-	0.000-0.425	Class I and Class IV	Current loans (no past dues nor impaired)
Satisfactory	Grades 6-8	BB+ to BB-/B+	0.426-2.350	Class II and Class III	Loans past due till 29 days
	Grades 9-11	B+/B to B-/CCC	2.351-15.750		
Higher Risk	Grade 12	B-/CCC	15.751-50.000	GSAM managed	Past due loans 30 days and over till 90 days

Non-performing loans (NPLs)

An NPL is any loan that is more than 90 days past due or is otherwise individually impaired. This excludes Retail Banking loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.

NPLs are analysed, net of individual impairment provisions, between what is past due but not impaired and what is impaired.

NPLs (net of individual impairment provisions) have reduced to $3.5 billion compared to 2016 ($3.9 billion). This is driven primarily by the liquidation portfolio in the Corporate & Institutional Banking segment.

NPLs (net of individual impairment provisions) for the ongoing business have increased to $2.8 billion from $2.5 billion due to the deterioration of a small number of exposures booked in the UAE and UK in the Corporate & Institutional Banking book.

Liquidation portfolio NPLs (net of individual impairment provisions) have decreased from $1,386 million to $653 million in 2017 primarily due to sales and writedowns.

Total Corporate & Institutional Banking NPLs (net of individual impairment provisions) remained stable at $2.5 billion (2016: $2.5 billion).

Retail Banking NPL (net of individual impairment provisions) decreased by 19 per cent compared to 2016 (2017: $274 million; 2016: $339 million) particularly in Korea, India and China.

By client segment

	2017						
		Loans to customers					
	Loans to banks[1] $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total[1] $million
Performing loans							
– Strong	68,958	75,672	100,687	6,072	9,220	9,253	200,904
– Satisfactory	12,309	52,610	1,586	21,216	3,951	90	79,453
– Higher risk	54	1,128	405	323	42	–	1,898
	81,321	129,410	102,678	27,611	13,213	9,343	282,255
Impaired forborne loans, net of provisions	–	–	269	–	–	–	269
Non-performing loans, net of provisions	5	2,484	274	596	140	–	3,494
Total loans	81,326	131,894	103,221	28,207	13,353	9,343	286,018
Portfolio impairment provision	(1)	(156)	(208)	(99)	(2)	–	(465)
Total net loans	81,325	131,738	103,013	28,108	13,351	9,343	285,553

The following table further analyses total loans included within the table above:

	Loans to banks[1] $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total[1] $million
Included in performing loans							
Neither past due nor impaired							
– Strong	68,740	75,482	100,687	6,058	9,220	9,251	200,698
– Satisfactory	12,255	51,846	–	20,831	3,866	90	76,633
– Higher risk	54	899	–	239	42	–	1,180
	81,049	128,227	100,687	27,128	13,128	9,341	278,511
Past due but not impaired							
– Up to 30 days past due	247	951	1,586	360	69	–	2,966
– 31 – 60 days past due	25	32	278	49	16	–	375
– 61 – 90 days past due	–	200	127	74	–	2	403
	272	1,183	1,991	483	85	2	3,744
Total performing loans	81,321	129,410	102,678	27,611	13,213	9,343	282,255
of which, forborne loans amounting to	2	480	84	31	–	–	595
Included in non-performing loans							
Past due but not impaired							
– 91 – 120 days past due	–	–	67	–	–	–	67
–121 – 150 days past due	–	–	56	–	–	–	56
	–	–	123	–	–	–	123
Individually impaired loans, net of provisions	5	2,484	151	596	140	–	3,371
Total non-performing loans	5	2,484	274	596	140	–	3,494
of the above, forborne loans	4	861	268	186	–	–	1,315

The following table sets out loans held at fair value through profit and loss which are included within the table above:

	2017						
		Loans to customers					
	Loans to banks[1] $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total[1] $million
Neither past due nor impaired							
– Strong	2,081	1,451	–	30	–	–	1,481
– Satisfactory	1,056	1,572	–	186	–	–	1,758
– Higher risk	–	7	–	–	–	–	7
	3,137	3,030	–	216	–	–	3,246
Individually impaired loans	–	19	–	–	–	–	19
Total loans held at fair value through profit and loss	3,137	3,049	–	216	–	–	3,265

1 Loans and advances include reverse repurchase agreements and other similar secured lending of $55,187 million.

	2016						
		Loans to customers					
	Loans to banks[1] $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total[1] $million
Performing loans							
– Strong	66,954	63,547	91,186	4,851	7,816	4,023	171,423
– Satisfactory	7,682	55,207	1,560	18,296	3,767	233	79,063
– Higher risk	34	1,223	410	264	38	–	1,935
	74,670	119,977	93,156	23,411	11,621	4,256	252,421
Impaired forborne loans, net of provisions	–	–	251	–	–	–	251
Non-performing loans, net of provisions	–	2,515	339	768	289	–	3,911
Total loans	74,670	122,492	93,746	24,179	11,910	4,256	256,583
Portfolio impairment provision	(1)	(261)	(258)	(166)	(2)	–	(687)
Total net loans	74,669	122,231	93,488	24,013	11,908	4,256	255,896

The following table further analyses total loans included within the table above:

	Loans to banks[1] $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total[1] $million
Included in performing loans							
Neither past due nor impaired							
– Strong	66,600	63,416	91,186	4,812	7,816	4,023	171,253
– Satisfactory	7,580	53,791	–	17,728	3,690	233	75,442
– Higher risk	34	1,121	–	188	18	–	1,327
	74,214	118,328	91,186	22,728	11,524	4,256	248,022
Past due but not impaired							
– Up to 30 days past due	456	1,402	1,560	539	91	–	3,592
– 31 – 60 days past due	–	100	282	111	–	–	493
– 61 – 90 days past due	–	147	128	33	6	–	314
	456	1,649	1,970	683	97	–	4,399
Total performing loans	74,670	119,977	93,156	23,411	11,621	4,256	252,421
of which, forborne loans amounting to[2]	1	760	224	104	–	–	1,088
Included in non-performing loans							
Past due but not impaired							
– 91 – 120 days past due	–	–	72	5	–	–	77
–121 – 150 days past due	–	–	60	12	–	–	72
	–	–	132	17	–	–	149
Individually impaired loans, net of provisions	–	2,515	207	751	289	–	3,762
Total non-performing loans	–	2,515	339	768	289	–	3,911
of the above, forborne loans[2]	–	858	135	182	–	–	1,175

The following table sets out loans held at fair value through profit and loss which are included within the table above:

	2016						
		Loans to customers					
	Loans to banks[1] $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total[1] $million
Neither past due nor impaired							
– Strong	1,659	1,769	–	–	–	–	1,769
– Satisfactory	401	1,346	–	47	–	–	1,393
– Higher risk	–	–	–	–	–	–	–
	2,060	3,115	–	47	–	–	3,162
Individually impaired loans	–	15	–	–	–	–	15
Total loans held at fair value through profit and loss	2,060	3,130	–	47	–	–	3,177

1 Loans and advances include reverse repurchase agreements and other similar secured lending of $44,916 million
2 The 2016 comparatives have been represented to reflect the forbearance policy change

Forborne loans

A forborne loan arises when a concession has been made to the contractual terms of a loan in response to a customer's financial difficulties. The table below presents performing and non-performing loans with forbearance measures by segment. In 2017, the Group changed its policy to allow for curing of forborne loans, which has been applied retrospectively. Refer to note 8 of the financial statements on impairment losses on loans and advances and other credit risk provisions.

The performing forborne loans have decreased by $474 million to $866 million in 2017 (2016: $1,340 million). The Corporate & Institutional Banking segment decreased by $280 million to $480 million in 2017 (2016: $760 million) primarily due to repayments from clients in the Africa & Middle East region. The Retail Banking segment decreased by $122 million to $353 million in 2017 (2016: $475 million).

The net non-performing forborne loans have increased by $144 million to $1,319 million in 2017 (2016: $1,175 million); this increase was in the Retail Banking segment on account of a change in accounting policy on forborne loans.

Forborne loans

	2017						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All loans with forbearance measures	6	2,143	797	647	–	–	3,593
Accumulated impairment	–	(802)	(176)	(430)	–	–	(1,408)
Net balance	6	1,341	621	217	–	–	2,185

Included within the above table

Performing loans with forbearance measures:

	2017						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All performing forborne loans	2	480	353	31	–	–	866
of which: modification of terms and conditions[1]	2	480	353	28	–	–	863
Refinancing[2]	–	–	–	3	–	–	3
Collateral held on performing forborne loans	–	4	2	–	–	–	6

Non-performing loans with forbearance measures:

	2017						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All non-performing forborne loans	**4**	**1,663**	**384**	**616**	**–**	**–**	**2,667**
of which: modification of terms and conditions[1]	4	1,314	384	559	–	–	2,261
Refinancing[2]	–	349	–	57	–	–	406
Accumulated impairment	–	(802)	(116)	(430)	–	–	(1,348)
of which: modification of terms and conditions[1]	–	(554)	(116)	(400)	–	–	(1,070)
Refinancing[2]	–	(248)	–	(30)	–	–	(278)
Net non-performing forborne loans	**4**	**861**	**268**	**186**	**–**	**–**	**1,319**
Collateral held on non-performing forborne loans	**–**	**52**	**20**	**34**	**–**	**–**	**106**

1 Modification of terms is any contractual change apart from refinancing, as a result of credit stress of the counterparty, i.e. interest reductions, loan covenant waivers
2 Refinancing is a new contract to a lender in credit stress, such that they are refinanced and can pay other debt contracts that they were unable to honour

Forborne loans

	2016						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All loans with forbearance measures	1	2,528	725	598	–	–	3,852
Accumulated impairment	–	(910)	(115)	(312)	–	–	(1,337)
Net balance	1	1,618	610	286	–	–	2,515

Included within the above table

Performing loans with forbearance measures:

	2016						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All performing forborne loans	1	760	475	104	–	–	1,340
of which: modification of terms and conditions[1]	1	760	475	65	–	–	1,301
Refinancing[2]	–	–	–	39	–	–	39
Collateral held on performing forborne loans	–	54	–	36	–	–	90

Non-performing loans with forbearance measures:

	2016						
	Loans to banks $million	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
All non-performing forborne loans	–	1,768	195	494	–	–	2,457
of which: modification of terms and conditions[1]	–	1,609	195	398	–	–	2,202
Refinancing[2]	–	159	–	96	–	–	255
Accumulated impairment	–	(910)	(60)	(312)	–	–	(1,282)
of which: modification of terms and conditions[1]	–	(813)	(60)	(264)	–	–	(1,137)
Refinancing[2]	–	(97)	–	(48)	–	–	(145)
Net non-performing forborne loans	–	858	135	182	–	–	1,175
Collateral held on non-performing forborne loans	–	215	–	42	–	–	257

1. Modification of terms is any contractual change apart from refinancing, as a result of credit stress of the counterparty, i.e. interest reductions, loan covenant waivers
2. Refinancing is a new contract to a lender in credit stress, such that they are refinanced and can pay other debt contracts that they were unable to honour

The table below shows an analysis of forborne loans by region. Refer to note 8 of the financial statements for the accounting policy on forborne loans.

	2017				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Not impaired	56	40	395	106	597
Impaired	353	778	202	255	1,588
Total forborne loans	409	818	597	361	2,185

	2016				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Not impaired	159	237	584	109	1,089
Impaired	327	718	243	138	1,426
Total forborne loans[1]	486	955	827	247	2,515

1 The 2016 comparatives have been represented to reflect the forbearance policy change

Credit quality by geographic region

The following tables set out an analysis of the loans to customers and banks, split between those loans that are neither past due nor impaired, those that are past due but not impaired, those that are impaired, the impairment provision and net impairment charge by geographic region.

Loans and advances to customers

	2017								
	Balance sheet[1]						Profit and loss[1]		
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Portfolio impairment provision $million	Total $million	Net individual impairment provision $million	Portfolio impairment provision/ (release) $million	Net loan impairment charge $million
Greater China & North Asia	125,565	809	806	(312)	(129)	126,739	169	(79)	90
ASEAN & South Asia	79,175	1,711	4,233	(2,361)	(179)	82,579	871	(66)	805
Africa & Middle East	27,774	1,153	2,654	(1,858)	(121)	29,602	308	(5)	303
Europe & Americas	45,997	194	1,184	(706)	(36)	46,633	233	(90)	143
	278,511	3,867	8,877	(5,237)	(465)	285,553	1,581	(240)	1,341

	2016								
	Balance sheet[1]						Profit and loss[1]		
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Portfolio impairment provision $million	Total $million	Net individual impairment provision $million	Portfolio impairment provision/ (release) $million	Net loan impairment charge $million
Greater China & North Asia	109,250	901	1,115	(535)	(198)	110,533	484	(53)	431
ASEAN & South Asia	69,652	1,648	4,665	(2,568)	(236)	73,161	984	6	990
Africa & Middle East	25,846	1,720	2,682	(1,981)	(127)	28,140	594	7	601
Europe & Americas	43,274	279	1,218	(583)	(126)	44,062	491	92	583
	248,022	4,548	9,680	(5,667)	(687)	255,896	2,553	52	2,605

1 Excludes impairment charges relating to debt securities classified as loans and receivables, refer to note 8 of the financial statements for details

Loans and advances to banks

	2017								
	Balance sheet[1]						Profit and loss[1]		
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Portfolio impairment provision $million	Total $million	Net individual impairment provision $million	Portfolio impairment provision/ (release) $million	Net loan impairment charge $million
Greater China & North Asia	33,096	130	–	–	–	33,226	–	–	–
ASEAN & South Asia	16,482	41	–	–	–	16,523	–	–	–
Africa & Middle East	7,328	101	–	–	(1)	7,428	–	–	–
Europe & Americas	24,143	–	9	(4)	–	24,148	–	–	–
	81,049	272	9	(4)	(1)	81,325	–	–	–

	2016								
	Balance sheet[1]						Profit and loss[1]		
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Portfolio impairment provision $million	Total $million	Net individual impairment provision $million	Portfolio impairment provision/ (release) $million	Net loan impairment charge $million
Greater China & North Asia	31,930	309	–	–	–	32,239	–	–	–
ASEAN & South Asia	14,722	17	163	(163)	(1)	14,738	–	–	–
Africa & Middle East	7,492	61	–	–	–	7,553	–	–	–
Europe & Americas	20,070	69	–	–	–	20,139	–	–	–
	74,214	456	163	(163)	(1)	74,669	–	–	–

1 Excludes impairment charges relating to debt securities classified as loans and receivables, refer to note 8 of the financial statements for details

Credit quality analysis by industry

	2017								
						Movements in impairment			
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Total $million	Individual impairment provision held as at 1 Jan 2017 $million	Net impairment charge/ (release) $million	Amounts written off/other movements $million	Individual impairment provision held as at 31 Dec 2017 $million
Industry:									
Energy	18,090	116	1,217	(879)	18,544	814	208	(143)	879
Manufacturing	22,085	397	860	(611)	22,731	644	250	(283)	611
Financing, insurance and non-banking	44,439	314	444	(213)	44,984	409	79	(275)	213
Transport, telecom and utilities	15,640	123	777	(376)	16,164	218	230	(72)	376
Food and household products	9,543	179	756	(422)	10,056	561	75	(214)	422
Commercial real estate	14,574	199	400	(34)	15,139	33	9	(8)	34
Mining and quarrying	6,063	64	1,297	(783)	6,641	1,140	26	(383)	783
Consumer durables	8,792	132	725	(583)	9,066	523	124	(64)	583
Construction	3,346	60	781	(484)	3,703	553	59	(128)	484
Trading companies & distributors	2,155	43	458	(331)	2,325	310	46	(25)	331
Government	14,390	25	6	(1)	14,420	–	(1)	2	1
Other	5,579	16	252	(176)	5,671	195	37	(54)	178
Retail Products:									
Mortgage	77,279	1,340	276	(117)	78,778	104	34	(21)	117
CCPL and other unsecured lending	16,700	610	360	(135)	17,535	140	398	(405)	133
Auto	588	45	–	–	633	–	1	(1)	–
Secured Wealth products	13,969	57	198	(70)	14,154	4	28	38	70
Other	5,279	147	70	(22)	5,474	19	19	(16)	22
Loans and advances to customers	278,511	3,867	8,877	(5,237)	286,018				
Individual impairment provision						5,667	1,622	(2,052)	5,237
Portfolio impairment provision					(465)	687	(239)	17	465
Total					285,553	6,354	1,383	(2,035)	5,702
Loans and advances to banks	81,049	272	9	(4)	81,326	–	–	–	–
Individual impairment provision						163	–	(159)	4
Portfolio impairment provision					(1)	1	–	–	1
Total					81,325	164	–	(159)	5

Credit quality analysis by industry continued

	2016								
						Movements in impairment			
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired $million	Individual impairment provision $million	Total $million	Individual impairment provision held as at 1 Jan 2016 $million	Net impairment charge/ (release) $million	Amounts written off/other movements $million	Individual impairment provision held as at 31 Dec 2016 $million
Industry:									
Energy	18,110	287	1,194	(814)	18,777	1,679	288	(1,153)	814
Manufacturing	18,840	477	1,069	(644)	19,742	563	259	(178)	644
Financing, insurance and non-banking	40,425	314	903	(409)	41,233	423	63	(77)	409
Transport, telecom and utilities	15,032	176	509	(218)	15,499	519	113	(414)	218
Food and household products	9,562	253	798	(561)	10,052	373	215	(27)	561
Commercial real estate	10,920	323	74	(33)	11,284	20	14	(1)	33
Mining and quarrying	7,326	149	1,489	(1,140)	7,824	854	230	56	1,140
Consumer durables	8,854	122	917	(523)	9,370	426	394	(297)	523
Construction	3,348	69	952	(553)	3,816	332	258	(37)	553
Trading companies & distributors	2,098	94	507	(310)	2,389	320	67	(77)	310
Government	6,313	–	2	–	6,315	–	–	–	–
Other	4,484	85	252	(195)	4,626	174	59	(38)	195
Retail Products:									
Mortgage	72,071	1,296	244	(104)	73,507	125	26	(47)	104
CCPL and other unsecured lending	15,262	669	415	(140)	16,206	195	458	(513)	140
Auto	600	38	–	–	638	–	1	(1)	–
Secured wealth products	10,757	46	281	(4)	11,080	4	64	(64)	4
Other	4,020	150	74	(19)	4,225	16	45	(42)	19
Loans and advances to customers	248,022	4,548	9,680	(5,667)	256,583				
Individual impairment provision						6,023	2,554	(2,910)	5,667
Portfolio impairment provision					(687)	657	53	(23)	687
Total					255,896	6,680	2,607	(2,933)	6,354
Loans and advances to banks	74,214	456	163	(163)	74,670	–	–	–	–
Individual impairment provision						163	–	–	163
Portfolio impairment provision					(1)	1	–	–	1
Total					74,669	164	–	–	164

Problem credit management and provisioning

Impairments

At a Group level, total loan impairment including the liquidation portfolio was $1,362 million, representing 50 basis points (bps) of average customer loans and advances, down from $2,791 million (107 bps) in 2016.

Loan impairment in the Group's ongoing business improved from the elevated levels seen in 2015 and 2016. The ongoing business loan impairment of $1,200 million in 2017 is significantly lower than in previous years (2016: $2,382 million, 2015: $2,381 million).

The ongoing business loan impairment in Corporate & Institutional Banking decreased to $657 million in 2017 (2016: $1,401 million). This was due to lower loan impairment in the commodities and diamond and jewellery sectors. Loan impairment in 2017 was primarily driven by a small number of India related exposures, with ASEAN & South Asia contributing to 60 per cent of the total Corporate & Institutional Banking impairment charge.

Commercial Banking ongoing business loan impairment fell by 66 per cent to $168 million in 2017 (2016: $491 million). This was driven by lower losses across all regions, reflecting improvements in credit and account management, but the Group remains vigilant of emerging risks.

By industry, loan impairment related to the commodities sector has decreased significantly. Total commodities (excluding oil and gas related exposures) loan impairment for Corporate & Institutional Banking and Commercial Banking fell to $18 million (2016: $536 million).

In India, ongoing business loan impairment in Corporate & Institutional Banking was down 32 per cent to $193 million (2016: $284 million) mainly due to reductions in the commodities sector. Commercial Banking ongoing business loan impairment in India decreased by 64 per cent to $37 million (2016: $103 million).

Retail Banking loan impairment reduced by 24 per cent to $374 million in 2017, (2016: $489 million), driven by improved portfolio performance and the implementation of the Risk Decision Framework, although in the fourth quarter of 2017 we took a one-off provision of $40 million due to a change in Personal Debt Rehabilitation Scheme regulation in Korea. The framework targets higher quality sustainable growth and lower volatility in the unsecured

asset portfolio. Improvements have been observed, particularly in key markets such as Korea, Hong Kong, Singapore and Malaysia.

During the last quarter of 2017, a net impairment charge of $57 million was taken on the liquidation portfolio bringing the yearly total to $120 million (2016: $409 million). This resulted from the resolution of some cases and other reassessments of realisable value. Further restructuring impairment also includes a $30 million impairment relating to the non-strategic Principal Finance business in Corporate & Institutional Banking.

The following table provides details of the impairment charge for the period.

	2017 $million	2016 $million
Ongoing business portfolio loan impairment		
Corporate & Institutional Banking	657	1,401
Retail Banking	374	489
Commercial Banking	168	491
Private Banking	1	1
Impairment on loans and advances and other credit risk provisions	1,200	2,382
Restructuring		
Liquidation portfolio	120	409
Others	42	–
Impairment on loans and advances and other credit risk provisions	162	409
Total Loan Impairment	1,362	2,791

Non-performing loans by client segment

Gross NPLs decreased by $1,008 million, or 10 per cent, compared to 2016, as increases in the ongoing business were more than offset by planned reductions in the liquidation portfolio. NPLs in the Corporate & Institutional Banking liquidation portfolio decreased by $1,388 million in 2017 to $1,945 million (2016: $3,333 million) on account of loan disposals, write-offs and repayments.

Corporate & Institutional Banking ongoing business NPLs increased by $869 million in 2017 primarily due to the deterioration of a few accounts in the oil & gas support services and India. New NPLs were mainly accounts that had been closely monitored over a period of time and include a large exposure that was repaid in full, and some others that are highly collateralised.

For sectors with previously high NPL exposures, specifically commodities and diamond & jewellery, NPL inflows were muted in 2017 relative to 2016.

NPLs in Commercial Banking reduced by $343 million (14 per cent) relative to 2016. This was largely due to write-offs and recoveries in India, Hong Kong and the United Arab Emirates (UAE). Commercial Banking NPL inflows were down 28 per cent in 2017 at $460 million (2016: $642 million).

Gross NPLs in Retail Banking reduced by 11 per cent compared to 2016, benefiting from the risk decision framework implemented in 2015.

The movement of gross NPLs to banks and customers, together with the provisions held and the respective cover ratios for all segments, is presented in the next table.

Provisions

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and advances.

Provisions are taken in the form of:

- Individually impaired provisions (IIP);
- Portfolio impairment provisions (PIP), which cover the inherent losses in the portfolio that exist at the balance sheet date but have not yet been individually identified.

Individual impairment provisions

Corporate & Institutional and Commercial Banking individual impairment provisions decreased by $493 million and $171 million respectively in 2017. These were primarily driven by a reduction of provision charges in the commodities and diamond and jewellery sectors, as well as writedowns.

Retail Banking individual impairment provision as a percentage of loans and advances remained broadly stable at 0.2 per cent.

Portfolio impairment provisions

Portfolio impairment provision balances for the Group have decreased by $222 million from 2016 due to reductions in Corporate & Institutional Banking of $105 million, Commercial Banking of $67 million and Retail Banking of $50 million. These decreases were on account of judgemental risk adjustments to the modelled number which has now reduced due to improvement in portfolio credit quality and receipt of expected repayments in certain stress portfolios.

Cover ratio

The cover ratio measures the proportion of total impairment provisions to gross NPLs, and is a metric commonly used in considering impairment trends. This metric does not allow for variations in the composition of NPLs and should be used in conjunction with other credit risk information provided, including the level of collateral cover.

The cover ratio for the Group currently stands at 65 per cent (2016: 67 per cent). With collateral, the cover ratio has improved to 81 per cent (2016: 76 per cent).

The cover ratio for the Group's ongoing portfolio has reduced from 69 per cent in 2016 to 63 per cent in 2017 and with collateral, the cover ratio improved to 79 per cent from 74 per cent.

By client segment, the cover ratio for Corporate & Institutional Banking reduced from 65 per cent to 61 per cent. The cover ratio including collateral improved from 72 per cent to 77 per cent.

The cover ratio for Commercial Banking remained relatively flat at 75 per cent and 84 per cent including collateral. The cover ratio for Retail Banking improved from 85 per cent to 87 per cent, and including collateral increased from 85 per cent to 89 per cent.

The balance of NPLs not covered by individual impairment provisions represents the adjusted value of collateral held and the Group's estimate of the net outcome of any workout or recovery strategy.

Collateral provides risk mitigation to some degree in all client segments and supports the credit quality and cover ratio assessments post impairment provisions. Further information on collateral is provided in the Credit risk mitigation section.

	2017				
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total $million
Gross non-performing loans at 1 January	6,477	547	2,370	294	9,688
Exchange translation differences	86	28	45	4	163
Classified as non-performing during the year	2,316	572	460	20	3,368
Recoveries on loans and advances previously written off	83	16	64	1	164
Additions	2,399	588	524	21	3,532
Transferred to assets held for sale	–	–	–	–	–
Transferred to performing during the year	–	(47)	(21)	(3)	(71)
Net repayments	(1,145)	(130)	(362)	(104)	(1,741)
Amounts written off	(888)	(481)	(400)	–	(1,769)
Disposals of loans	(807)	(16)	(130)	(5)	(958)
Other movement	(165)	–	–	–	(165)
Reductions	(3,005)	(674)	(913)	(112)	(4,704)
Gross non-performing loans at 31 December	5,957	489	2,026	207	8,679
Individual impairment provisions[1]	(3,468)	(215)	(1,430)	(67)	(5,180)
Net non-performing loans	2,489	274	596	140	3,499
Portfolio impairment provision	(157)	(208)	(99)	(2)	(466)
Total	2,332	66	497	138	3,033
Cover ratio	61%	87%	75%	33%	65%
Collateral ($ million)	1,111	218	277	203	1,809
Cover ratio (after collateral)	77%	89%	84%	100%	81%
Of the above, included in liquidation portfolio:					
Gross non-performing loans at 31 December	1,945	–	125	156	2,226
Individual impairment provisions	(1,388)	–	(123)	(62)	(1,573)
Net non-performing loans	557	–	2	94	653
Cover ratio	71%	–	98%	40%	71%
Collateral ($ million)	237	–	–	96	333
Cover ratio (after collateral)	84%	–	98%	100%	86%

1 The difference to total individual impairment provision reflects provisions against forborne loans that are not included within non-performing loans as they have been performing for 180 days

	2016				
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total $million
Gross non-performing loans at 1 January	9,128	747	2,559	325	12,759
Exchange translation differences	(68)	(12)	(59)	(2)	(141)
Classified as non-performing during the year	1,800	864	642	103	3,409
Recoveries on loans and advances previously written off	13	63	51	–	127
Additions	1,813	927	693	103	3,536
Transferred to assets held for sale	–	(47)	–	–	(47)
Transferred to performing during the year	(39)	(147)	(5)	–	(191)
Net repayments	(2,416)	(180)	(300)	–	(2,896)
Amounts written off	(1,390)	(722)	(480)	(63)	(2,655)
Disposals of loans	(552)	(18)	(39)	(69)	(678)
Reductions	(4,397)	(1,114)	(824)	(132)	(6,467)
Gross non-performing loans at 31 December	6,476	548	2,369	294	9,687
Individual impairment provisions[1]	(3,961)	(209)	(1,601)	(5)	(5,776)
Net non-performing loans	2,515	339	768	289	3,911
Portfolio impairment provision	(262)	(258)	(166)	(2)	(688)
Total	2,253	81	602	287	3,223
Cover ratio	65%	85%	75%	2%	67%
Collateral ($ million)	702	255	358	290	1,605
Cover ratio (after collateral)	72%	85%	83%	100%	76%
Of the above, included in liquidation portfolio:					
Gross non-performing loans at 31 December	3,333	–	213	261	3,807
Individual impairment provisions	(2,267)	–	(154)	–	(2,421)
Net non-performing loans	1,066	–	59	261	1,386
Cover ratio	68%	–	72%	–	64%
Collateral ($ million)	356	–	–	261	617
Cover ratio (after collateral, excluding PIP)	79%	–	72%	100%	80%

1 The difference to total individual impairment provision reflects provisions against forborne loans that are not included within non-performing loans as they have been performing for 180 days

Non-performing loans by geographic region

Gross non-performing loans decreased by $1,008 million compared to 2016. The largest reductions were observed in the ASEAN & South Asia ($763 million) and Greater China & North Asia ($275 million) regions, primarily driven by planned reductions in the liquidation portfolio.

The following tables present a breakdown of total non-performing loans to banks and customers by geographic regions:

	2017				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Loans and advances					
Gross non-performing	895	3,948	2,692	1,144	8,679
Individual impairment provisions[1]	(396)	(2,389)	(1,675)	(720)	(5,180)
Non-performing loans net of individual impairment provision	499	1,559	1,017	424	3,499
Portfolio impairment provision	(129)	(180)	(121)	(36)	(466)
Net non-performing loans and advances	370	1,379	896	388	3,033
Cover ratio	59%	65%	67%	66%	65%

1 The difference to total individual impairment provision reflects provisions against forborne loans that are not included within non-performing loans as they have been performing for 180 days

	2016				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Loans and advances					
Gross non-performing	1,170	4,711	2,739	1,067	9,687
Individual impairment provision[1]	(600)	(2,659)	(1,847)	(670)	(5,776)
Non-performing loans net of individual impairment provision	570	2,052	892	397	3,911
Portfolio impairment provision	(198)	(236)	(128)	(126)	(688)
Net non-performing loans and advances	372	1,816	764	271	3,223
Cover ratio	68%	61%	72%	75%	67%

1 The difference to total individual impairment provision reflects provisions against forborne loans that are not included within non-performing loans as they have been performing for 180 days

Individual and portfolio impairment provision

The present value of estimated future cashflows, discounted at the asset's original effective interest rate, is used to determine the amount of any impairment. In the case of the liquidation portfolio, the effect and timing of the disposal strategy is included in the estimate of future cashflows.

The reduction in individual impairment provisions is predominantly due to write offs from the liquidation portfolio.

The portfolio impairment provisions reduced primarily due to an improvement in overall portfolio credit quality and receipt of expected repayments in certain stress portfolios.

Amounts written off are significantly lower although this is due to 2016 seeing elevated levels in the liquidation portfolio and ongoing business, mainly in India.

	2017			2016		
	Individual impairment provisions $million	**Portfolio impairment provisions $million**	**Total $million**	Individual impairment provisions $million	Portfolio impairment provisions $million	Total $million
Provisions held at 1 January	5,830	688	6,518	6,186	658	6,844
Exchange translation differences	102	14	116	(68)	(9)	(77)
Amounts written off	(2,160)	–	(2,160)	(2,745)	–	(2,745)
Releases of acquisition fair values	(1)	–	(1)	–	–	–
Recoveries of amounts previously written off	234	–	234	177	–	177
Discount unwind	(83)	–	(83)	(287)	–	(287)
Transferred to assets held for sale	(6)	3	(3)	(16)	(13)	(29)
Disposal of business units	–	–	–	–	–	–
New provisions – restructuring	162	–	162	409	–	409
New provisions – excluding restructuring	2,094	57	2,151	2,582	205	2,787
New provisions	2,256	57	2,313	2,991	205	3,196
Recoveries/provisions no longer required	(652)	(296)	(948)	(438)	(153)	(591)
Net impairment charge/(releases) against profit	1,604	(239)	1,365	2,553	52	2,605
Other movements	(279)	–	(279)	30	–	30
Provisions held at 31 December	5,241	466	5,707	5,830	688	6,518

Individually impaired loans by client segment

Gross individually impaired loans decreased by 10 per cent in 2017, primarily driven by the Corporate & Institutional Banking segment which reduced by $519 million on account of loan disposals and settlements, mainly in the ASEAN & South Asia region.

Gross impaired loans in the Retail Banking book have shown modest improvement with a decrease of 3 per cent year-on-year.

The following table shows the movement of individually impaired loans and provisions for each client segment:

	2017				
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total $million
Gross impaired loans at 1 January	6,476	720	2,353	294	9,843
Exchange translation differences	87	48	45	4	184
Classified as individually impaired during the year	2,293	421	380	20	3,114
Transferred to not impaired during the year	–	(31)	(21)	(3)	(55)
Other movements[1]	(2,899)	(463)	(730)	(108)	(4,200)
Gross impaired loans at 31 December	5,957	695	2,027	207	8,886
Provisions held at 1 January	3,961	262	1,602	5	5,830
Exchange translation differences	55	15	31	1	102
Amounts written off	(1,139)	(577)	(444)	–	(2,160)
Releases of acquisition fair values	(1)	–	–	–	(1)
Recoveries of amounts previously written off	27	153	22	32	234
Discount unwind	(41)	(23)	(19)	–	(83)
Disposal of business units	–	(6)	–	–	(6)
New provisions	1,197	669	327	63	2,256
Recoveries/provisions no longer required	(314)	(218)	(86)	(34)	(652)
Net individual impairment charge against profit	883	451	241	29	1,604
Other movements[2]	(277)	–	(2)	–	(279)
Individual impairment provisions held at 31 December	3,468	275	1,431	67	5,241
Net individually impaired loans	2,489	420	596	140	3,645

	2016				
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Total $million
Gross impaired loans at 1 January	9,128	831	2,546	325	12,830
Exchange translation differences	(75)	(11)	(59)	(1)	(146)
Classified as individually impaired during the year	1,801	769	573	103	3,246
Transferred to not impaired during the year	(39)	(87)	(2)	–	(128)
Other movements[1]	(4,339)	(782)	(705)	(133)	(5,959)
Gross impaired loans at 31 December	6,476	720	2,353	294	9,843
Provisions held at 1 January	4,230	337	1,616	3	6,186
Exchange translation differences	(77)	(3)	12	–	(68)
Amounts written off	(1,439)	(722)	(520)	(64)	(2,745)
Recoveries of amounts previously written off	8	164	5	–	177
Discount unwind	(230)	(26)	(31)	–	(287)
Transferred to assets held for sale	–	(16)	–	–	(16)
New provisions	1,574	763	587	67	2,991
Recoveries/provisions no longer required	(134)	(235)	(68)	(1)	(438)
Net individual impairment charge against profit	1,440	528	519	66	2,553
Other movements[2]	29	–	1	–	30
Individual impairment provisions held at 31 December	3,961	262	1,602	5	5,830
Net individually impaired loans	2,515	458	751	289	4,013

1 Other movements include repayments, amounts written off and disposals of loans
2 Other movements include provisions for liabilities and charges that have been drawn down and are now part of loan impairment

Credit risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting arrangements, credit insurance and credit derivatives, taking into account expected volatility and guarantees.

The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor. Our overall approach to credit risk mitigation is further discussed in Risk Management Approach.

Collateral

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. As a result of reinforcing our collateralisation requirements, the fair value of collateral held as a

percentage of amount outstanding has remained stable in 2017.

The unadjusted market value of collateral across all asset types, in respect of Corporate & Institutional Banking and Commercial Banking, without adjusting for over-collateralisation, was $247 billion (2016: $229 billion).

The collateral values in the table below are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation. 47 per cent of clients that have placed collateral with the Group are over-collateralised. The average amount of over-collateralisation is 41 per cent.

We have remained conservative in the way we assess the value of collateral, which is calibrated for a severe downturn and back-tested against our prior experience. On average, across all types of non-cash collateral, the value ascribed is approximately half of its current market value. Collateral held against Corporate & Institutional Banking and Commercial Banking exposures amounted to $77 billion (2016: $64 billion).

In the Retail Banking and Private Banking segments, a secured loan is one where the borrower pledges an asset as collateral of which the Group is able to take possession in the event that the borrower defaults. The collateral level for Retail Banking has increased by $3.2 billion in 2017.

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

	Maximum exposure			Collateral			Net exsposure[1,2]		
	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million
As at 31 December 2017									
Corporate & Institutional Banking	**193,442**	**1,455**	**5,957**	**70,499**	**160**	**1,111**	**122,943**	**1,295**	**4,846**
Retail Banking	**103,371**	**2,114**	**695**	**76,543**	**1,514**	**218**	**26,828**	**600**	**477**
Commercial Banking	**29,602**	**483**	**2,027**	**6,570**	**247**	**277**	**23,032**	**236**	**1,750**
Private Banking	**13,359**	**85**	**207**	**9,296**	**82**	**203**	**4,063**	**3**	**4**
Central & other items	**27,570**	**2**	**–**	**5,339**	**–**	**–**	**22,231**	**2**	**–**
Total	**367,344**	**4,139**	**8,886**	**168,247**	**2,003**	**1,809**	**199,097**	**2,136**	**7,077**
As at 31 December 2016									
Corporate & Institutional Banking	174,877	2,105	6,476	57,378	93	702	117,499	2,012	5,774
Retail Banking	93,846	2,102	720	73,352	1,527	255	20,494	575	465
Commercial Banking	25,042	700	2,353	7,084	393	358	17,958	307	1,995
Private Banking	11,926	97	294	7,584	94	290	4,342	3	4
Central & other items	25,562	–	–	5,912	–	–	19,650	–	–
Total	331,253	5,004	9,843	151,310	2,107	1,605	179,943	2,897	8,238

1 Includes loans held at fair value through profit or loss
2 Includes loans and advances

Corporate & Institutional Banking and Commercial Banking

Collateral held against Corporate & Institutional Banking and Commercial Banking exposures amounted to $77 billion (2016: $64 billion). The increase of $13 billion was primarily in reverse repurchase (repo) collateral due to increased liquidity management activity by the Group. The proportion of investment grade securities in reverse repos collateral has increased from 85 per cent in 2016 to 96 per cent in 2017. The average residual maturity of the reverse repo collateral is 8.3 years.

Collateral taken for longer-term and sub-investment grade Corporate loans continues to be high at 55 per cent (2016: 55 per cent).

Our underwriting standards encourage taking specific charges on assets and we consistently seek high quality, investment grade collateral. 27 per cent of collateral held comprises physical assets or is property-based (2016: 29 per cent), with the remainder largely in cash and investment securities.

Non-tangible collateral such as guarantees and standby letters of credit may also be held against corporate exposures, although the financial effect of this type of collateral is less significant in terms of recoveries. However, this type of collateral is considered when determining probability of default and other credit-related factors. Collateral is also held against off-balance sheet exposures, including undrawn commitments and trade-related instruments.

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

Corporate & Institutional Banking

	2017 $million	2016 $million
Maximum exposure	193,442	174,877
Property	7,014	5,920
Plant, machinery and other stock	3,612	3,574
Cash	5,742	7,778
Reverse repos	49,736	35,930
AAA	1,027	327
A- to AA+	40,421	27,660
BBB- to BBB+	6,448	2,657
Lower than BBB-	915	854
Unrated	925	4,432
Commodities	162	772
Ships and aircraft	4,233	3,404
Total value of collateral	70,499	57,378
Net exposure	122,943	117,499

Commercial Banking

	2017 $million	2016 $million
Maximum exposure	29,602	25,042
Property	4,642	4,843
Plant, machinery and other stock	767	935
Cash	923	1,064
Reverse repos	–	–
AAA	–	–
A- to AA+	–	–
BBB- to BBB+	–	–
Lower than BBB-	–	–
Unrated	–	–
Commodities	4	4
Ships and aircraft	234	238
Total value of collateral	6,570	7,084
Net exposure	23,032	17,958

Retail Banking and Private Banking

In Retail Banking and Private Banking, 84 per cent of the portfolio is fully secured. The proportion of unsecured loans remains unchanged at 15 per cent.

LTV ratios measure the ratio of the current mortgage outstanding to the current fair value of the properties on which they are secured.

In mortgages the value of property held as security significantly exceeds the value of mortgage loans. The average LTV of the overall mortgage portfolio is less than 47 per cent, a decrease from the end of 2016 (49 per cent). Hong Kong, which represents 37 per cent of the Retail Banking mortgage portfolio has an average LTV of 38.6 per cent. All of our other key markets continue to have low portfolio LTVs, with Korea, Singapore and Taiwan at 48.0 per cent, 59.5 per cent and 50.4 per cent respectively.

An analysis of LTV ratios by geography for the mortgage portfolio is presented in the mortgage LTV ratios by geography table below.

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

	2017				2016			
	Fully secured $million	Partially secured $million	Unsecured $million	Total[1] $million	Fully secured $million	Partially secured $million	Unsecured $million	Total[1] $million
Maximum exposure	**97,523**	**1,301**	**17,750**	**116,574**	88,450	1,632	15,574	105,656
Loans to individuals								
Mortgages	**78,755**	**23**	**–**	**78,778**	73,484	23	–	73,507
CCPL	**240**	**86**	**17,209**	**17,535**	360	690	15,156	16,206
Auto	**630**	**–**	**3**	**633**	635	–	3	638
Secured wealth products	**13,903**	**156**	**95**	**14,154**	11,036	44	–	11,080
Other	**3,995**	**1,036**	**443**	**5,474**	2,935	875	415	4,225
Total collateral				**85,839**				80,936
Net exposure				**30,735**				24,720
Percentage of total loans	**84%**	**1%**	**15%**		83%	2%	15%	

1 Amounts net of individual impairment provisions

Mortgage loan-to-value ratios by geography

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

	2017				
	Greater China & North Asia %	ASEAN & South Asia %	Africa & Middle East %	Europe & Americas %	Total %
Less than 50 per cent	**62.9**	**36.1**	**21.6**	**28.4**	**54.7**
50 per cent to 59 per cent	**16.4**	**17.5**	**16.9**	**23.4**	**16.8**
60 per cent to 69 per cent	**15.3**	**18.7**	**22.6**	**31.4**	**16.6**
70 per cent to 79 per cent	**4.5**	**22.8**	**20.8**	**13.7**	**9.5**
80 per cent to 89 per cent	**0.7**	**4.3**	**11.2**	**2.0**	**1.9**
90 per cent to 99 per cent	**0.1**	**0.3**	**3.9**	**0.4**	**0.3**
100 per cent and greater	**0.1**	**0.3**	**3.0**	**0.8**	**0.2**
Average portfolio loan-to-value	**43.5**	**55.0**	**63.9**	**52.1**	**46.8**
Loans to individuals – mortgages ($million)	**54,609**	**20,105**	**2,279**	**1,785**	**78,778**

	2016				
	Greater China & North Asia %	ASEAN & South Asia %	Africa & Middle East %	Europe & Americas %	Total %
Less than 50 per cent	55.9	36.9	22.3	36.7	49.9
50 per cent to 59 per cent	18.2	16.8	16.9	37.4	18.1
60 per cent to 69 per cent	17.3	18.8	20.5	16.2	17.8
70 per cent to 79 per cent	6.4	17.6	20.7	8.3	9.7
80 per cent to 89 per cent	1.9	8.8	11.3	0.9	3.9
90 per cent to 99 per cent	0.2	0.7	4.2	0.5	0.5
100 per cent and greater	0.1	0.4	4.1	–	0.3
Average portfolio loan-to-value	46.6	54.7	64.9	44.4	49.0
Loans to individuals – mortgages ($million)	51,219	18,903	2,245	1,140	73,507

Collateral and other credit enhancements possessed or called upon

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

The carrying value of collateral possessed and held by the Group as at 31 December 2017 is $24.1 million (2016: $51.1 million). The decrease in collateral value is largely due to the reduction in cash collateral following utilisation to settle customer outstanding.

	2017 $million	2016 $million
Property, plant and equipment	**14.9**	13.0
Equity shares	**0.2**	0.1
Guarantees	**4.0**	11.5
Cash	**4.6**	26.1
Other	**0.4**	0.4
Total	**24.1**	51.1

Other credit risk mitigation

Other forms of credit risk mitigation are set out below.

Securitisation
The Group has transferred to third-parties by way of securitisation, the rights to any collection of principal and interest on client loan assets with a face value of $11 million (2016: $21 million). The Group continues to recognise these assets in addition to the proceeds and related liability of $13 million (2016: $15 million) arising from the securitisations. The Group considers the above client loan assets to be encumbered. Further details of encumbered assets are provided in the Encumbered assets section.

Credit default swaps
The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of $16 billion (2016: $17.5 billion). These credit default swaps are accounted for as guarantees as they meet the accounting requirements set out in International Accounting Standards (IAS) 39. The Group continues to hold the underlying assets referenced in the credit default swaps and it continues to be exposed to related credit and foreign exchange risk on these assets.

Derivatives financial instruments
The Group enters into master netting agreements, which in the event of default result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions. The value of exposure under master netting agreements is $29,135 million (2016: $40,391 million).

In addition, we enter into credit support annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Cash collateral includes collateral called under a variation margin process from counterparties if total uncollateralised mark-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. With certain counterparties, the CSA is reciprocal and requires us to post collateral if the overall mark-to-market values of positions are in the counterparty's favour and exceed an agreed threshold. The Group holds $6,562 million (2016: $7,280 million) under CSAs.

Off-balance sheet exposures
For certain types of exposures, such as letters of credit and guarantees, the Group obtains collateral such as cash depending on internal credit risk assessments, as well as in the case of letters of credit holding legal title to the underlying assets should a default take place.

Other portfolio analysis

This section provides maturity analysis by business segment and industry and Retail Products analysis by region.

Maturity analysis by client segment

The loans and advances to the Corporate & Institutional Banking and Commercial Banking segments remain predominantly short-term, with 70 per cent of loans and advances to customers in the segments maturing in less than one year, a decrease compared to December 2016. 96 per cent of loans to banks mature in less than one year. Shorter maturity gives us the flexibility to respond promptly to events and rebalance or reduce our exposure to clients or sectors that are facing increased pressure or uncertainty.

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

The Retail Banking loan book continues to be longer-term in nature with 60 per cent of the loans maturing over five years as mortgages constitute the majority of the Retail Banking loan book.

	2017			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Corporate & Institutional Banking	90,613	31,827	9,454	131,894
Retail Banking	24,200	17,341	61,680	103,221
Commercial Banking	21,683	5,293	1,231	28,207
Private Banking	12,407	270	676	13,353
Central & other items	9,335	6	2	9,343
Loans and advances to customers net of individual impairment provision	158,238	54,737	73,043	286,018
Portfolio impairment provision				(465)
Net loans and advances to customers				285,553
Net loans and advances to banks	77,739	2,974	612	81,325

	2016			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Corporate & Institutional Banking	84,199	29,919	8,374	122,492
Retail Banking	15,510	16,725	61,511	93,746
Commercial Banking	19,125	4,048	1,006	24,179
Private Banking	10,802	249	859	11,910
Central & other items	4,215	39	2	4,256
Loans and advances to customers net of individual impairment provision	133,851	50,980	71,752	256,583
Portfolio impairment provision				(687)
Net loans and advances to customers				255,896
Net loans and advances to banks	71,867	2,644	158	74,669

Industry and Retail Products analysis by geographic region

This section provides analysis of the Group's loan portfolio by Industry and Region.

In the Corporate & Institutional Banking and Commercial Banking segments our largest industry exposure is financing, insurance and non-banking, which constitutes 27 per cent of Corporate & Institutional Banking and Commercial Banking loans and advances to customers (2016: 27 per cent). Lending to financing, insurance and non-banking clients is mostly to investment grade institutions and is part of the liquidity management of the Group.

The manufacturing sector makes up 13 per cent of the Corporate & Institutional Banking and Commercial Banking loans and advances (2016: 13 per cent). The manufacturing industry group is spread across a diverse range of industries, including automobiles and components, capital goods, pharmaceuticals, biotech and life sciences, technology hardware and equipment, chemicals, paper products and packaging, with lending spread over 3,900 clients.

Loans and advances to the energy sector have remained stable and constitute 11 per cent (2016: 12 per cent) of total loans and advances to Corporate & Institutional Banking and Commercial Banking. The energy sector lending is spread across five subsectors and over 350 clients.

The Group provides loans to commercial real estate (CRE) counterparties of $15.1 billion (2016: $11.3 billion), which represents 5 per cent of total customer loans and advances. In total, $8.0 billion of this lending is to counterparties where the source of repayment is substantially derived from rental or sale of real estate and is secured by real estate collateral. The remaining CRE loans comprise working capital loans to real estate corporates, loans with non-property collateral, unsecured loans and loans to real estate entities of diversified conglomerates. The average LTV ratio of the commercial real estate (CRE) portfolio has increased to 41 per cent, compared with 39 per cent in 2016. The proportion of loans with an LTV greater than 80 per cent has remained at 1 per cent during the same period.

Credit cards and personal loans (CCPL) and other unsecured lending of total Retail Products loans and advances remains broadly stable at 15 per cent.

	2017				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Industry:					
Energy	2,855	6,097	3,303	6,289	18,544
Manufacturing	10,919	6,685	3,221	1,906	22,731
Financing, insurance and non-banking	8,213	6,421	1,308	29,042	44,984
Transport, telecom and utilities	6,456	3,965	4,707	1,036	16,164
Food and household products	2,174	4,126	2,577	1,179	10,056
Commercial real estate	8,429	5,169	1,479	62	15,139
Mining and quarrying	2,079	2,903	1,089	570	6,641
Consumer durables	4,432	2,544	1,300	790	9,066
Construction	989	1,118	1,358	238	3,703
Trading companies and distributors	1,192	573	432	128	2,325
Government	4,864	6,728	1,430	1,398	14,420
Other	1,839	2,174	1,075	583	5,671
Retail Products:					
Mortgages	54,609	20,105	2,279	1,785	78,778
CCPL and other unsecured lending	10,175	4,336	3,022	2	17,535
Auto	–	399	234	–	633
Secured wealth products	5,278	7,005	213	1,658	14,154
Other	2,365	2,410	696	3	5,474
	126,868	82,758	29,723	46,669	286,018
Portfolio impairment provision	(129)	(179)	(121)	(36)	(465)
Total loans and advances to customers	126,739	82,579	29,602	46,633	285,553
Total loans and advances to banks	33,226	16,523	7,428	24,148	81,325

	2016				
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Total $million
Industry:					
Energy	2,781	5,334	4,076	6,586	18,777
Manufacturing	8,807	5,944	3,161	1,830	19,742
Financing, insurance and non-banking	7,959	5,007	1,451	26,816	41,233
Transport, telecom and utilities	5,562	4,570	3,659	1,708	15,499
Food and household products	1,932	4,624	2,408	1,088	10,052
Commercial real estate	5,580	4,555	1,122	27	11,284
Mining and quarrying	2,063	3,568	1,234	959	7,824
Consumer durables	4,356	2,321	1,432	1,261	9,370
Construction	1,027	1,313	1,392	84	3,816
Trading companies and distributors	938	535	657	259	2,389
Government	2,290	3,053	468	504	6,315
Other	1,437	1,644	1,015	530	4,626
Retail Products:					
Mortgages	51,219	18,903	2,245	1,140	73,507
CCPL and other unsecured lending	9,265	3,838	3,012	91	16,206
Auto	–	315	323	–	638
Secured wealth products	3,725	5,965	90	1,300	11,080
Other	1,790	1,908	522	5	4,225
	110,731	73,397	28,267	44,188	256,583
Portfolio impairment provision	(198)	(236)	(127)	(126)	(687)
Total loans and advances to customers	110,533	73,161	28,140	44,062	255,896
Total loans and advances to banks	32,239	14,739	7,552	20,139	74,669

Selected portfolios

Debt securities and other eligible bills

This section provides further detail on debt securities and treasury bills and asset backed securities.

Debt securities and other eligible bills are analysed as follows:

	2017	2016
	Debt securities and other eligible bills $million	Debt securities and other eligible bills $million
Net impaired securities:		
Impaired securities	421	406
Impairment	(376)	(400)
	45	6
Securities neither past due nor impaired:		
AAA	35,937	44,815
AA- to AA+	51,914	34,112
A- to A+	13,305	15,316
BBB- to BBB+	17,498	12,598
Lower than BBB-	5,333	5,361
Unrated	11,810	9,040
	135,797	121,242
Total	135,842	121,248
Of which:		
Assets at fair value		
Trading	19,318	13,310
Designated at fair value	393	354
Available-for-sale	109,161	104,308
	128,872	117,972
Assets at amortised cost		
Loans and receivables	2,630	3,106
Held-to-maturity	4,340	170
	6,970	3,276
Total	135,842	121,248

The above table analyses debt securities and treasury bills that are neither past due nor impaired by external credit rating.

The standard credit ratings used by the Group are those used by Standard & Poor's or its equivalent. Debt securities held that have a short-term rating are reported against the long-term rating of the issuer. For securities that are unrated, the Group applies an internal credit rating, as described under the credit rating and measurement section.

Net impaired debt securities increased during the year, primarily due to a new impairment in Singapore.

Debt securities in the AAA rating category decreased during the year by $8.9 billion to $35.9 billion, mainly driven by a downgrade of UK-held Treasury Bills to the AA- to AA+ rating category. The resulting increase in the AA- to AA+ rating category was further enhanced by the purchase of government securities in Asia.

Unrated securities have primarily related to corporate issuers, but during 2017 the Group also purchased unrated government securities.

Using internal credit ratings, $9,109 million (2016: $7,013 million) of these securities are considered to be equivalent to investment grade.

Asset backed securities (unaudited)

Total exposures to asset backed securities

	2017				2016			
	Percentage of notional value of portfolio $million	Notional $million	Carrying value $million	Fair value[1] $million	Percentage of notional value of portfolio $million	Notional $million	Carrying value $million	Fair value[1] $million
Residential mortgage backed securities (RMBS)[2]	44%	2,814	2,812	2,812	37%	2,248	2,248	2,244
Collateralised debt obligations (CDOs)	1%	75	70	69	0%	28	8	7
Commercial mortgage backed securities (CMBS)	1%	63	29	29	1%	50	19	18
Other asset backed securities (other ABS)[3]	54%	3,518	3,517	3,519	62%	3,717	3,716	3,716
	100%	6,470	6,428	6,429	100%	6,043	5,991	5,985
Of which included within:								
Financial assets held at fair value through profit or loss	14%	887	885	885	3%	172	172	172
Investment securities – available-for-sale	64%	4,145	4,106	4,109	72%	4,380	4,331	4,331
Investment securities – loans and receivables	22%	1,438	1,437	1,435	25%	1,491	1,488	1,482
	100%	6,470	6,428	6,429	100%	6,043	5,991	5,985

1 Fair value reflects the value of the entire portfolio, including assets redesignated to loans and receivables.
2 RMBS includes Other UK, Dutch, Australia and Korea RMBS
3 Other asset backed securities includes auto loans, credit cards, student loans, future flows and trade receivables

The carrying value of asset-backed securities (ABS) represents 1 per cent (2016: 1 per cent) of the Group's total assets.

The credit quality of the ABS portfolio remains strong, with over 99 per cent of the overall portfolio rated investment grade, and 68 per cent of the overall portfolio is rated as AAA. The portfolio is broadly diversified across asset classes and geographies, with an average credit grade of AA. Residential mortgage-backed securities (RMBS) make up 43 per cent of the overall portfolio and have a weighted averaged credit rating of AAA (AAA in 2016).

Other ABS includes Auto ABS, comprising 30 per cent of the overall portfolio, and credit card ABS (13 per cent); both maintain a weighted average credit rating of AAA. The balance of Other ABS mainly includes securities backed by diversified payment rights, and receivables ABS.

Country risk (unaudited)

Country risk is defined as the potential for default or losses due to political or economic events in a country. A key component of Country Risk is Country cross-border risk, which is the risk that the Group will be unable to obtain payment from counterparties on their contractual obligations as a result of actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency.

The profile of the Group's country cross-border exposures as at 31 December 2017 remained consistent with its strategic focus on core franchise countries, and with the scale of the larger markets in which it operates.

Country cross-border exposure to China remains predominantly short-term; 87 per cent of exposure had a tenor of less than 12 months. During 2017, the Group's cross-border exposure to China from lending and trade finance increased, driven by robust economic growth in China and support to China's Belt and Road initiative. The significant increase in China cross-border exposure was predominantly short-term in tenor and related to trade and lending facilities as well as interbank placements with strategic clients.

Country cross-border risk exposure to Hong Kong declined during 2017 with a reduction in exposure from liquidity management activity, interbank placements, and corporate business loans.

The increase in cross border exposure to South Korea in 2017 reflects an expansion of export volumes and improved economic growth compared to the previous year.

The overall size of cross-border exposure to India reflects the size of the Group's franchise in the country, and the facilitation of overseas investment and trade flows supported by parent companies in India. The increase in India cross-border exposure relates to new or expanded arrangements with chosen counterparties and product categories that are accretive to the India franchise.

Cross-border exposure to developed countries in which the Group does not have a major presence predominantly relates to short-dated money market treasury and liquidity management activities, which can change significantly from period to period. Exposure also represents global corporate business for customers with interests in our footprint. This is a key factor explaining the significant cross-border exposure to the US, Japan and Germany.

The table below, which is based on the Group's internal country cross-border risk reporting requirements, shows

cross-border exposures that exceed 1 per cent of total assets.

	2017			2016[1]		
	Less than one year $million	More than one year $million	Total $million	Less than one year $million	More than one year $million	Total $million
China	40,351	6,204	46,555	29,727	4,414	34,142
US	10,068	9,524	19,592	9,675	10,255	19,930
Hong Kong	11,685	7,867	19,553	15,517	7,738	23,255
Singapore	13,555	5,955	19,510	15,101	5,086	20,187
South Korea	14,513	4,331	18,844	11,436	5,124	16,559
India	11,687	5,819	17,506	9,280	4,589	13,869
United Arab Emirates	7,932	8,341	16,272	7,523	7,730	15,253
Germany	3,022	4,505	7,527	2,600	3,536	6,136
Japan	5,272	1,555	6,827	8,625	1,669	10,294

1 2016 cross-border exposure data has been restated as a result of a recalibration and enhancement to the internal methodology for reporting country cross-border risk. Methodology changes have been implemented in line with BCBS239 principles.

Market risk

Market risk is the potential for loss of economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises predominantly from the following sources:

- **Trading book:** The Group provides clients access to financial markets, the facilitation of which entails the Group taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk-related activities is primarily driven by the volume of client activity rather than risk-taking
- **Non-trading book:**
  - The Treasury Markets desk is required to hold a liquid assets buffer much of which is held in high-quality marketable debt securities
  - The Group has capital invested and related income streams denominated in currencies other than US dollars. To the extent that these are not hedged, the Group is subject to structural foreign exchange risk which is reflected in reserves

A summary of our current policies and practices regarding market risk management is provided in the Principal Risks section.

The primary categories of market risk for the Group are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options
- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options
- Commodity price risk: arising from changes in commodity prices and implied volatilities on commodity options; covering energy, precious metals, base metals and agriculture
- Credit spread risk: arising from changes in the credit spread of the Group's derivative counterparties through CVA accounting.

Market risk changes

The average level of total trading and non-trading VaR in 2017 was 19 per cent lower than in 2016 and the actual level of total VaR as at year end 2017 was 25 per cent lower than in 2016. These declines were driven by reduced market volatility in the historical time series. In 2016 the VaR had been elevated by events such as the devaluation of the Chinese renminbi in August 2015 and uncertainty about the timing of anticipated US interest rate rises.

Trading book interest rate VaR and trading book total VaR results are not comparable year-on-year as the 2017 figures include the XVA desk VaR but the 2016 figures do not. The average level of VaR for the XVA desk in 2017 was 44 per cent lower than in 2016 at $5.5 million (2016 $9.8 million).

Daily value at risk (VaR at 97.5%, one day)

Trading and non-trading	2017 Average $million	2017 High[1] $million	2017 Low[1] $million	2017 Actual[2] $million	2016 Average $million	2016 High[1] $million	2016 Low[1] $million	2016 Actual[2] $million
Interest rate risk[3,6]	22.6	28.5	18.1	18.7	27.7	32.7	24.1	25.3
Foreign exchange risk	5.5	12.3	3.0	6.0	6.3	12.2	3.7	9.4
Commodity risk	1.2	2.0	0.6	1.0	1.9	3.1	1.0	1.4
Equity risk	7.7	8.4	6.4	6.7	10.0	13.1	6.9	8.1
Total[4,6]	25.7	32.4	20.3	22.3	31.6	38.8	26.4	29.9

Trading[5]	2017 Average $million	2017 High[1] $million	2017 Low[1] $million	2017 Actual[2] $million	2016 Average $million	2016 High[1] $million	2016 Low[1] $million	2016 Actual[2] $million
Interest rate risk[3,6]	10.1	13.1	7.7	8.5	6.7	10.3	4.7	6.8
Foreign exchange risk	5.5	12.3	3.0	6.0	6.3	12.2	3.7	9.4
Commodity risk	1.2	2.0	0.6	1.0	1.9	3.1	1.0	1.4
Equity risk	0.1	0.4	0.06	0.14	0.4	1.3	0.1	0.1
Total[4,6]	12.1	15.7	8.3	10.9	10.6	18.7	7.5	11.6

Non-trading	2017 Average $million	2017 High[1] $million	2017 Low[1] $million	2017 Actual[2] $million	2016 Average $million	2016 High[1] $million	2016 Low[1] $million	2016 Actual[2] $million
Interest rate risk[3]	19.5	23.1	14.4	14.4	26.3	31.4	21.5	22.8
Equity risk	7.6	8.1	6.2	6.6	9.8	12.5	6.9	8.1
Total[4]	21.7	27.6	16.3	16.3	30.7	35.1	24.6	27.3

1 Highest and lowest VaR for each risk factor are independent and usually occur on different days
2 Actual one day VaR at year end date
3 Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale.
4 The total VaR shown in the tables above is not a sum of the component risks due to offsets between them
5 Trading book for market risk is defined in accordance with the EU Capital Requirements Regulation (CRDIV/CRR) Part 3 Title I Chapter 3 which restricts the positions permitted in the trading book. This regulatory definition is narrower than the accounting definition of the trading book within IAS39 'Financial Instruments: Recognition and Measurement
6 XVA (Credit and Funding Valuation Adjustment): In 2016 the XVA desk VaR was incompletely reflected in the related total VaR lines as follows:

- Total trading and non-trading VaR and total trading and non-trading interest rate VaR reflected XVA desk VaR but only from 1 August 2016 onwards
- Total trading VaR and trading interest rate VaR figures did not reflect XVA VaR at all in 2016

The following table sets out how trading and non-trading VaR is distributed across the Group's products:

	2017 Average $million	2017 High[1] $million	2017 Low[1] $million	2017 Actual[2] $million	2016 Average $million	2016 High[1] $million	2016 Low[1] $million	2016 Actual[2] $million
Trading and non-trading	25.7	32.4	20.3	22.3	31.6	38.8	26.4	29.9
Trading[4]								
Rates	5.9	8.6	4.4	5.1	5.2	8.6	3.3	5.8
Global foreign exchange	5.5	12.3	3.0	6.0	6.3	12.2	3.7	9.4
Credit trading and capital markets	4.6	6.9	2.6	4.9	3.0	5.3	2.2	3.2
Commodities	1.2	2.0	0.6	1.0	1.9	3.1	1.0	1.4
Equities	0.1	0.4	0.1	0.1	0.4	1.3	0.1	0.1
XVA[5]	5.5	8.3	3.0	3.0	9.8	12.0	6.6	6.6
Total[3]	12.1	15.7	8.3	10.9	10.6	18.7	7.5	11.6
Non-trading								
Asset & liability management	19.5	23.1	14.4	14.4	26.3	31.4	21.5	22.8
Listed private equity	7.6	8.1	6.2	6.6	9.8	12.5	6.9	8.1
Total[3]	21.7	27.6	16.3	16.3	30.7	35.1	24.6	27.3

1 Highest and lowest VaR for each risk factor are independent and usually occur on different days
2 Actual one day VaR at year end date
3 The total VaR shown in the tables above is not a sum of the component risks due to offsets between them
4 Trading book for market risk is defined in accordance with the EU Capital Requirements Regulation (CRDIV/CRR) Part 3 Title I Chapter 3 which restricts the positions permitted in the trading book. This regulatory definition is narrower than the accounting definition of the trading book within IAS39 'Financial Instruments: Recognition and Measurement'
5 XVA (Credit and Funding Valuation Adjustment): In 2016 the XVA desk VaR reflects a period from 1 August 2016 to 30 December 2016

Risks not in VaR (unaudited)

In 2017 the main market risk not reflected in VaR was currency risk where the exchange rate is currently pegged or managed. The historical one-year VaR observation period does not reflect the future possibility of a change in the currency regime such as sudden depegging. The other material market risk not reflected in VaR was associated with off-the-run bonds. Newly issued bonds are actively traded (on-the-run), however off-the-run bonds are less frequently traded, meaning that historical market price data for VaR is sometimes more limited. Additional capital is set aside to cover such 'risks not in VaR'. For further details on market risk capital see the Standard Chartered PLC Pillar 3 Disclosures 2017 section on market risk.

Backtesting (unaudited)

Regulatory backtesting is applied at both Group and Solo levels. In 2017 there has been one negative exception at both Group level and Solo level (in 2016 there was one exception at Group level and two at Solo level).

This exception occurred on 18 December due to yield curve moves in Nigeria. The Central Bank of Nigeria restarted their liquidity management open market operations unexpectedly, filling Nigerian treasury bill auctions below the lowest bid yields. This move caused the market to sell-off and Nigerian Naira yields to rise sharply. One exception in a year due to market events is within the 'green zone' applied internationally to internal models by bank supervisors (Basel Committee on Banking Supervision: 'Supervisory framework for the use of backtesting in conjunction with the internal models approach to market risk capital requirements', January 1996).

The graph below illustrates the performance of the VaR model used in capital calculations. It compares the 99 percentile loss confidence level given by the VaR model with the Hypothetical P&L of each day given the actual market movement without taking into account any intra-day trading activity.

Financial Markets loss days

	2017	2016
Number of loss days reported for Financial Markets trading book total product income[1]	15	30

1 Reflects total product income for Financial Markets:

- Including CVA and FVA risk.
- Excluding Treasury-Markets business (non-trading) and periodic valuation changes for Capital Markets, expected loss provisions and OIS discounting.

There were fewer Financial Markets loss days in 2017 as market volatility dropped following the events of 2016 which saw a collapse in oil prices, a Chinese equities sell-off, the UK referendum to leave the European Union (Brexit) and the US presidential election.

Average daily income earned from market risk related activities[1]

Trading	2017 $million	2016 $million
Interest rate risk	3.5	4.5
Foreign exchange risk	3.7	4.6
Commodity risk	0.6	0.7
Equity risk	–	–
Total	7.8	9.8
Non-trading		
Interest rate risk	2.4	1.8
Equity risk	0.3	(0.2)
Total	2.7	1.6

1 Reflects total product income which is the sum of Client Income and Own Account Income. Includes elements of Trading Income, Interest Income and Other Income which are generated from market risk related activities. XVA income is included under Interest rate risk

Mapping of market risk items to the balance sheet (unaudited)

Market risk contributes only 8.2 per cent of the Group's regulatory capital risk-weighted asset (RWA) requirement, as shown in the risk-weighted assets tables. As highlighted in the VaR disclosure, during 2017 the majority of market risk was managed within Treasury Markets and Financial Markets, which span both trading book and non-trading book. The non-trading equity market risk is generated by listed private equity holdings within Principal Finance. Treasury manages the market risk associated with debt and equity capital issuance.

	Amounts as per financial statements $million	Exposure to trading risk $million	Exposure to non-trading risk $million	Market risk type
Financial assets				
Derivative financial instruments	47,031	46,855	176	Interest rate, foreign exchange, commodity and/or equity risk
Loans and advances to banks	81,325	19,305	62,020	Interest rate and/or foreign exchange risk
Loans and advances to customers	285,553	33,707	251,846	Interest rate and/or foreign exchange risk
Debt securities and other eligible bills	135,842	19,493	116,349	Interest rate mainly, but also foreign exchange and/or equity risk
Equities	2,345	718	1,627	Equities risk mainly, but also interest and/or foreign exchange risk
Other assets	33,490	6,266	27,224	Interest rate, foreign exchange, commodity and/or equity risk
Total	585,586	126,344	459,242	
Financial liabilities				
Deposits by banks	35,486	–	35,486	Interest rate and/or foreign exchange risk
Customer accounts	411,724	–	411,724	Interest rate and/or foreign exchange risk
Debt securities in issue	53,402	–	53,402	Interest rate mainly, but also foreign exchange and/or equity risk
Derivatives financial instruments	48,101	47,652	449	Interest rate, foreign exchange, commodity and/or equity risk
Short positions	3,637	3,608	29	Interest rate, foreign exchange, commodity and/or equity risk
Total	552,350	51,260	501,090	

Structural foreign exchange exposures

The table below sets out the principal structural foreign exchange exposures (net of investment hedges) of the Group.

	2017 $million	2016 $million
Hong Kong dollar	7,119	6,452
Indian rupee	4,806	4,450
Renminbi	3,784	3,370
Singapore dollar	2,972	2,505
Korean won	2,361	2,460
Taiwanese dollar	1,589	2,140
UAE dirham	1,842	1,556
Malaysian ringgit	1,512	1,330
Thai baht	1,277	1,290
Indonesian rupiah	1,090	1,090
Pakistani rupee	543	573
Other	4,000	3,595
	32,895	30,811

As at 31 December 2017, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial investments) of $2,003 million (2016: $1,313 million) to partly cover its exposure to the Korean won. An analysis has been performed on these exposures to assess the impact of a 1 per cent fall in the US dollar exchange rates, adjusted to incorporate the impacts of correlations of these currencies to the US dollar. The impact on the positions above would be a decrease of $357 million (2016: $225 million). Changes in the valuation of these positions are taken to reserves.

For analysis of the Group's capital position and requirements, refer to the Capital Review

Liquidity and funding risk

Liquidity and funding risk is the potential that the Group does not have sufficient financial resources or stable sources of funding in the medium or long term, to meet its obligations as they fall due, or can access these financial resources only at excessive cost.

The Group's liquidity and funding risk framework requires each country to ensure that it operates within predefined liquidity limits and remain in compliance with Group liquidity policies and practices, as well as local regulatory requirements.

The Group achieves this through a combination of setting risk appetite and associated limits, policy formation, risk measurement and monitoring, prudential and internal stress testing, governance and review.

For further information on the Group's liquidity and funding risk framework, refer to the Risk Management Approach.

In 2017, the Group issued approximately $1.5 billion of senior debt securities and $1 billion of Additional Tier 1 (AT1) securities from its holding company Standard Chartered PLC (2016: $4.4 billion of term senior debt, $1.25 billion of subordinated debt and $2 billion of AT1).

Since the beginning of the year, there were no significant changes in treasury policies as disclosed in the 2016 Annual Report and Accounts.

Primary sources of funding

The Group's funding strategy is largely driven by its policy to maintain adequate liquidity at all times, in all geographic locations and for all currencies, and hence to be in a position to meet all obligations as they fall due. The Group's funding profile is therefore well diversified across different sources, maturities and currencies.

A substantial portion of our assets are funded by customer deposits aligned with our policy to fund customer assets predominantly using customer deposits. Wholesale funding is diversified by type and maturity and represents a stable source of funds for the Group.

We maintain access to wholesale funding markets in all major financial centres in which we operate. This seeks to ensure that we have market intelligence, maintain stable funding lines and can obtain optimal pricing when performing our interest rate risk management activities.

Debt refinancing levels are low. In the next 12 months approximately $5.6 billion of the Group's holding company senior debt and subordinated debt are falling due for repayment either contractually or callable by the Group.

The information presented in the Liquidity Pool section is on a financial view. This is the location in which the transaction or balance was booked and provides a more accurate view of where liquidity risk is actually located.

The chart below shows the composition of liabilities in which customer deposits make up 62.1 per cent of total equity and liabilities as at 31 December 2017, the majority of which are current accounts, savings accounts and time deposits. Our largest customer deposit base by geography is Greater China & North Asia (in particular Hong Kong), which holds 45.2 per cent of Group customer accounts.

Liquidity and funding risk metrics

We monitor key liquidity metrics regularly, both on a country basis and in aggregate across the Group.

The following Liquidity and Funding Board Risk Appetite metrics define the maximum amount and type of risk that the Group is willing to assume in pursuit of its strategy: liquidity coverage ratio (LCR), liquidity stress survival horizons, external wholesale borrowing and advances to deposits ratio.

Liquidity coverage ratio (LCR) (unaudited)

The LCR is a regulatory requirement set to ensure that the Group has sufficient unencumbered high quality liquid assets to meet its liquidity needs in a 30-calendar-day liquidity stress scenario.

The Group monitors and reports its liquidity position under European Commission Delegated Regulation 2015/ 61 and has maintained its liquidity position above the prudential requirement.

At the reporting date, the Group LCR was 146 per cent (2016: 133 per cent) with a prudent surplus to both Board-approved Risk Appetite and regulatory requirements. The ratio increased 13 per cent year-on-year due to a reduction in net cash outflows as we focused on high quality liquidity across our businesses. We also held adequate liquidity across our footprint to meet all local prudential LCR requirements, where applicable.

For a more detailed Group LCR disclosure, refer to Section 6 of the Group's 2017 Pillar 3 Disclosures.

	2017 $million	2016 $million
Liquidity buffer	**132,251**	136,291
Total net cash outflows	**90,691**	102,263
Liquidity coverage ratio	**146%**	133%

Stressed coverage (unaudited)

The Group intends to maintain a prudent and sustainable funding and liquidity position, in all presence countries and currencies, such that it can withstand a severe but plausible liquidity stress.

Our approach to managing liquidity and funding risk is reflected in the following Risk Appetite statement.

"The Group should hold an adequate buffer of high quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support."

The Group's internal liquidity stress testing framework covers the following stress scenarios:

- Standard Chartered-specific – this scenario captures the liquidity impact from an idiosyncratic event affecting Standard Chartered only, i.e. the rest of the market is assumed to operate normally
- Market-wide – this scenario captures the liquidity impact from a market-wide crisis affecting all participants in a country, region or globally
- Combined – this scenario assumes both Standard Chartered-specific and Market- Wide events affecting the Group

simultaneously, and is hence the most severe scenario

All scenarios include, but are not limited to, modelled outflows for retail and wholesale funding, off-balance sheet funding risk, cross-currency funding risk, intraday risk, franchise risk and risks associated with a deterioration of a firm's credit rating.

Stress testing results show that a positive surplus was maintained under all scenarios at 31 December 2017, i.e. the respective countries included were able to survive for a period of time as defined under each scenario. The combined scenario at 31 December 2017 showed the Group maintaining liquidity resources to survive greater than 60 days, as per our Risk Appetite. The results take into account currency convertibility and portability constraints across all major presence countries.

Standard Chartered Bank's credit ratings as at 31 December 2017 were A+ with stable outlook (Fitch), A with stable outlook (S&P) and A1 with stable outlook (Moody's). A downgrade in the Group's long-term credit ratings would increase derivative collateral requirements and outflows due to rating-linked liabilities. At 31 December 2017, the estimated contractual outflow of a two-notch long term ratings downgrade is $1.3 billion (unaudited).

External wholesale borrowing

The Board sets a risk limit to prevent excessive reliance on wholesale borrowing. Limits are applied to all branches and operating subsidiaries in the Group and as at the reporting date the Group remained within the Board-approved Risk Appetite.

Advances-to-deposits ratio

This is defined as the ratio of total loans and advances to customers relative to total customer accounts. An advances-to-deposits ratio of below 100 per cent demonstrates that customer deposits exceed customer loans as a result of the emphasis placed on generating a high level of funding from customers.

The advances-to-deposits ratio (2017: 69.4 per cent) increased from the previous year (2016: 67.6 per cent).

Loans and advances to customers have increased 12 per cent since the end of 2016 to $286 billion. This growth was largely due to higher Corporate Finance balances in Hong Kong and increased retail mortgage lending in Singapore and Korea, benefiting in part from favourable foreign exchange movement. Our repo business also grew over the period as we benefitted from our deep client franchise and balance sheet strength.

Customer accounts have also increased 9 per cent from the end of 2016 to $412 billion as the Group focused on high-quality liquidity across its businesses with an emphasis on Retail, Transaction Banking and other deposits with high liquidity and regulatory value. Retail current and savings account balances increased significantly over the period along with growth in time deposits.

	2017 $million	2016 $million
Loans and advances to customers[1,2]	285,553	255,896
Customer accounts[3]	411,724	378,302
Advances-to-deposits ratio	69.4%	67.6%

1. See note 13 of the financial statements
2. Includes reverse repurchase agreements and other similar secured lending of $55,187 million
3. Includes repurchase agreements and other similar secured borrowing of $39,783 million

Net stable funding ratio (NSFR) (unaudited)

On 23 November 2016 the European Commission, as part of a package of risk-reducing measures, proposed a binding requirement for stable funding (Net Stable Funding Ratio (NSFR)) at European Union level. The proposal aims to implement the European Banking Authority's interpretation of the Basel standard on NSFR (BCBS295).

Pending implementation of the final rules, the Group continues to monitor NSFR in line with the BCBS' final recommendation (BCBS295), At the last reporting date, the Group NSFR remained above 100 per cent.

Liquidity pool (unaudited)

The liquidity value of the Group's LCR eligible liquidity pool at the reporting date was $132 billion. The figures in the below table account for haircuts, currency convertibility and portability constraints and therefore are not directly comparable with the consolidated balance sheet. The pool is held to offset stress outflows as defined in European Commission Delegated Regulation 2015/ 61.

The pool decreased $4 billion year-on-year, reflecting the improved quality of our funding base and redeployment of surplus liquidity, held primarily in Europe & Americas, into commercial assets. Our liquidity pool composition also changed over the period as we increased our holdings of Level 1 LCR eligible securities and reduced cash and central bank reserves.

	2017				
	Greater China & North Asia $ million	ASEAN & South Asia $ million	Africa & Middle East $ million	Europe & Americas $ million	Total $ million
Level 1 securities					
Cash and balances at central banks	13,779	2,400	1,708	33,191	51,078
Central banks, governments/public sector entities	28,187	12,265	1,064	24,464	65,980
Multilateral development banks and international organisations	–	563	159	8,568	9,290
Other	–	–	–	130	130
Total Level 1 securities	41,966	15,228	2,931	66,353	126,478
Level 2A securities	2,234	825	113	1,147	4,319
Level 2B securities	–	246	3	1,206	1,455
Total LCR eligible assets	44,200	16,299	3,047	68,706	132,252

	2016				
	Greater China & North Asia $ million	ASEAN & South Asia $ million	Africa & Middle East $ million	Europe & Americas $ million	Total $ million
Level 1 securities					
Cash and balances at central banks	14,206	2,878	1,452	45,054	63,590
Central banks, governments/public sector entities	28,304	10,430	1,709	16,271	56,714
Multilateral development banks and international organisations	178	1,362	169	9,178	10,887
Other	–	–	–	200	200
Total Level 1 securities	42,688	14,670	3,330	70,703	131,391
Level 2A securities	–	1,848	152	1,597	3,597
Level 2B securities	–	59	–	1,244	1,303
Total LCR eligible assets	42,688	16,577	3,482	73,544	136,291

Encumbrance (unaudited)

Encumbered assets

Encumbered assets represent on-balance sheet assets pledged or subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. Cash collateral pledged against derivatives and Hong Kong government certificates of indebtedness, which secure the equivalent amount of Hong Kong currency notes in circulation, are included within Other assets.

Unencumbered – readily available for encumbrance

Unencumbered assets that are considered by the Group to be readily available in the normal course of business to secure funding, meet collateral needs, or be sold to reduce potential future funding requirements, and are not subject to any restrictions on their use for these purposes.

Unencumbered – other assets capable of being encumbered

Unencumbered assets that, in their current form, are not considered by the Group to be readily realisable in the normal course of business to secure funding, meet collateral needs, or be sold to reduce potential future funding requirements, and are not subject to any restrictions on their use for these purposes. Included within this category are loans and advances which would be suitable for use in secured funding structures such as securitisations.

Unencumbered – cannot be encumbered

Unencumbered assets are assets that have not been pledged and we have assessed that cannot be used to secure funding, meet collateral needs, or be sold to reduce potential future funding requirements.

Derivatives, reverse repurchase assets and stock lending

These assets are shown separately as these on-balance sheet amounts cannot be pledged. However, these assets can give rise to off-balance sheet collateral, which can be used to raise secured funding or meet additional funding requirements.

The following table provides a reconciliation of the Group's encumbered assets to total assets.

	2017									
		Assets encumbered as a result of transactions with counterparties other than central banks			Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
						Assets not positioned at the central bank				
	Assets $million	As a result of securitisations $million	Other $million	Total $million	Assets positioned at the central bank (ie pre-positioned plus encumbered) $million	Readily available for encumbrance $million	Other assets that are capable of being encumbered $million	Derivatives and reverse repo/stock lending $million	Cannot be encumbered $million	Total $million
Cash and balances at central banks	58,864	–	–	–	9,761	49,103	–	–	–	58,864
Derivative financial instruments	47,031	–	–	–	–	–	–	47,031	–	47,031
Loans and advances to banks[1]	81,325	–	–	–	–	47,380	5,333	21,260	7,352	81,325
Loans and advances to customers[1]	285,553	11	–	11	–	–	232,328	33,928	19,286	285,542
Investment securities[1]	138,187	–	8,213	8,213	178	91,928	29,967	–	7,901	129,974
Other assets	33,490	–	14,930	14,930	–	–	11,604	–	6,956	18,560
Current tax assets	491	–	–	–	–	–	–	–	491	491
Prepayments and accrued income	2,307	–	–	–	–	–	1,503	–	804	2,307
Interests in associates and joint ventures	2,307	–	–	–	–	–	–	–	2,307	2,307
Goodwill and intangible assets	5,013	–	–	–	–	–	352	–	4,661	5,013
Property, plant and equipment	7,211	–	–	–	–	–	1,148	–	6,063	7,211
Deferred tax assets	1,177	–	–	–	–	–	–	–	1,177	1,177
Assets classified as held for sale	545	–	–	–	–	–	–	–	545	545
Total	663,501	11	23,143	23,154	9,939	188,411	282,235	102,219	57,543	640,347

1 Includes assets held at fair value through profit or loss and reverse repurchase agreements and other similar secured lending

	2016									
		Assets encumbered as a result of transactions with counterparties other than central banks			Other assets (comprising assets encumbered at the central bank and unencumbered assets)					
						Assets not positioned at the central bank				
	Assets $million	As a result of securitisations $million	Other $million	Total $million	Assets positioned at the central bank (ie pre-positioned plus encumbered) $million	Readily available for encumbrance $million	Other assets that are capable of being encumbered $million	Derivatives and reverse repo/stock lending $million	Cannot be encumbered $million	Total $million
Cash and balances at central banks	70,706	–	–	–	8,648	62,058	–	–	–	70,706
Derivative financial instruments	65,509	–	–	–	–	–	–	65,509	–	65,509
Loans and advances to banks[1]	74,669	–	–	–	–	50,561	4,092	18,568	1,448	74,669
Loans and advances to customers[1]	255,896	21	–	21	–	–	214,354	26,348	15,173	255,875
Investment securities[1]	123,812	–	5,868	5,868	35	78,535	33,083	–	6,291	117,944
Other assets	36,940	–	19,674	19,674	–	–	10,637	–	6,629	17,266
Current tax assets	474	–	–	–	–	–	–	–	474	474
Prepayments and accrued income	2,238	–	–	–	–	–	887	–	1,351	2,238
Interests in associates and joint ventures	1,929	–	–	–	–	–	–	–	1,929	1,929
Goodwill and intangible assets	4,719	–	–	–	–	–	109	–	4,610	4,719
Property, plant and equipment	7,252	–	–	–	–	–	1,039	–	6,213	7,252
Deferred tax assets	1,294	–	–	–	–	–	–	–	1,294	1,294
Assets classified as held for sale	1,254	–	–	–	–	–	–	–	1,254	1,254
Total[2]	646,692	21	25,542	25,563	8,683	191,154	264,201	110,425	46,666	621,129

1 Includes assets held at fair value through profit or loss and reverse repurchase agreements and other similar secured lending

2 The 2016 comparatives have been represented to split unencumbered assets to enhance disclosures

The Group received $72,982 million (2016: $54,473 million) as collateral under reverse repurchase agreements that was eligible for repledging; of this, the Group sold or repledged $34,018 million (2016: $33,053 million) under repurchase agreements.

Liquidity analysis of the Group's balance sheet

Contractual maturity of assets and liabilities

The following table presents assets and liabilities by maturity groupings based on the remaining period to the contractual maturity date as at the balance sheet date on a discounted basis. Contractual maturities do not necessarily reflect actual repayments or cashflow.

Within the tables below, cash and balances with central banks, interbank placements and investment securities that are available-for-sale are used by the Group principally for liquidity management purposes.

At the reporting date, assets remain predominantly short-dated, with 61 per cent maturing in under one year. Our less than three month cumulative net funding gap increased from the previous year, largely due to an increase in customer accounts as the Group focused on improving the quality of its deposit base. In practice, these deposits are recognised as stable and have behavioural profiles that extend beyond their contractual maturities.

	2017								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	49,103	–	–	–	–	–	–	9,761	58,864
Derivative financial instruments	6,284	7,706	5,930	3,537	2,601	5,427	7,111	8,435	47,031
Loans and advances to banks[1,2]	36,548	21,238	12,042	4,299	3,612	1,588	1,386	612	81,325
Loans and advances to customers[1,2]	87,794	32,618	17,459	11,357	8,545	17,500	37,237	73,043	285,553
Investment securities	14,185	18,208	13,692	11,213	9,145	22,369	31,660	17,715	138,187
Other assets	19,349	4,466	2,521	105	247	138	127	25,588	52,541
Total assets	213,263	84,236	51,644	30,511	24,150	47,022	77,521	135,154	663,501
Liabilities									
Deposits by banks[1,3]	29,365	2,484	1,437	530	730	154	135	651	35,486
Customer accounts[1,4]	327,434	37,178	19,716	10,775	9,321	3,115	1,746	2,439	411,724
Derivative financial instruments	8,018	8,035	6,068	3,544	2,685	5,057	7,794	6,900	48,101
Senior debt	67	273	1,801	53	1,937	5,053	4,747	5,585	19,516
Other debt securities in issue[1]	4,139	10,616	9,954	2,005	779	1,091	794	4,508	33,886
Other liabilities	20,428	5,988	3,672	671	303	696	897	13,150	45,805
Subordinated liabilities and other borrowed funds	–	116	1,382	–	–	–	3,887	11,791	17,176
Total liabilities	389,451	64,690	44,030	17,578	15,755	15,166	20,000	45,024	611,694
Net liquidity gap	(176,188)	19,546	7,614	12,933	8,395	31,856	57,521	90,130	51,807

1 Loans and advances, investment securities, deposits by banks, customer accounts and debt securities in issue include financial instruments held at fair value through profit or loss, see note 13 of the financial statements

2 Loans and advances include reverse repurchase agreements and other similar secured lending borrowing of $55.2 billion

3 Deposits by banks include repurchase agreements and other similar secured borrowing of $3.8 billion

4 Customer accounts include repurchase agreements and other similar secured lending borrowing of $36 billion

	2016								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	62,058	–	–	–	–	–	–	8,648	70,706
Derivative financial instruments	7,749	10,562	8,263	5,317	4,580	8,472	10,798	9,768	65,509
Loans and advances to banks[1,2]	32,231	23,388	10,667	3,041	2,540	1,240	1,404	158	74,669
Loans and advances to customers[1,2]	71,483	27,977	17,948	7,917	7,839	18,365	32,615	71,752	255,896
Investment securities[1]	8,600	16,894	11,796	10,496	11,764	19,272	32,626	12,364	123,812
Other assets	23,357	5,379	2,857	195	1,007	60	113	23,132	56,100
Total assets	205,478	84,200	51,531	26,966	27,730	47,409	77,556	125,822	646,692
Liabilities									
Deposits by banks[1,3]	31,340	2,912	1,115	665	573	629	146	232	37,612
Customer accounts[1,4]	280,329	46,060	25,258	11,135	8,942	2,577	2,119	1,882	378,302
Derivative financial instruments	8,709	9,911	7,661	6,058	4,797	8,969	11,275	8,332	65,712
Senior debt	96	173	1,212	1,500	981	3,347	8,849	3,433	19,591
Other debt securities in issue[1]	5,916	11,188	6,883	2,687	447	860	748	4,050	32,779
Other liabilities	19,262	6,163	5,003	687	604	1,368	847	10,581	44,515
Subordinated liabilities and other borrowed funds	22	31	–	1,710	–	978	785	15,997	19,523
Total liabilities	345,674	76,438	47,132	24,442	16,344	18,728	24,769	44,507	598,034
Net liquidity gap	(140,196)	7,762	4,399	2,524	11,386	28,681	52,787	81,315	48,658

1 Loans and advances, investment securities, deposits by banks, customer accounts and debt securities in issue include financial instruments held at fair value through profit or loss, see note 13 of the financial statements
2 Loans and advances include reverse repurchase agreements and other similar secured lending borrowing of $44.9 billion
3 Deposits by banks include repurchase agreements and other similar secured borrowing of $4 billion
4 Customer accounts include repurchase agreements and other similar secured lending borrowing of $33.7 billion

Behavioural maturity of financial assets and liabilities

The cashflows presented in the previous section reflect the cashflows that will be contractually payable over the residual maturity of the instruments. However, contractual maturities do not necessarily reflect the timing of actual repayments or cashflow. In practice, certain assets and liabilities behave differently from their contractual terms, especially for short-term customer accounts, credit card balances and overdrafts, which extend to a longer period than their contractual maturity. On the other hand, mortgage balances tend to have a shorter repayment period than their contractual maturity date. Expected customer behaviour is assessed and managed on a country basis using qualitative and quantitative techniques, including analysis of observed customer behaviour over time.

Maturity of financial liabilities on an undiscounted basis

The following table analyses the contractual cashflows payable for the Group's financial liabilities by remaining contractual maturities on an undiscounted basis. The financial liability balances in the table below will not agree to the balances reported in the consolidated balance sheet as the table incorporates all contractual cashflows, on an undiscounted basis, relating to both principal and interest payments. Derivatives not treated as hedging derivatives are included in the "On demand" time bucket and not by contractual maturity.

Within the 'More than five years and undated' maturity band are undated financial liabilities, all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful given the instruments are undated. Interest payments on these instruments are included within the relevant maturities up to five year.

	2017								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Deposits by banks	29,427	2,497	1,460	545	743	160	150	697	35,679
Customer accounts	327,501	37,353	20,720	10,901	9,463	3,178	1,840	2,919	413,875
Derivative financial instruments[1]	47,267	–	3	–	153	166	246	266	48,101
Debt securities in issue	4,287	10,888	11,878	2,141	2,876	6,550	6,163	11,769	56,552
Subordinated liabilities and other borrowed funds	126	207	1,490	210	166	657	3,726	19,356	25,938
Other liabilities	20,800	6,052	3,676	681	324	720	929	11,241	44,423
Total liabilities	429,408	56,997	39,227	14,478	13,725	11,431	13,054	46,248	624,568

	2016								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Deposits by banks	31,412	2,923	1,123	671	576	644	154	257	37,760
Customer accounts	280,731	46,268	25,539	11,289	9,074	2,622	2,177	2,548	380,248
Derivative financial instruments[1]	62,917	10	–	–	876	11	472	1,426	65,712
Debt securities in issue	6,159	11,361	8,228	4,240	1,606	4,574	10,271	9,362	55,801
Subordinated liabilities and other borrowed funds	173	86	163	1,949	77	1,691	2,724	23,228	30,091
Other liabilities	21,139	6,905	5,059	769	612	1,391	915	11,459	48,249
Total liabilities	402,531	67,553	40,112	18,918	12,821	10,933	16,713	48,280	617,861

1. Derivatives are on the discounted basis

Earnings sensitivity (unaudited)

The following table provides the estimated impact on the Group's earnings of a 50 basis point parallel shock (up and down) across all yield curves. The sensitivities shown represent the estimated change in base case projected net interest income (NII), plus the change in interest rate implied income and expense from FX swaps used to manage banking book currency positions, under the two interest rate shock scenarios.

The interest rate sensitivities are indicative and based on simplified scenarios, estimating the aggregate impact of an instantaneous 50 basis point parallel shock across all yield curves over a one-year horizon, including the time taken to implement changes to pricing before becoming effective. The assessment assumes that non-interest rate-sensitive aspects of the size and mix of the balance sheet remain constant and that there are no specific management actions in response to the change in rates. No assumptions are made in relation to the impact on credit spreads in a changing rate environment.

Significant modelling and behavioural assumptions are made regarding scenario simplification, market competition, pass-through rates, asset and liability re-pricing tenors, and price flooring. In particular, the assumption that interest rates of all currencies and maturities shift by the same amount concurrently, and that no actions are taken to mitigate the impacts arising from this are considered unlikely. Reported sensitivities will vary over time due to a number of factors including changes in balance sheet composition, market conditions, customer behaviour and risk management strategy and should therefore not be considered an income or profit forecast.

	2017			
Estimated one-year impact to earnings from a parallel shift in yield curves at the beginning of the period of:	USD bloc $million	HKD, SGD & KRW bloc $million	Other currency bloc $million	Total $million
+ 50 basis points	**70**	**120**	**140**	**330**
- 50 basis points	**(50)**	**(100)**	**(140)**	**(290)**

As at 31 December 2017, the Group estimates the one-year impact of an instantaneous, parallel increase across all yield curves of 50 basis points would result in an earnings benefit of $330 million. The corresponding impact from a parallel decrease of 50 basis points would result in an earnings reduction of $290 million.

The benefit from rising interest rates is primarily from reinvesting at higher yields and from assets re-pricing faster and to a greater extent than deposits. The current estimate indicates that the majority of the earnings benefit would come from our GCNA region and from non-USD currencies.

The USD sensitivity is impacted by the dampening effect due to the asymmetry of funding Trading Book assets with Banking Book liabilities. The sensitivities include the cost of Banking Book liabilities used to fund the Trading Book, however the revenue associated with the Trading Book positions is recognised in net trading income. This asymmetry in both the up and down scenarios should be broadly offset within total operating income.

Operational risk (unaudited)

Operational risks arise from the broad scope of activities carried out across the Group. Risks associated with these activities are mapped into a Group Process Universe where a standardised operational risk management approach is applied to mitigate the risks. We benchmark practices against industry standards and regulatory requirements.

A summary of our operational risk management approach is provided in the Risk management approach.

Operational risk profile

The operational risk profile is the Group's overall exposure to operational risk, at a given point in time, covering all applicable operational risk sub-types. The operational risk profile comprises both operational risk events and losses that have already occurred and the current exposures to operational risks which, at an aggregate level, includes the consideration of top risks and emerging risks.

Operational risk events and losses

Operational losses are one indicator of the effectiveness and robustness of the operational risk control environment. In addition, lessons learnt reviews and root cause analyses from external and internal loss events, including near misses, are used to improve processes and controls.

As at 31 December 2017, recorded operational losses for 2017 are lower than 2016. Operational losses in 2017 comprise of unrelated non-systemic events which were not individually significant. The largest operational loss recognised as at 31 December 2017 relates to the Group's $17.2 million settlement arising from a US class action brought against a number of banks concerning foreign exchange benchmark rates.

Losses in 2016 include incremental events that were recognised in 2017 and reclassification of Basel event types and Basel business lines. As at 31 December 2017, the largest loss recorded for 2016 relates to a credit loan impairment of $24.5 million in the Commercial Banking Basel business line.

The Group's profile of operational loss events in 2017 and 2016 is summarised in the table below. It shows the percentage distribution of gross operational losses by Basel business line.

	% Loss	
Distribution of operational losses by Basel business line	2017	2016[1]
Agency services	**3.2%**	2.5%
Commercial Banking	**7.2%**	25.3%
Corporate Finance	**4.6%**	0.0%
Corporate items	**3.8%**	10.7%
Payment and settlements	**1.6%**	7.0%
Retail Banking	**39.6%**	30.6%
Retail brokerage	**0.1%**	4.4%
Trading and sales	**39.9%**	19.5%

1 2016 losses are restated to reflect incremental losses recorded.

The Group's profile of operational loss events in 2017 and 2016 is also summarised by Basel event type in the table below. It shows the percentage distribution of gross operational losses by Basel event type:

	% Loss	
Distribution of operational losses by Basel event type	2017	2016[1]
Business disruption and system failures	**0.6%**	2.1%
Client products and business practices	**41.8%**	10.6%
Damage to physical assets	**0.1%**	0.0%
Employment practices and workplace safety	**0.0%**	0.4%
Execution delivery and process management	**36.0%**	50.7%
External fraud	**20.7%**	34.2%
Internal fraud	**0.8%**	2.0%

1 2016 losses are restated to reflect incremental losses recorded

Operational losses are one indicator of the effectiveness and robustness of the operational risk control environment. In addition, lessons learnt reviews and root cause analyses from external and internal loss events, including near misses, are used to improve processes and controls.

Top risks and emerging risks

A top risk is a risk exposure, or a group of highly correlated risk exposures, that has the highest potential to breach the Group's risk capacity. The objective is to identify those risks that can materially impact the Group's risk capacity, and to calibrate metrics as early warning indicators against undesirable outcomes and performance under stress. Top risk candidates are identified through a top-down assessment of concentration of exposures or aggregation of risks.

Emerging risks are also considered, both internally from the Group's internal operational risk profile and from external events. Given their significance, top risks attract closer scrutiny from management and governance committees. Top risks change over time based on the top-down assessments by management.

The Group's operational top risks as at 31 December 2017 are shown in the table below.

Top risks

Macro-prudential, regulatory, and external risks

- Regulatory non-compliance
- Anti-money laundering and terrorist financing
- International sanctions

- External fraud
- Market misconduct
- Information and cyber security
- Critical third-party vendors
- Additional conduct matters
- Anti-bribery and corruption

Internal processes, systems, and change risks

- Change management
- Data management
- Major systems failure
- Significant business interruption
- Rogue trading
- Internal fraud
- Mis-selling
- Product management
- Collateral and Document management

For further information on the Group's liquidity stress testing framework refer to the Risk Management Approach.

CAPITAL REVIEW

The Capital review provides an analysis of the Group's capital and leverage position and requirements

Capital summary

The Group's capital and leverage position is managed within the Board-approved Risk Appetite. The Group is well capitalised with low leverage and high levels of loss-absorbing capacity.

Capital, leverage and RWA	2017	2016
CET1 capital %	**13.6**	13.6
Tier 1 capital %	**16.0**	15.7
Total capital %	**21.0**	21.3
UK leverage %	**6.0**	6.0
RWA ($ million)	**279,748**	269,445

The Group's Common Equity Tier 1 (CET1) capital and leverage position was ahead of both the current requirements and the expected end-state requirements for 2019. For further detail see the Standard Chartered PLC Pillar 3 Disclosures 2017 section on Capital.

The Group was advised during the period that its Pillar 2A requirement, as reviewed regularly by the PRA for all banks, has increased. The Group's current Pillar 2A requirement is 3.1 per cent of RWA of which at least 1.7 per cent must be held in CET1. This requirement is expected to vary over time.

In January 2017, the Group issued $1 billion of Additional Tier 1 (AT1) capital and currently has 2.4 per cent of RWA in AT1. The Group continued its programme of senior issuance from the holding company, with around $1.5 billion issued during the year, including Standard Chartered PLC's inaugural issuance of callable senior notes.

The Bank of England (BoE) confirmed the Group's non-binding, indicative minimum requirement for own funds and eligible liabilities (MREL). As at 31 December 2017 the Group estimates that its MREL requirement is 16.0 per cent of RWA in 2019 rising to 19.1 per cent of RWA in 2020 and 22.2 per cent of RWA from 1 January 2022.

The Group's combined buffer (comprising the capital conservation, global systemically important institution (G-SII) and countercyclical buffers) sits above any MREL requirement, resulting in a total loss-absorbing capacity requirement of 26.0 per cent of RWA from 1 January 2022 based on the Group's CRD IV capital buffers that are known at this time.

The Group currently estimates that its MREL position was around 25.5 per cent of RWA and around 10.0 per cent of leverage exposure at 31 December 2017.

In November 2017, the Bank of England released the results of the 2017 stress test exercise. The 2017 annual cyclical scenario (ACS) incorporated a severe and synchronised global macroeconomic and financial market stress with growth in China, Hong Kong and Singapore particularly impacted. The results showed that, under the ACS, the Group exceeded all hurdle rates and systemic reference points after strategic management actions. The Group has a strong and liquid balance sheet and these results demonstrate the benefits of the actions recently undertaken by the Group to improve its resilience to an extreme stress scenario.

Regulatory update

The Group has been in discussions with the Prudential Regulation Authority (PRA) about changes to the treatment of certain exposures where the country-specific default experience is not deemed sufficient for modelling purposes, including the application of various loss given default (LGD) floors based on the Foundation IRB approach.

Following an agreement reached in the third quarter with the PRA, as of September 2017 the Group has applied a LGD floor to certain financial institutions exposures, which resulted in a RWA increase equivalent to about a 35 basis points reduction in the Group's CET1 ratio. Similar model changes relating to certain corporate exposures will be introduced during the first half of 2018. These changes are expected to have a lower impact on the Group's CET1 ratio than the changes taken in 2017.

The European Commission is proposing amendments to the Capital Requirements Regulation, CRD IV, the Bank Recovery and Resolution Directive and the Single Resolution Mechanism Regulation. Any proposed reforms remain subject to change and until the proposals are in final form it is uncertain how they will affect the Group.

The Group remains a G-SII with a 1.0 per cent G-SII CET1 buffer which began to be phased in from 1 January 2016 and will be fully implemented by 1 January 2019. The buffer phases in at a rate of 0.25 per cent per year. The Standard Chartered PLC 2016 G-SII disclosure is published at: investors.sc.com/fullyearresults

IFRS 9

Under IFRS 9 it is estimated that on day 1 the Group's CET1 ratio would not be impacted after applying 95 per cent transitional relief. The day 1 end point impact (with no transitional relief) reduces CET1 by an estimated 15 basis

points, which is attributed to the following factors:

- The increase in IFRS 9 expected credit loss (ECL) allowances for AIRB portfolios has been mostly offset by the existing regulatory excess expected loss (EL) deduction
- The increase in IFRS 9 ECL for standardised portfolios directly impacts CET1 as there is no existing regulatory deduction to absorb the increase
- The increase in deferred tax assets recognised from IFRS 9 re-measurements and the increase in asset fair values as a result of classification and measurement partially mitigates the impact of ECL.

CET1 ratio (phasing in of transition)

13.6	IAS 39 at 31 December 2017
13.5	IFRS 9 at 1 January 2018 before transitional relief
13.6	IFRS 9 at 1 January 2018 after transitional relief

Transitional relief relates to the phasing in of the impact of the initial adoption of the ECL component of IFRS 9 into CET1, as permitted by Regulation (EU) 2017/2395 of the European Parliament and of the Council. Under this approach, the balance of ECL allowances in excess of the regulatory excess EL and standardised portfolios are phased into the CET1 capital base over 5 years.
The proportion phased in for the balance at each reporting period is: 2018 5 per cent; 2019 15 per cent; 2020 30 per cent; 2021 50 per cent; 2022 75 per cent. From 2023 onwards there is no transitional relief.

Capital ratios

	2017	2016
CET1	**13.6%**	13.6%
Tier 1 capital	**16.0%**	15.7%
Total capital	**21.0%**	21.3%

CRD IV Capital base

	2017 $million	2016 $million
CET1 instruments and reserves		
Capital instruments and the related share premium accounts	**5,603**	5,597
Of which: share premium accounts	**3,957**	3,957
Retained earnings[1]	**25,316**	26,000
Accumulated other comprehensive income (and other reserves)	**12,766**	11,524
Non-controlling interests (amount allowed in consolidated CET1)	**850**	809
Independently reviewed interim and year-end profits/(losses)	**1,227**	(247)
Foreseeable dividends net of scrip	**(399)**	(212)
CET1 capital before regulatory adjustments	**45,363**	43,471
CET1 regulatory adjustments		
Additional value adjustments (prudential valuation adjustments)	**(574)**	(660)
Intangible assets (net of related tax liability)	**(5,112)**	(4,856)
Deferred tax assets that rely on future profitability (excludes those arising from temporary differences)	**(125)**	(197)
Fair value reserves related to net losses on cash flow hedges	**45**	85
Deduction of amounts resulting from the calculation of excess expected loss	**(1,142)**	(740)
Net gains on liabilities at fair value resulting from changes in own credit risk	**(53)**	(289)
Defined-benefit pension fund assets	**(40)**	(18)
Fair value gains arising from the institution's own credit risk related to derivative liabilities	**(59)**	(20)
Exposure amounts which could qualify for risk weighting of 1,250%	**(141)**	(168)
Total regulatory adjustments to CET1	**(7,201)**	(6,863)
CET1 capital	**38,162**	36,608
Additional Tier 1 capital (AT1) instruments	**6,719**	5,704
AT1 regulatory adjustments	**(20)**	(20)
Tier 1 capital	**44,861**	42,292
Tier 2 capital instruments	**13,927**	15,176
Tier 2 regulatory adjustments	**(30)**	(30)
Tier 2 capital	**13,897**	15,146
Total capital	**58,758**	57,438
Total risk-weighted assets (unaudited)	**279,748**	269,445

1. CET1 capital before regulatory adjustments is prepared on the regulatory scope of consolidation

Movement in total capital

	2017 $million	2016 $million
CET1 at 1 January	36,608	38,182
Ordinary shares issued in the year and share premium	6	1
Profit/(loss) for the year	1,227	(247)
Foreseeable dividends net of scrip deducted from CET1	(399)	(212)
Difference between dividends paid and foreseeable dividends	(233)	(116)
Movement in goodwill and other intangible assets	(256)	(36)
Foreign currency translation differences	1,363	(779)
Non-controlling interests	41	227
Movement in eligible other comprehensive income	119	(579)
Deferred tax assets that rely on future profitability	72	15
(Increase) / decrease in excess expected loss	(402)	(171)
Additional value adjustments (Prudential Valuation Adjustment)	86	(96)
Own credit gains	(39)	342
Exposure amounts which could qualify for risk weighting	27	31
Other	(58)	46
CET1 at 31 December	38,162	36,608
AT1 at 1 January	5,684	4,591
Issuances net of redemptions	992	1,010
Foreign currency translation difference	23	(47)
Other	–	130
AT1 at 31 December	6,699	5,684
Tier 2 capital at 1 January	15,146	16,248
Regulatory amortisation	779	(181)
Issuances net of redemptions	(2,907)	(697)
Foreign currency translation difference	676	(577)
Tier 2 ineligible minority interest	233	374
Other	(30)	(21)
Tier 2 capital at 31 December	13,897	15,146
Total capital at 31 December	58,758	57,438

The main movements in capital in 2017 were:

- The CET1 ratio remained flat at 13.6 per cent with a $10.3 billion increase in RWA offsetting a $1.6 billion increase in CET1 capital as described below
- CET1 capital increased by $1.6 billion as underlying profits and favourable foreign currency translation were offset in part by distributions and higher regulatory adjustments
- AT1 capital increased to $6.7 billion due to the issuance of $1 billion of AT1 securities in the period
- Tier 2 reduced by $1.2 billion to $13.9 billion as calls and maturities were not replaced by new issuance. This was in part offset by foreign currency translation and the net impact of regulatory amortisation and deductions.

Risk-weighted assets by business

	2017			
	Credit risk $million	Operational risk $million	Market risk $million	Total risk $million
Corporate & Institutional Banking	109,368	14,740	22,994	147,102
Retail Banking	36,345	7,761	–	44,106
Commercial Banking	29,712	3,356	–	33,068
Private Banking	5,134	809	–	5,943
Central and other items	45,671	3,812	46	49,529
Total risk-weighted assets	226,230	30,478	23,040	279,748

	2016			
	Credit risk $million	Operational risk $million	Market risk $million	Total risk $million
Corporate & Institutional Banking	106,834	16,703	19,228	142,765
Retail Banking	33,210	8,953	–	42,163
Commercial Banking	27,553	4,385	–	31,938
Private Banking	5,129	959	–	6,088
Central and other items	41,149	2,693	2,649	46,491
Total risk-weighted assets	213,875	33,693	21,877	269,445

Risk-weighted assets by geographic region[1]

	2017 $million	2016 $million
Greater China & North Asia	**84,593**	76,665
ASEAN & South Asia	**96,733**	96,673
Africa & Middle East	**56,437**	52,849
Europe & Americas	**44,735**	43,487
Central & other items	**(2,750)**	(229)
Total risk weighted assets	**279,748**	269,445

1 Risk-weighted assets by geographic region is presented on a basis consistent with Note 2 Segmental information

Movement in risk weighted assets

	Credit risk								
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million	Operational risk $million	Market risk $million	Total risk $million
At 1 January 2016	127,528	38,007	30,825	6,302	42,740	245,402	35,610	21,913	302,925
Assets (decline)/growth	(15,860)	(1,221)	(3,221)	(1,120)	493	(20,929)			(20,929)
Net credit migration	156	116	(61)	–	(179)	32	–	–	32
Risk-weighted assets efficiencies	(2,722)	–	–	–	–	(2,722)	–	–	(2,722)
Model, methodology and policy changes	(917)	(2,708)	437	–	(1,316)	(4,504)	–	5,500	996
Disposals	–	(471)	–	–	–	(471)	–	–	(471)
Foreign currency translation	(1,351)	(513)	(427)	(53)	(589)	(2,933)			(2,933)
Other non-credit risk movements	–	–	–	–	–	–	(1,917)	(5,536)	(7,453)
At 31 December 2016	106,834	33,210	27,553	5,129	41,149	213,875	33,693	21,877	269,445
Assets (decline)/growth	**(6,363)**	**2,349**	**1,973**	**445**	**2,273**	**677**	**–**	**–**	**677**
Net credit migration	**4,035**	**74**	**(465)**	**–**	**9**	**3,653**	**–**	**–**	**3,653**
Risk-weighted assets efficiencies	**(2,295)**	**–**	**–**	**–**	**–**	**(2,295)**	**–**	**–**	**(2,295)**
Model, methodology and policy changes	**4,990**	**(368)**	**–**	**(575)**	**2,372**	**6,419**	**–**	**(2,178)**	**4,241**
Disposals	**–**	**(710)**	**–**	**–**	**(443)**	**(1,153)**	**–**	**–**	**(1,153)**
Foreign currency translation	**2,167**	**1,790**	**651**	**135**	**311**	**5,054**	**–**	**–**	**5,054**
Other non-credit risk movements	**–**	**–**	**–**	**–**	**–**	**–**	**(3,215)**	**3,341**	**126**
At 31 December 2017	**109,368**	**36,345**	**29,712**	**5,134**	**45,671**	**226,230**	**30,478**	**23,040**	**279,748**

RWA increased by $10.3 billion, or 3.8 per cent from 31 December 2016 to $279.7 billion. This was due to a $12.4 billion increase in credit risk RWA and a $1.2 billion increase in market risk RWA partly offset by a $3.2 billion decrease in operational risk RWA.

Corporate & Institutional Banking

Credit risk RWA increased by $2.5 billion to $109.4 billion mainly due to:

- $4.0 billion increase due to credit migration in the AME and GCNA regions
- $5.0 billion increase in model, methodology and policy changes, of which $5.2 billion was due to PRA approved IRB model changes in financial institutions relating to LGD floors
- Financial markets and corporate finance asset decline of $6.4 billion driven by asset reduction and change in product mix
- $2.3 billion reduction from efficiencies in financial markets through optimisation and process enhancements, including CVA RWA saves
- $2.2 billion increase from foreign currency translation due to appreciation of currencies in Europe, India, and China

Retail Banking

Credit risk RWA increased by $3.1 billion to $36.3 billion, due to:

- $2.3 billion increase from mortgage and secured lending growth
- $0.4 billion RWA save due to model, methodology and policy changes
- $0.7 billion due to the disposal of our Thailand retail portfolio
- $1.8 billion increase from foreign currency translation due to appreciation of currencies in Korea, Singapore and India

Commercial Banking

Credit risk RWA increased by $2.2 billion to $29.7 billion mainly due to:

- $2.0 billion increase from new business, with growth in transaction banking and lending
- Credit migration reduction of $0.5 billion due to increased provisions in the ASA and GCNA regions
- $0.7 billion increase from foreign currency translation due to appreciation of currencies in Korea, India and Europe

Private Banking

Credit risk RWA is broadly flat at $5.1 billion year on year. Changes in asset balances and foreign currency translation in Europe and Singapore, were offset by RWA saves achieved through recognition of eligible collateral.

Central & other items

Credit risk RWA increased by $4.5 billion to $45.7 billion due to:

- An increase of $2.3 billion in credit RWA mainly due to treasury activities, offset in part by lower RWA balances for investments in Associates
- $2.4 billion increase due to PRA approved IRB model changes in financial institutions relating to LGD floors in treasury markets
- $0.4 billion saving from the disposal of an investment in the GCNA region
- $0.3 billion increase from foreign currency translation due to appreciation of currencies in India, Korea and China

Market risk

Total market risk RWA increased by $1.2 billion, or 5.3 per cent from 31 December 2016 to $23.0 billion. This was mainly due to increases in trading book debt security holdings partly offset by lower market volatility. Methodology and policy changes contributed RWA savings of $2.2 billion.

Operational risk

Operational risk RWA reduced by $3.2 billion to $30.5 billion, due to a decrease in the average income over a rolling three-year time horizon, as lower 2016 income replaced higher 2013 income. This represents a 9.5 per cent year-on-year reduction in operational risk RWA.

UK leverage ratio

The Group's UK leverage ratio, which excludes qualifying claims on central banks in accordance with a PRA waiver, was 6.0 per cent, which is above the current minimum requirement of 3.5 per cent.

The UK leverage ratio in the period remained flat as the increase in Tier 1 capital (end point) was offset by an increase in the UK leverage exposure measure.

UK leverage ratio (unaudited)

	2017 $million	2016 $million
Tier 1 capital (transitional)	44,861	42,292
Additional Tier 1 capital subject to phase out	(1,758)	(1,735)
Tier 1 capital (end point)	43,103	40,557
Derivative financial instruments	47,031	65,509
Derivative cash collateral	9,513	14,230
Securities financing transactions (SFTs)	55,187	44,916
Loans and advances and other assets	551,770	522,037
Total on-balance sheet assets	663,501	646,692
Regulatory consolidation adjustments[1]	(31,712)	(31,491)
Derivatives adjustments		
Derivatives netting	(29,830)	(38,737)
Adjustments to cash collateral	(18,411)	(23,449)
Net written credit protection	1,360	7,311
Potential future exposure on derivatives	30,027	49,607
Total derivatives adjustments	(16,854)	(5,268)
Counterparty risk leverage exposure measure for SFTs	13,238	10,412
Off-balance sheet items	96,260	60,535
Regulatory deductions from Tier 1 capital	(7,089)	(6,553)
UK leverage exposure (end point)	717,344	674,327
UK leverage ratio (end point)	6.0%	6.0%
UK leverage exposure quarterly average	723,508	N/A
UK leverage ratio quarterly average	6.0%	N/A
Countercyclical leverage ratio buffer	0.1%	0.0%
G-SII additional leverage ratio buffer	0.2%	0.1%

1 Includes adjustment for qualifying central bank claims

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU;
- Assess the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Andy Halford
Group Chief Financial Officer

27 February 2018

FINANCIAL STATEMENTS

Consolidated income statement

For the year ended 31 December 2017

	Notes	2017 $million	2016 $million
Interest income		14,435	13,010
Interest expense		(6,254)	(5,216)
Net interest income	3	8,181	7,794
Fees and commission income		3,942	3,671
Fees and commission expense		(430)	(440)
Net fee and commission income	4	3,512	3,231
Net trading income	5	1,527	1,886
Other operating income	6	1,205	1,149
Operating income		14,425	14,060
Staff costs		(6,758)	(6,303)
Premises costs		(823)	(797)
General administrative expenses		(2,007)	(2,372)
Depreciation and amortisation		(829)	(739)
Operating expenses	7	(10,417)	(10,211)
Operating profit before impairment losses and taxation		4,008	3,849
Impairment losses on loans and advances and other credit risk provisions	8	(1,362)	(2,791)
Other impairment			
Goodwill	9	(320)	(166)
Other	9	(179)	(446)
Profit/(loss) from associates and joint ventures	32	268	(37)
Profit before taxation		2,415	409
Taxation	10	(1,147)	(600)
Profit/(loss) for the year		1,268	(191)
Profit/(loss) attributable to:			
Non-controlling interests	29	49	56
Parent company shareholders		1,219	(247)
Profit/(loss) for the year		1,268	(191)

	Notes	cents	cents
Earnings per share:			
Basic earnings/(loss) per ordinary share	12	23.5	(14.5)
Diluted earnings/(loss) per ordinary share	12	23.3	(14.5)

The notes form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Notes	2017 $million	2016 $million
Profit/(loss) for the year		**1,268**	(191)
Other comprehensive income/(loss)			
Items that will not be reclassified to income statement:		**(238)**	(445)
Own credit losses on financial liabilities designated at fair value through profit or loss		**(249)**	(372)
Actuarial gains/(losses) on retirement benefit obligations	30	**32**	(105)
Taxation relating to components of other comprehensive income	10	**(21)**	32
Items that may be reclassified subsequently to income statement:		**1,532**	(968)
Exchange differences on translation of foreign operations:			
Net gains/(losses) taken to equity		**1,637**	(817)
Net (losses)/gains on net investment hedges		**(288)**	30
Share of other comprehensive loss from associates and joint ventures		**(1)**	(11)
Available-for-sale investments:			
Net valuation gains taken to equity		**369**	48
Reclassified to income statement		**(233)**	(188)
Cash flow hedges:			
Net gains/(losses) taken to equity		**35**	(79)
Reclassified to income statement	14	**11**	57
Taxation relating to components of other comprehensive income	10	**2**	(8)
Other comprehensive income/(loss) for the year, net of taxation		**1,294**	(1,413)
Total comprehensive income/(loss) for the year		**2,562**	(1,604)
Total comprehensive income/(loss) attributable to:			
Non-controlling interests	29	**50**	45
Parent company shareholders		**2,512**	(1,649)
		2,562	(1,604)

Consolidated balance sheet

As at 31 December 2017

	Notes	2017 $million	2016 $million
Assets			
Cash and balances at central banks	13,35	**58,864**	70,706
Financial assets held at fair value through profit or loss	13	**27,564**	20,077
Derivative financial instruments	13,14	**47,031**	65,509
Loans and advances to banks	13	**57,494**	54,538
Loans and advances to customers	13	**248,707**	226,693
Reverse repurchase agreements and other similar secured lending	13,17	**54,275**	44,097
Investment securities	13,15	**117,025**	108,972
Other assets	21	**33,490**	36,940
Current tax assets	10	**491**	474
Prepayments and accrued income		**2,307**	2,238
Interests in associates and joint ventures	32	**2,307**	1,929
Goodwill and intangible assets	18	**5,013**	4,719
Property, plant and equipment	19	**7,211**	7,252
Deferred tax assets	10	**1,177**	1,294
Assets classified as held for sale	21	**545**	1,254
Total assets		**663,501**	646,692
Liabilities			
Deposits by banks	13	**30,945**	32,872
Customer accounts	13	**370,509**	338,185
Repurchase agreements and other similar secured borrowing	13,17	**39,783**	37,692
Financial liabilities held at fair value through profit or loss	13	**16,633**	16,598
Derivative financial instruments	13,14	**48,101**	65,712
Debt securities in issue	13,22	**46,379**	46,700
Other liabilities	23	**35,257**	33,146
Current tax liabilities	10	**376**	327
Accruals and deferred income		**5,493**	5,223
Subordinated liabilities and other borrowed funds	13,27	**17,176**	19,523
Deferred tax liabilities	10	**404**	353
Provisions for liabilities and charges	24	**183**	213
Retirement benefit obligations	30	**455**	525
Liabilities included in disposal groups held for sale	23	**–**	965
Total liabilities		**611,694**	598,034
Equity			
Share capital and share premium account	28	**7,097**	7,091
Other reserves		**12,767**	11,524
Retained earnings		**26,641**	25,753
Total parent company shareholders' equity		**46,505**	44,368
Other equity instruments	28	**4,961**	3,969
Total equity excluding non-controlling interests		**51,466**	48,337
Non-controlling interests	29	**341**	321
Total equity		**51,807**	48,658
Total equity and liabilities		**663,501**	646,692

The notes form an integral part of these financial statements.

These financial statements were approved by the Board of directors and authorised for issue on 27 February 2018 and signed on its behalf by:

José Viñals
Group Chairman

Bill Winters
Group Chief Executive

Andy Halford
Group Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2017

	Share capital and share premium account $million	Capital and merger reserves[1] $million	Own credit adjustment reserve $million	Available-for -sale reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company shareholders' equity $million	Other equity instruments $million	Non-controlling interests $million	Total $million
At 1 January 2016	7,088	17,122	–	132	(46)	(5,026)	26,934	46,204	1,987	321	48,512
Transfer of own credit adjustment, net of taxation[2]	–	–	631	–	–	–	(631)	–	–	–	–
(Loss)/profit for the year	–	–	–	–	–	–	(247)	(247)	–	56	(191)
Other comprehensive loss	–	–	(342)	(136)	(39)	(779)	(106)[3]	(1,402)	–	(11)	(1,413)
Distributions	–	–	–	–	–	–	–	–	–	(37)	(37)
Shares issued, net of expenses	3	7	–	–	–	–	–	10	–	–	10
Other equity instruments issued, net of expenses	–	–	–	–	–	–	–	–	1,982	–	1,982
Net own shares adjustment	–	–	–	–	–	–	(46)	(46)	–	–	(46)
Share option expense, net of taxation	–	–	–	–	–	–	80	80	–	–	80
Dividends[4]	–	–	–	–	–	–	(231)	(231)	–	–	(231)
Other movements[5]	–	–	–	–	–	–	–	–	–	(8)	(8)
As at 31 December 2016	**7,091**	**17,129**	**289**	**(4)**	**(85)**	**(5,805)**	**25,753**	**44,368**	**3,969**	**321**	**48,658**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**1,219**	**1,219**	**–**	**49**	**1,268**
Other comprehensive (loss)/income	**–**	**–**	**(235)**	**87**	**40**	**1,351**	**50**[3]	**1,293**	**–**	**1**	**1,294**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(51)**	**(51)**
Shares issued, net of expenses	**6**	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**–**	**–**	**6**
Other equity instruments issued, net of expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**992**	**–**	**992**
Net own shares adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**10**	**10**	**–**	**–**	**10**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**125**	**125**	**–**	**–**	**125**
Dividends[4]	**–**	**–**	**–**	**–**	**–**	**–**	**(445)**	**(445)**	**–**	**–**	**(445)**
Other movements[6]	**–**	**–**	**–**	**–**	**–**	**–**	**(71)**	**(71)**	**–**	**21**	**(50)**
As at 31 December 2017	**7,097**	**17,129**	**54**	**83**	**(45)**	**(4,454)**	**26,641**	**46,505**	**4,961**	**341**	**51,807**

1 Includes capital reserve of $5 million, capital redemption reserve of $13 million and merger reserve of $17,111 million
2 The Group early adopted IFRS 9 Financial Instruments to present own credit adjustments within Other comprehensive income (rather than Net trading income)
3 Comprises actuarial gain/(loss), net of taxation and share from associates and joint ventures $50 million (2016: $(106) million)
4 Comprises of dividends on preferences shares classified as equity and Additional Tier 1 securities $445 million (2016: $231 million)
5 Mainly due to completion of sale of businesses with non-controlling interest in Pakistan and issuance of shares to non-controlling interest in Angola
6 Mainly due to additional share capital issued including the premium by Nepal to its non-controlling interests of $31 million, non-controlling interest with respect to an acquisition during 2017 of $9 million and offset by other equity adjustments of $90 million

The notes form an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2017

	Notes	Group 2017 $million	Group 2016 $million	Company 2017 $million	Company 2016 $million
Cash flows from operating activities:					
Profit before taxation		2,415	409	207	192
Adjustments for non-cash items and other adjustments included within income statement	34	3,241	4,615	615	703
Change in operating assets	34	(13,625)	(8,286)	459	110
Change in operating liabilities	34	5,819	13,080	575	(619)
Contributions to defined benefit schemes	30	(143)	(98)	–	–
UK and overseas taxes paid	10	(915)	(1,287)	(14)	(12)
Net cash (used in)/from operating activities		(3,208)	8,433	1,842	374
Cash flows from investing activities:					
Purchase of property, plant and equipment	19	(165)	(195)	–	–
Disposal of property, plant and equipment		29	23	–	–
Acquisition of investment in subsidiaries, associates, and joint ventures, net of cash acquired	32	(44)	(238)	(1,000)	(5,500)
Dividends received from subsidiaries, associates and joint ventures	32	2	3	392	204
Disposal of subsidiaries		–	636	–	–
Purchase of investment securities	15	(265,186)	(207,274)	–	(4,000)
Disposal and maturity of investment securities		261,316	210,857	2,850	1,300
Net cash (used in)/from investing activities		(4,048)	3,812	2,242	(7,996)
Cash flows from financing activities:					
Issue of ordinary and preference share capital, net of expenses	28	6	10	6	10
Exercise of share options		10	5	10	5
Purchase of own shares		–	(51)	–	(51)
Issue of Additional Tier 1 capital, net of expenses	28	992	1,982	992	1,982
Gross proceeds from issue of subordinated liabilities	34	–	1,250	–	1,250
Interest paid on subordinated liabilities	34	(743)	(920)	(353)	(604)
Repayment of subordinated liabilities	34	(2,984)	(2,666)	(1,249)	(105)
Proceeds from issue of senior debts	34	2,292	5,453	1,501	4,385
Repayment of senior debts	34	(4,162)	(6,470)	(3,237)	(3,941)
Interest paid on senior debts	34	(896)	(454)	(825)	(365)
Investment from/(repayment to) non–controlling interests		21	(8)	–	–
Dividends paid to non-controlling interests and preference shareholders		(496)	(268)	(445)	(231)
Net cash (used in)/from financing activities		(5,960)	(2,137)	(3,600)	2,335
Net (decrease)/increase in cash and cash equivalents		(13,216)	10,108	484	(5,287)
Cash and cash equivalents at beginning of the year		96,977	88,428	15,230	20,517
Effect of exchange rate movements on cash and cash equivalents		3,470	(1,559)	–	–
Cash and cash equivalents at end of the year	35	87,231	96,977	15,714	15,230

The notes form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

Statement of compliance
The Group financial statements consolidate Standard Chartered PLC (the Company) and its subsidiaries (together referred to as the Group) and equity account the Group's interest in associates and jointly controlled entities.

The parent company financial statements present information about the Company as a separate entity.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as endorsed by the European Union (EU). EU-endorsed IFRS may differ from IFRS published by the International Accounting Standards Board (IASB) if a standard has not been endorsed by the EU.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these financial statements.

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

a) From the start of Risk profile section to the end of Top risks and emerging risks in the same section excluding:

- Asset backed securities
- Country risk
- Market risk changes – risks not in value at risk
- Market risk changes – backtesting
- Mapping of market risk items to the balance sheet
- Stressed coverage and liquidity coverage ratio
- Net stable funding ratio
- Liquidity pool
- Encumbrance
- Earnings sensitivity
- Operational risk

b) From the start of Principal risks to the end of Capital and Liquidity risk, excluding Country risk

c) From the start of the CRD IV capital base section to the end of Movement in total capital section

Basis of preparation
The consolidated and Company financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of cash-settled share-based payments, available-for-sale assets, and financial assets and liabilities (including derivatives) at fair value through profit or loss.

Significant accounting estimates and judgements
In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty and judgement, are set out in the relevant disclosure notes for the following areas:

- Impairment of loans and advances (note 8)
- Taxation (note 10)
- Valuation of financial instruments held at fair value (note 13)
- Goodwill impairment (note 18)
- Provisions for liabilities and charges (note 24)
- Retirement benefit obligations (note 30)
- Investments in associates and joint ventures (note 32)

IFRS and Hong Kong accounting requirements

As required by the Hong Kong Listing Rules, an explanation of the differences in accounting practices between EU-endorsed IFRS and Hong Kong Financial Reporting Standards is required to be disclosed. There would be no significant differences had these accounts been prepared in accordance with Hong Kong Financial Reporting Standards.

Comparatives

Certain comparatives have been changed to comply with current year disclosures.

Reverse repurchase and repurchase agreements including other similar secured lending and borrowing have been separated from loans and advances to banks and customers and deposits by banks and customer accounts on the balance sheet.

Details of these changes are set out in the relevant notes below:

- Liquidity and funding risk
- Note 13 Financial instruments
- Note 15 Investment securities
- Note 18 Goodwill and intangible assets
- Note 25 Contingent liabilities and commitments
- Note 27 Subordinated liabilities and other borrowed funds
- Note 33 Structured entities

These changes have not resulted in any amendments to the reported income statement or balance sheet of the Group.

New accounting standards adopted by the Group

There were no new standards applied during the year ended 31 December 2017.

The accounting policies used by the Group are detailed in the relevant note to the financial statements, except those set out below. All have been applied consistently across the Group and to all years presented in these financial statements.

Foreign currencies

Items included in the Group financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency of that entity). Both the Group and Company financial statements are presented in millions of US dollars ($ million), which is the functional and presentation currency of the Company and the presentation currency of the Group.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost, or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the income statement or shareholders' equity depending on the treatment of the gain or loss on the asset or liability.

Foreign currency translation

The results and financial position of all the entities included in the Group financial statements that have a functional currency different from the Group's presentation currency are accounted for as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date
- Income and expenses for each income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly
- All resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or capital repatriated they are recognised in the income statement as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

New accounting standards in issue but not yet effective

The following new standards are effective for periods beginning on or after 1 January 2018 and have not been applied in preparing these consolidated financial statements:

IFRS 9 Financial Instruments

IFRS 9 was issued in July 2014 and has an effective date of 1 January 2018. It was endorsed by the EU in November 2016.

In October 2017, the IASB published an amendment to IFRS 9, *Prepayment Features with Negative Compensation*, which is effective from 1 January 2019, with earlier application permitted.

This has not yet been endorsed by the EU. The amendment amends the existing requirements regarding termination rights in order to allow measurement at amortised cost (or fair value through OCI) even in the case of negative compensation payments. This is consistent with Management's treatment of these clauses.

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*, introducing new requirements for the classification and measurement of financial instruments, the recognition and measurement of credit impairment provisions, and providing for a simplified approach to hedge accounting. The Group has elected to continue hedge accounting in line with the IAS 39 requirements and has not therefore applied the IFRS 9 hedging requirements. The Group will, however, adopt these revised disclosures set out in IFRS 7, which includes those relating to hedge accounting. The changes in measurement arising on initial application of IFRS 9 will be incorporated through an adjustment to the opening reserves and retained earnings position as at 1 January 2018.

Although IFRS 9 will be retrospectively applied, the Group is only permitted to restate comparatives if, and only if, it is possible without the use of hindsight.

The Group does not consider it possible to restate comparatives for impairment without the use of hindsight. For further details on the effect and implementation of IFRS 9 refer to note 41.

IFRS 15 Revenue from Contracts with Customers

The effective date of IFRS 15 is 1 January 2018 and the standard has been endorsed by the EU in September 2016. The standard provides a more detailed principles-based approach for income recognition than the current standard IAS 18 Revenue, with revenue being recognised as or when promised services are transferred to customers. The standard applies to 'fees and commission income' but not to financial instruments or lease contracts. IFRS 15 will not have a material impact on the Group's consolidated financial statements and there will not be an adjustment to retained earnings in respect of adoption.

IFRS 16 Leases

The effective date of IFRS 16 is 1 January 2019 and the standard was endorsed by the EU in November 2017. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The work to assess the impact of the standard is ongoing and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements. The Group will have a balance sheet increase in lease liabilities and right-of-use assets on adoption of IFRS 16.

2. Segmental information

The Group's segmental reporting is in accordance with IFRS 8 *Operating Segments* and is reported consistently with the internal performance framework and as presented to the Group's Management Team. The four client segments are Corporate & Institutional Banking, Retail Banking, Commercial Banking and Private Banking. The four geographic regions are Greater China & North Asia, ASEAN & South Asia, Africa & Middle East, and Europe & America. Activities not directly related to a client segment and/or geographic region are included in Central & other items. These mainly include Corporate Centre costs, Asset and Liability Management, treasury activities, certain strategic investments and the UK bank levy.

The following should also be noted:

- Transactions and funding between the segments are carried out on an arm's-length basis
- Corporate Centre costs represent stewardship and central management services roles and activities that are not directly attributable to business or country operations
- Asset and Liability Management, joint ventures and associate investments are managed in the regions and are included within the applicable region. However, they are not managed directly by a client segment and therefore included in the Central & other items segment

- In addition to treasury activities, Corporate Centre costs and other Group related functions, Central & other items for regions includes globally run businesses or activities that are managed by the client segments but not directly by geographic management. These include Principal Finance and Portfolio Management
- The Group allocated central costs (excluding Corporate Centre costs) relating to client segments and geographic regions using appropriate business drivers (such as in proportion to the direct cost base of each segment before allocation of indirect costs) and these are reported within operating expenses

An analysis of the Group's performance by client segment and region is set out in the Strategic report.

Basis of preparation

The analysis reflects how the client segments and geographic regions are managed internally. This is described as the Management View and is principally the location from which a client relationship is managed, which may differ from where it is financially booked and may be shared between businesses and/or regions. In certain instances this approach is not appropriate and a Financial View is disclosed, that is, the location in which the transaction or balance was booked. Typically the Financial View is used in areas such as the Market and Liquidity Risk reviews where actual booking location is more important for an assessment. Segmental information is therefore on a Management View unless otherwise stated.

Restructuring items excluded from underlying results

Income, costs and impairment relating to identifiable business units, products or portfolios from the date that have been approved for restructuring, disposal, wind down or redundancy as a consequence of the Strategy Review announced 3 November 2015 are presented as restructuring and excluded from the underlying results of the Group. This includes realised and unrealised gains and losses from management's decisions to dispose of assets as well as residual income, direct costs and impairment of related legacy assets of those identifiable business units, products or portfolios.

A reconciliation between underlying and statutory results is set out in the table below:

	2017				
	Underlying $million	Restructuring $million	Net gain on businesses disposed/ held for sale $million	Goodwill impairment $million	Statutory $million
Operating income	14,289	58	78	–	14,425
Operating expenses	(10,120)	(297)	–	–	(10,417)
Operating profit/(loss) before impairment losses and taxation	4,169	(239)	78	–	4,008
Impairment losses on loans and advances and other credit risk provisions	(1,200)	(162)	–	–	(1,362)
Other impairment	(169)	(10)	–	(320)	(499)
Profit from associates and joint ventures	210	58	–	–	268
Profit/(loss) before taxation	3,010	(353)	78	(320)	2,415

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

Underlying performance by client segment

	2017					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	6,496	4,834	1,333	500	1,126	14,289
Operating expenses	(4,409)	(3,585)	(881)	(500)	(745)	(10,120)
Operating profit before impairment losses and taxation	2,087	1,249	452	–	381	4,169
Impairment (losses)/release on loans and advances and other credit risk provisions	(658)	(375)	(167)	(1)	1	(1,200)
Other impairment	(168)	(1)	(3)	–	3	(169)
Profit from associates and joint ventures	–	–	–	–	210	210
Underlying profit/(loss) before taxation	1,261	873	282	(1)	595	3,010
Restructuring	(275)	(19)	(13)	(15)	(31)	(353)
Net gains on businesses disposed/ held for sale	–	–	–	–	78	78
Goodwill impairment	–	–	–	–	(320)	(320)
Statutory profit/(loss) before taxation	986	854	269	(16)	322	2,415
Total assets	293,334	105,178	31,650	13,469	219,870	663,501
Of which: loans and advances to customers	131,738	103,013	28,108	13,351	9,343	285,553
Total liabilities	353,582	132,819	36,385	22,203	66,705	611,694
Of which: customer accounts	222,714	129,536	33,880	22,222	3,372	411,724

	2016					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Operating income	6,472	4,669	1,295	496	876	13,808
Operating expenses	(4,268)	(3,413)	(929)	(463)	(902)	(9,975)
Operating profit/(loss) before impairment losses and taxation	2,204	1,256	366	33	(26)	3,833
Impairment losses on loans and advances and other credit risk provisions	(1,401)	(489)	(491)	(1)	–	(2,382)
Other impairment	(368)	(1)	5	–	(19)	(383)
Profit from associates and joint ventures	–	–	–	–	25	25
Underlying profit/(loss) before taxation	435	766	(120)	32	(20)	1,093
Restructuring	(459)	(47)	(26)	(73)	(250)	(855)
Net gains on businesses disposed/ held for sale	–	–	–	–	253	253
Goodwill impairment	–	–	–	–	(166)	(166)
Gains arising on repurchase of subordinated liabilities	–	–	–	–	84	84
Statutory (loss)/profit before taxation	(24)	719	(146)	(41)	(99)	409
Total assets	289,183	96,834	27,151	11,974	221,550	646,692
Of which: loans and advances to customers	122,231	93,488	24,013	11,908	4,256	255,896
Total liabilities	347,865	121,015	35,576	21,840	71,738	598,034
Of which: customer accounts	204,279	117,355	32,570	21,767	2,331	378,302

Underlying performance by region

	2017					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	5,616	3,833	2,764	1,601	475	14,289
Operating expenses	(3,681)	(2,654)	(1,819)	(1,407)	(559)	(10,120)
Operating profit/(loss) before impairment losses and taxation	1,935	1,179	945	194	(84)	4,169
Impairment (losses)/release on loans and advances	(141)	(653)	(300)	(107)	1	(1,200)
Other impairment	(81)	(12)	(3)	(16)	(57)	(169)
Profit/(loss) from associates and joint ventures	229	(22)	–	–	3	210
Underlying profit/(loss) before taxation	1,942	492	642	71	(137)	3,010
Restructuring	35	(161)	(33)	(25)	(169)	(353)
Net gains on businesses disposed/ held for sale	–	19	–	–	59	78
Goodwill impairment	–	–	–	–	(320)	(320)
Statutory profit/(loss) before taxation	1,977	350	609	46	(567)	2,415
Net interest margin	1.4%	1.9%	3.3%	0.5%		1.6%
Total assets	257,692	148,467	59,166	185,345	12,831	663,501
Of which: loans and advances to customers	126,739	82,579	29,602	46,633	–	285,553
Total liabilities	228,093	128,165	39,413	177,525	38,498	611,694
Of which: customer accounts	186,517	95,310	31,797	98,100	–	411,724

	2016					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Operating income	5,190	4,052	2,742	1,664	160	13,808
Operating expenses	(3,546)	(2,518)	(1,730)	(1,302)	(879)	(9,975)
Operating profit/(loss) before impairment losses and taxation	1,644	1,534	1,012	362	(719)	3,833
Impairment losses on loans and advances and other credit risk provisions	(424)	(762)	(563)	(511)	(122)	(2,382)
Other impairment	(47)	3	(18)	1	(322)	(383)
Profit/(loss) from associates and joint ventures	167	(146)	–	–	4	25
Underlying profit/(loss) before taxation	1,340	629	431	(148)	(1,159)	1,093
Restructuring	(137)	(443)	(82)	(113)	(80)	(855)
Net gains on businesses disposed/held for sale	253	–	–	–	–	253
Goodwill impairment	–	–	–	–	(166)	(166)
Gains arising on repurchase of subordinated liabilities	–	–	–	–	84	84
Statutory profit/(loss) before taxation	1,456	186	349	(261)	(1,321)	409
Net interest margins	1.3%	2.0%	3.2%	0.5%		1.5%
Total assets	239,740	143,704	56,980	195,937	10,331	646,692
Of which: loans and advances to customers	110,533	73,161	28,140	44,062	–	255,896
Total liabilities	210,795	126,701	38,020	181,639	40,879	598,034
Of which: customer accounts	169,957	88,141	29,931	90,273	–	378,302

Additional segmental information (statutory)

	2017					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Net interest income	3,225	3,006	802	286	862	8,181
Other income	3,298	1,897	527	214	308	6,244
Operating income	6,523	4,903	1,329	500	1,170	14,425

	2016					
	Corporate & Institutional Banking $million	Retail Banking $million	Commercial Banking $million	Private Banking $million	Central & other items $million	Total $million
Net interest income	3,051	2,977	782	287	697	7,794
Other income	3,437	1,692	511	209	417	6,266
Operating income	6,488	4,669	1,293	496	1,114	14,060

	2017					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Net interest income	2,950	2,402	1,619	692	518	8,181
Other income	2,663	1,468	1,145	904	64	6,244
Operating income	5,613	3,870	2,764	1,596	582	14,425

	2016					
	Greater China & North Asia $million	ASEAN & South Asia $million	Africa & Middle East $million	Europe & Americas $million	Central & other items $million	Total $million
Net interest income	2,684	2,485	1,566	744	315	7,794
Other income	2,698	1,557	1,171	911	(71)	6,266
Operating income	5,382	4,042	2,737	1,655	244	14,060

	2017							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Net interest income	1,564	625	540	965	577	394	428	158
Other income	1,823	340	163	470	406	339	314	517
Operating income	3,387	965	703	1,435	983	733	742	675

	2016							
	Hong Kong $million	Korea $million	China $million	Singapore $million	India $million	UAE $million	UK $million	US $million
Net interest income	1,375	586	505	817	680	392	451	179
Other income	1,959	295	187	683	275	357	331	482
Operating income	3,334	881	692	1,500	955	749	782	661

3. Net interest income

Accounting policy

Interest income and expense on available-for-sale assets, held-to-maturity assets and financial assets and liabilities held at amortised cost, is recognised using the effective interest method.

Interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Where the estimates of cash flows have been revised, the carrying amount

of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instruments original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

	2017 $million	2016 $million
Balances at central banks	287	213
Loans and advances to banks	1,955	1,282
Loans and advances to customers	8,845	8,461
Listed debt securities	928	604
Unlisted debt securities	1,501	1,569
Other eligible bills	836	593
Accrued on impaired assets (discount unwind)	83	288
Interest income	14,435	13,010
Deposits by banks	891	494
Customer accounts	3,859	3,187
Debt securities in issue	756	700
Subordinated liabilities and other borrowed funds	748	835
Interest expense	6,254	5,216
Net interest income	8,181	7,794
Of which from financial instruments held at:		
Amortised cost	10,861	10,040
Available-for-sale	2,657	2,291
Fair value through profit or loss	847	663
Held-to-maturity	70	16
Interest income	14,435	13,010
Of which from financial instruments held at:		
Amortised cost	6,128	5,107
Fair value through profit or loss	126	109
Interest expense	6,254	5,216
Net interest income	8,181	7,794

4. Net fees and commission

Accounting policy

Fees and commissions charged for services provided or received by the Group are recognised on an accrual basis when the service has been provided or significant act performed.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself, or retained a part at the same effective interest rate as for the other participants.

The Group can act as trustee or in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets and income of the Group.

	2017 $million	2016 $million
Fees and commissions income	3,942	3,671
Fees and commissions expense	(430)	(440)
Net fees and commission	**3,512**	**3,231**
Transaction Banking	1,277	1,194
Financial Markets	193	(62)
Corporate Finance	226	521
Wealth Management	1,355	1,089
Retail Products	443	464
Lending and Portfolio Management	51	50
Principal Finance	17	3
Treasury[1]	(20)	(30)
Others[1]	(30)	2
Net fees and commission	**3,512**	**3,231**

1 Treasury net fees and commission comprises items previously reported under Asset and Liability Management ($(22) million) and Treasury-related aspects of Other income ($(8) million). This reflects the reorganisation of the Group's balance sheet, liquidity, and capital management activities such that they are now managed within one Treasury function. 2016 has been re-presented as a result

Total fee income arising from financial instruments that are not fair valued through profit or loss is $1,067 million (2016: $1,035 million) and arising from trust and other fiduciary activities of $130 million (2016: $115 million).

Total fee expense arising from financial instruments that are not fair valued through profit or loss is $74 million (2016: $56 million) and arising from trust and other fiduciary activities of $22 million (2016: $17 million).

5. Net trading income

Accounting policy

Gains and losses arising from changes in the fair value of financial instruments held at fair value through profit or loss are included in the income statement in the period in which they arise.

Income is recognised from the sale and purchase of trading positions, margins on market making and customer business and fair value changes.

	2017 $million	2016 $million
Net trading income	1,527	1,886
Significant items within net trading income include:		
Gains on instruments held for trading	1,716	2,106
Gains/(losses) on financial assets designated at fair value through profit or loss	167	(73)
Losses on financial liabilities designated at fair value through profit or loss	(202)	(178)

6. Other operating income

Accounting policy

Operating lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Dividends on equity instruments are recognised when the Group's right to receive payment is established.

On disposal of available-for-sale financial instruments, the cumulative gain or loss recognised in other comprehensive income is recycled to the profit or loss in other operating income/expense.

When the Group loses control of the subsidiary or disposal group, the difference between the consideration received and the carrying amount of the subsidiary or disposal group is recognised as a gain or loss on sale of the business.

	2017 $million	2016 $million
Other operating income includes:		
Rental income from operating lease assets	670	561
Gains less losses on disposal of available-for-sale financial instruments	235	192
Net gain on sale of businesses	28	284
Net gain on derecognition of Investment in associate	64	–
Dividend income	46	52
Other	162	60
	1,205	1,149

7. Operating expenses

Accounting policy

Short-term employee benefits: salaries and social security expenses are recognised over the period in which the employees provide the service. Variable compensation is included within share-based payments costs and wages and salaries. Further details are disclosed in the Annual report.

Pension costs: contributions to defined contribution pension schemes are recognised in profit or loss when payable. For defined benefit plans, net interest expense, service costs and expenses are recognised to the income statement. Further details are provided in note 30.

Share-based compensation: the group operates equity-settled and cash-settled share-based payment compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Further details are provided in note 31.

	2017 $million	2016 $million
Staff costs:		
Wages and salaries	5,047	4,713
Social security costs	159	145
Other pension costs (note 30)	357	316
Share-based payment costs (note 31)	152	100
Other staff costs	1,043	1,029
	6,758	6,303

Other staff costs include redundancy and other restructuring expenses of $85 million (2016: $236 million). Further costs in this category include training, travel costs and other staff-related costs.

The following table summarises the number of employees within the Group:

	2017			2016		
	Business	Support services	Total	Business	Support services	Total
At 31 December	40,636	45,385	86,021	43,286	43,407	86,693
Average for the year	41,806	44,988	86,794	42,605	42,311	84,916

The Company employed nil staff at 31 December 2017 (2016: nil) and it incurred costs of $5 million (2016: $3 million).

Details of directors' pay and benefits and interests in shares are disclosed in the Annual report.

Transactions with directors, officers and other related parties are disclosed in note 36.

	2017 $million	2016 $million
Premises and equipment expenses:		
Rental of premises	379	400
Other premises and equipment costs	427	379
Rental of computers and equipment	17	18
	823	797
General administrative expenses:		
UK bank levy	220	383
Other general administrative expenses	1,787	1,989
	2,007	2,372
Depreciation and amortisation:		
Property, plant and equipment (note 19):		
Premises	85	98
Equipment	85	84
Operating lease assets	328	271
	498	453
Intangibles (note 18):		
Software	320	272
Acquired on business combinations	11	14
	829	739

The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting. The 2017 charge was lower than expected after updating estimates made in previous years. The rate of the levy for 2017 is the blended rate of 0.17 per cent for chargeable short-term liabilities, with a lower rate of 0.085 per cent generally applied to chargeable equity and long-term liabilities (i.e. liabilities with a remaining maturity greater than one year). The rates will be gradually reduced over the next five years, from 1 January 2021 they will be 0.10 per cent for short-term liabilities and 0.05 per cent for long-term liabilities. In addition, the scope of the bank levy will be restricted to the balance sheet of UK operations only from that date.

8. Impairment losses on loans and advances and other credit risk provisions

Accounting policy

Significant accounting estimates and judgements

The calculation of impairment involves key judgements to be made by the Group:

- Loan loss provisions are management's best estimate of incurred loss in the loan portfolio at the balance sheet date. Management has to exercise judgement in making assumptions and estimates of the loan portfolio on both individually and collectively assessed loan and advances
- For individually significant financial assets, the Group will consider judgements that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geopolitical climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/forbearance options. Many of the key judgement factors have a degree of interdependency, therefore a higher level of judgement is required for loans to borrowers showing signs of financial difficulty/failure to pay in market sectors experiencing economic stress, particularly where the likelihood of repayment is affected by the ability of the client to refinance or sell a specified asset
- The difference between the loan carrying amount and the discounted expected future cash flows will result in the impairment amount. The future cash flow calculation involves significant judgements and estimates. As new information becomes available and further negotiations/forbearance measures are taken, the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis
- For financial assets which are not individually significant, such as the Retail Banking portfolio or small business loans, which comprise a large number of homogenous loans that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis. These techniques use models which analyse historical repayment and default rates over a time horizon. Where various models are used, management's judgement is required to analyse the available information provided and to select the appropriate model or combination of models to use. Further judgement is required to determine whether the current economic climate, behavioural and credit conditions are such that the actual level of incurred losses, and losses inherent in the collective portfolio is likely to be greater or less than historical experience, and is not fully reflective in the allowance estimated through the use of statistical models and historical data. Factors are applied in different geographical regions and countries to reflect

local economic conditions, geopolitical risk, laws and regulations (e.g. new industry debt relief programme), credit bureau data, analysis of credit grade migration and delinquency trends. Further judgement is required to determine overlays on the models (described below in Retail Banking)

Objective evidence of impairment
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group considers the following factors in assessing objective evidence of impairment:

- Whether the counterparty is in default of principal or interest payments
  - the disappearance of an active market for that financial asset because of financial difficulties
  - significant financial difficulty of the issuer or obligor
- When a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation
- Where the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation
- Where the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments
- Where the Group sells a credit obligation at a material credit-related economic loss; or where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets

Assets at amortised cost
Corporate & Institutional Banking and Commercial Banking
The assessment of the credit risk of corporate and commercial loans is done by the Credit Risk department, based upon counterparty information they receive from various sources including relationship managers and on external market information, or as soon as payment of interest or principal is 90 days overdue.

Once a loan starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and when it is classified as Credit Grade (CG) 12 as defined in the Risk review and Capital review, the credit assessment and oversight of the loan will be performed by Group Special Asset Management (GSAM).

Where GSAM's assessment indicates that a loan is impaired, GSAM will calculate an Individual Impairment Provision (IIP) based on estimated cash flows revised to reflect anticipated recoveries. GSAM's assessment and calculation of impairment involves a significant level of judgement.

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The individual circumstances of each client are taken into account when GSAM estimates future cash flows. All available sources, such as cash flow arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees are considered. In any decision relating to the raising of provisions, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Further details on collateral held by the Group is discussed in the Risk review and Capital review.

In cases where the impairment assessment indicates that there will be a loss of principal, the loan is graded CG 14 while other impaired loans will be graded CG 13. Loans graded CG 13–CG 14 are classified as non-performing loans.

The performing loan portfolio is subject to a Portfolio Impairment Provision (PIP) to cover latent losses i.e. those that are not specifically identified but are known, by experience, to be present in any performing portfolio. The PIP is based on models using risk sizing (including probability of default and loss given default), environmental parameters and

exceptional adjustment overlays. The calculation of the PIP uses regulatory expected credit loss (ECL) models. ECL is subject to an emergence risk factor that is generally understood as the hypothetical amount of time between a loss event occurrence and the bank recognition of impairment. The emergence risk factor is the principal means of translating a risk position to an impairment estimate, and the main scaling factor to adjust the conservative regulatory Expected Loss to
an effective PIP level, as the regulatory ECL models are more punitive than the incurred loss model under IAS 39. On a portfolio basis, the emergence risk factor ranges between 2 and 3 months based on structural economic drivers that might influence the accurate and timely discovery of credit issues in each country.

Retail Banking
An IIP is recognised for Retail Banking when an account meets a defined threshold condition in terms of overdue payments ('contractual default') or meets other objective conditions (such as bankruptcy, debt restructuring, fraud or death) as further described above in the assessment factors. The threshold conditions are set at the point where empirical evidence suggests that the client is unlikely to meet their contractual obligations or a loss of principal is expected.

A credit obligation in Retail Banking clients portfolio that is more than 150 Days Past Due (DPD) or, a credit obligation secured by Wealth Management products that is 90 DPD, is recognised as 'impaired' and IIP is provided for accordingly. There are, however, exceptions to this rule for portfolios where empirical evidence suggests that they should be set more conservatively. In addition, the credit account is recognised as 'impaired' immediately if the borrower files for bankruptcy or other equivalent forbearance programme, or the borrower is deceased, or the business is closed in the case of small business clients, or the borrower's other credit accounts with the Group are impaired. The core components of the IIP calculation are the value of gross charge-off and recoveries. Gross charge-off and/or provisions are recognised when it is established that the account is unlikely to pay. Recovery of unsecured debt post-impairment is recognised based on actual cash collected, either directly from clients or through the sale of defaulted loans to third-party institutions. Provision release of secured loans post-impairment is recognised if the loan outstanding is paid in full (release of full provision), or the provision is higher than the loan outstanding (release of the excess provision), or the loan is paid to current and remains in current for more than 180 days (release of full provision).

Retail Banking PIP, covering the inherent losses in the portfolio that exist at the balance sheet date but have not been individually identified,
is computed on performing loans (no IIP), using EL rates, to determine latent losses in the portfolio. The EL utilises probability of default and loss given default inherent within the portfolio of impaired loans or receivables and the historical loss experience for assets with credit risk characteristics similar to those in the Group. For defaulted yet non-impaired accounts (greater than 90 days past due) full EL is used, while for non-defaulted accounts, a three month emergence period is applied. An adjustment is added to the PIP calculation to take into the account instances where the EL-based PIP is deemed imprecise due to under-prediction or over-prediction of EL by underlying models. An overlay in the form of Special Risk Adjustment (SRA) is added to the EL-based PIP calculation to take into account instances where EL-based PIP is deemed insufficient to incorporate the impact of a specific credit event. An overlay in the form of Business Cycle Adjustment (BCA) is taken to account for the impact of cyclical volatility in the operating environment, which is not adequately covered in the underlying models.

The assessment and calculation of the Retail Banking IIP and PIP involve a significant level of judgement.

Write-off and reversal of impairment
To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to
an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement during
the period.

Forborne loans
A forborne loan arises when a concession has been made to the contractual terms of a loan in response to a customer's financial difficulties.

In certain circumstances, the Group may renegotiate client loans. Loans that are renegotiated for commercial reasons, such as when a client had a credit rating upgrade, are not included as part of forborne loans because they are not indicative of any credit stress or event.

Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Bank or a third party (including government-sponsored programmes or a conglomerate of credit institutions) and includes debt restructuring such as

a new repayment schedule, payment deferrals, tenor extensions and interest-only payments.

Loans that are renegotiated on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared with the original terms of the loans, are considered for impairment. If the terms of the renegotiation are such that, where the present value of the new cash flows is lower than the present value of the original cash flows, the loan would be considered to be impaired and, at a minimum, a discount provision would be raised and are disclosed as 'Loans subject to forbearance – impaired', which
is a subset of impaired loans. All other loans that have been subject to a forbearance contract amendment, but which are not considered impaired (not classified as CG 13 or 14) are classified as 'Forborne – not impaired' (previously disclosed as 'other renegotiated loans').

If a loan enters the forbearance process and the terms are substantially modified, the original loan will be derecognised, and a new loan will be recognised.

For Retail Banking clients, all forborne loans are managed within a separate portfolio. If such loans subsequently become past due, charge-off and IIP is accelerated to 90 days past due for unsecured loans and automobile finance or 120 days past due for secured loans. The accelerated loss rates applied to this portfolio are derived from experience with other forborne loans, rather than the Retail Banking clients portfolio as a whole, to recognise the greater degree of inherent risk.

For Corporate & Institutional Banking, Commercial Banking and Private Banking clients, forbearance is applied on a case-by-case basis and is not subject to business-wide programmes. In some cases, the asset is derecognised and a new loan is granted as part of the restructure. In others, the contractual terms and repayment of the existing loans are changed or extended (for example, interest only for a period). Loans classified as subject to forbearance are managed by GSAM and are kept under close review to assess the client's ability to adhere to the restructured repayment strategy and to identify any events that could result in a deterioration in the client's ability to repay.

Curing of forborne loans

During the year the Group changed its methodology, to allow curing of forborne loans. Comparatives have been re-presented.

A forborne loan can only be removed from the disclosure (cured) if the loan is performing and a further two year probation period is met.

In order for a forborne loan to become performing, the following criteria have to be satisfied:

- At least a year has passed with no default based upon the forborne contract terms
- The customer is likely to repay its obligations in full without realising security
- The customer has no accumulated impairment against amount outstanding

Subsequent to the criteria above, a further two year probation period has to be fulfilled, whereby regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

Forborne loans are disclosed by client segments.

Further details on the application of these policies are set out in the Risk review and Capital review.

The following table reconciles the charge for impairment provisions on loans and advances to the total impairment charge and other credit risk provision:

	2017 $million	2016 $million
Net charge against profit on loans and advances:		
Individual impairment charge	1,604	2,553
Portfolio impairment (release)/charge	(239)	52
	1,365	2,605
Impairment (release)/charges related to credit commitments	(23)	45
Impairment charges relating to debt securities classified as loans and receivables	20	97
Impairment charges relating to credit risk mitigation instruments	–	44
Total impairment losses and other credit risk provisions on loans and advances	1,362	2,791

Impairment charges relating to credit risk mitigation instruments

The Group executed funded credit mitigation transactions related to the Liquidation Portfolio, which did not achieve derecognition and are recorded as liabilities on an amortised cost basis. The liability balances are adjusted for revisions to the impairment estimates for the loans referenced in the transactions. Both impairment losses on the referenced loans and the related impairment on these credit mitigation transactions are recorded in total impairment losses and other credit risk provisions on loans and advances.

An analysis of impairment provisions on loans and advances by geography and client segment is set out within the

Risk review and Capital review.

9. Other impairment

Accounting policy

Available-for-sale assets

Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is reclassified from equity and recognised in the income statement.

Available-for-sale debt securities are assessed for impairment in the same way as assets carried at amortised cost (see note 8 – Objective evidence of impairment, for impairment 'trigger' events).

Further, the extent, observability and depth of market price decreases and collateral rights are considered when assessing objective evidence of listed impairment for available-for-sale instruments.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

For equity securities, a significant or prolonged decline in the fair value of an equity security below its cost is considered, among other factors, in assessing objective evidence of impairment. In assessing significance, the decline in fair value is evaluated against the original fair value of the asset upon recognition.

In assessing prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its initial recognition amount. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Refer to the below referenced notes for the relevant accounting policy.

	2017 $million	2016 $million
Impairment of goodwill (note 18)	320	166
Other impairment		
Impairment of fixed assets (note 19)	137	131
Impairment losses on available-for-sale financial assets:		
Debt securities	–	54
Equity shares	16	246
Impairment of other intangible assets (note 18)	23	14
Other	3	1
	179	446
	499	612

10. Taxation

Accounting policy

Income tax payable on profits is based on the applicable tax law in each jurisdiction and is recognised as an expense in the period in which profits arise.

Deferred tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted as at the balance sheet date, and that are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the current or deferred gain or loss.

Significant accounting estimates and judgements

- Determining the Group's tax charge for the year involves estimation and judgement, which includes an interpretation of local tax laws and an assessment of whether the tax authorities will accept the position taken. These judgements take account of external advice where appropriate, and the Group's view on settling with tax authorities
- The Group provides for current tax liabilities at the best estimate of the amount that is expected to be paid to the tax authorities where an outflow is probable. In making its estimates the Group assumes that the tax authorities will

examine all the amounts reported to them and have full knowledge of all relevant information

- The recoverability of the Group's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax assets will be utilised

The following table provides analysis of taxation charge in the year:

	2017 $million	2016 $million
The charge for tax based upon the profit for the year comprises:		
Current tax:		
United Kingdom corporation tax at 19.25 per cent (2016: 20 per cent):		
Current tax charge on income for the year	–	10
Adjustments in respect of prior years (including double tax relief)	1	(74)
Foreign tax:		
Current tax charge on income for the year	977	786
Adjustments in respect of prior years	(13)	84
	965	806
Deferred tax:		
Origination/reversal of temporary differences	156	(136)
Adjustments in respect of prior years	26	(70)
	182	(206)
Tax on profits on ordinary activities	1,147	600
Effective tax rate	47.5%	nm[1]
Tax on profits on ordinary activities excluding the impact of US Tax Reform	927	600
Effective tax rate excluding the impact of US Tax Reform	38.4%	nm[1]

1 Not meaningful as the tax charge is greater than profit before tax

The US Tax Cuts and Jobs Act of 2017, effective from 1 January 2018, reduces the US corporate tax rate from 35 per cent to 21 per cent and introduces a Base Erosion and Anti Abuse Tax. The combined impact of these changes in tax rates reduced the US deferred tax asset, increasing the deferred taxation charge for the year by $220 million.

Foreign tax includes current tax on Hong Kong profits of $167 million (31 December 2016: $109 million) on the profits assessable in Hong Kong.

Deferred tax includes origination or reversal of temporary differences in Hong Kong profits of $5 million (2016: $(4) million) provided at a rate of 16.5 per cent (2016: 16.5 per cent) on the profits assessable to Hong Kong.

The tax charge for the year of $1,147 million (2016: $600 million) on a profit before tax of $2,415 million (2016: $409 million) reflects the impact of US Tax Reform, non-deductible expenses and the impact of countries with tax rates higher or lower than the UK, the most significant of which is India.

Tax rate: The tax charge for the year is higher than the charge at the rate of corporation tax in the UK, 19.25 per cent. The differences are explained below:

	2017 $million	2016 $million
Profit on ordinary activities before tax	2,415	409
Tax at 19.25 per cent (2016: 20.00 per cent)	465	82
Lower tax rates on overseas earnings	(17)	(5)
Higher tax rates on overseas earnings	351	269
Tax-free income	(130)	(117)
Share of associates and joint ventures	(45)	13
Non-deductible expenses	217	201
Bank levy	42	77
Non-taxable losses on investments	9	120
Non-taxable gains on disposals of businesses	(12)	(41)
Goodwill impairment	63	33
US Tax Reform	220	–
Deferred tax not recognised	39	93
Adjustments to tax charge in respect of prior years	14	(60)
Other items	(69)	(65)
Tax on profit on ordinary activities	1,147	600

Factors affecting the tax charge in future years: The Group's tax charge, and effective tax rate in future years could be affected by several factors including acquisitions, disposals and restructuring of our businesses, the mix of profits across jurisdictions with different statutory tax rates, changes in tax legislation and tax rates and resolution of

uncertain tax positions.

The evaluation of uncertain tax positions involves an interpretation of local tax laws which could be subject to challenge by a tax authority, and an assessment of whether the tax authorities will accept the position taken. The Group does not currently consider that the assumptions or judgements made in assessing tax liabilities have a significant risk of resulting in a material adjustment within the next financial year.

	2017			2016		
	Current tax $million	Deferred tax $million	Total $million	Current tax $million	Deferred tax $million	Total $million
Tax recognised in other comprehensive income						
Available-for-sale assets	1	7	8	10	(1)	9
Cash flow hedges	–	(6)	(6)	–	(17)	(17)
Own credit adjustment	–	14	14	29	1	30
Retirement benefit obligations	–	(35)	(35)	–	2	2
Total tax credit/(charge) recognised in equity	1	(20)	(19)	39	(15)	24

	2017 $million	2016 $million
Current tax assets	474	388
Current tax liabilities	(327)	(769)
Net current tax balance as at 1 January	147	(381)
Movements in income statement	(965)	(806)
Movements in other comprehensive income	1	39
Taxes paid	915	1,287
Other movements	17	8
Net current tax balance as at 31 December	115	147
Current tax assets	491	474
Current tax liabilities	(376)	(327)
Total	115	147

Deferred tax: The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year:

	At 1 January 2017 $million	Exchange & other adjustments $million	(Charge)/credit to profit $million	(Charge)/credit to equity $million	At 31 December 2017 $million
Deferred tax comprises:					
Accelerated tax depreciation	(399)	(12)	(2)	–	(413)
Impairment provisions on loans and advances	934	36	101	–	1,071
Tax losses carried forward	396	8	(114)	–	290
Available-for-sale assets	(27)	(2)	–	7	(22)
Cash flow hedges	5	(1)	–	(6)	(2)
Own credit adjustment	–	(3)	–	14	11
Retirement benefit obligations	76	3	(6)	(35)	38
Share-based payments	16	–	–	–	16
Other temporary differences	(60)	5	(161)	–	(216)
Net deferred tax assets	941	34	(182)	(20)	773

	At 1 January 2016 $million	Exchange & other adjustments $million	(Charge)/credit to profit $million	(Charge)/credit to equity $million	At 31 December 2016 $million
Deferred tax comprises:					
Accelerated tax depreciation	(319)	7	(87)	–	(399)
Impairment provisions on loans and advances	767	(22)	189	–	934
Tax losses carried forward	396	1	(1)	–	396
Available-for-sale assets	(29)	1	2	(1)	(27)
Cash flow hedges	2	1	19	(17)	5
Retirement benefit obligations	71	2	1	2	76
Share-based payments	26	–	(10)	–	16
Other temporary differences	(148)	(6)	93	1	(60)
Net deferred tax assets	766	(16)	206	(15)	941

Deferred tax comprises assets and liabilities as follows:

	2017			2016		
	Total $million	Asset $million	Liability $million	Total $million	Asset $million	Liability $million
Deferred tax comprises:						
Accelerated tax depreciation	(413)	17	(430)	(399)	13	(412)
Impairment provisions on loans and advances	1,071	1,037	34	934	914	20
Tax losses carried forward	290	134	156	396	217	179
Available-for-sale assets	(22)	(8)	(14)	(27)	(10)	(17)
Cash flow hedges	(2)	(7)	5	5	–	5
Own credit adjustment	11	(2)	13	–	–	–
Retirement benefit obligations	38	38	–	76	76	–
Share-based payments	16	16	–	16	16	–
Other temporary differences	(216)	(48)	(168)	(60)	68	(128)
	773	1,177	(404)	941	1,294	(353)

At 31 December 2017, the Group has net deferred tax assets of $773 million (2016: $941 million). The recoverability of the Group's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax assets will be utilised.

Of the Group's total deferred tax assets, $290 million relates to tax losses carried forward. These tax losses have arisen in individual legal entities and will be offset as future taxable profits arise in those entities.

- $151 million of the deferred tax assets relating to losses has arisen in Ireland, where there is no expiry date for unused tax losses. These losses relate to aircraft leasing and are expected to be fully utilised over the useful economical life of the assets being up to 18 years
- $33 million of the deferred tax assets relating to losses has arisen in Korea. These losses have no expiry date, and there is a defined profit stream against which they are forecast to be utilised
- $31 million of the deferred tax assets relating to losses has arisen in the US. Management forecasts show that the losses are expected to be fully utilised over a period of nine years. The tax losses have no expiry date
- $26 million of the deferred tax assets relating to losses has arisen in Taiwan. Management forecasts show that the losses are expected to be fully utilised over a period of three years. The tax losses expire after 10 years
- The remaining deferred tax assets of $49 million relating to losses has arisen in other jurisdictions and is expected to be recovered in less than 10 years

	2017 $million	2016 $million
No account has been taken of the following potential deferred tax assets/(liabilities):		
Withholding tax on unremitted earnings from overseas subsidiaries	(343)	(333)
Foreign exchange movements on investments in branches	(339)	(263)
Tax losses[1]	1,311	1,197
Held over gains on incorporation of overseas branches	(399)	(417)
Other temporary differences	47	53

1 Primarily in the UK

11. Dividends

Accounting policy

Dividends on ordinary shares and preference shares classified as equity are recognised in equity in the year in which they are declared.

Dividends on ordinary equity shares are recorded in the year in which they are declared and, in respect of the final dividend, have been approved by the shareholders.

The Board considers a number of factors which include the rate of recovery in the Group's financial performance, the macroeconomic environment, and opportunities to further invest in our business and grow profitably in our markets.

There was no interim dividend declared in 2017 or during the comparative reporting periods.

Preference shares and Additional Tier 1 securities

Dividends on these preference shares and securities classified as equity are recorded in the period in which they are declared.

		2017 $million	2016 $million
Non-cumulative redeemable preference shares:	7.014 per cent preference shares of $5 each	53	53
	6.409 per cent preference shares of $5 each	39	48
		92	101
Additional Tier 1 securities: $5 billion fixed rate resetting perpetual subordinated contingent convertible securities		353	130
		445	231
Dividends on these preference shares are treated as interest expense and accrued accordingly.			
Non-cumulative irredeemable preference shares:	7 3/8 per cent preference shares of £1 each	10	10
	8 1/4 per cent preference shares of £1 each	11	11
		21	21

The 2017 ordinary equity share dividend recommended by the Board is 11 cents per share. The financial statements for the year ended 31 December 2017 do not reflect this dividend as this will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2018.

The dividend will be paid in either pounds sterling, Hong Kong dollars or US dollars on 17 May 2018 to shareholders on the UK register of members at the close of business in the UK on 9 March 2018. The dividend will be paid in Indian rupees on 17 May 2018 to Indian Depository Receipt holders on the Indian register at the close of business in India on 9 March 2018.

It is intended that shareholders on the UK register and Hong Kong branch register will be able to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend arrangements will be sent to shareholders on or around 26 March 2018. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

12. Earnings per ordinary share

Accounting policy

The Group measures earnings per share on an underlying basis. This differs from earnings defined in IAS 33 Earnings per share. Underlying earnings is profit/(loss) attributable to ordinary shareholders adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.

The table below provides the basis of underlying earnings.

	2017 $million	2016 $million
Profit/(loss) for the year attributable to equity holders	**1,268**	**(191)**
Non-controlling interest	(49)	(56)
Dividend payable on preference shares and AT1 classified as equity	(445)	(231)
Profit/(loss) for the year attributable to ordinary shareholders	**774**	**(478)**
Items normalised:		
Restructuring	353	855
Gains arising on repurchase of subordinated liabilities	–	(84)
Goodwill impairment (note 9)	320	166
Net gain on business disposed and available-for-sale financial instruments (included within note 6)	(78)	(253)
Impact of US Tax Reform (note 10)	220	–
Tax on normalised items[1]	(36)	(95)
Underlying profit	**1,553**	**111**
Basic – Weighted average number of shares (millions)	3,293	3,291
Diluted – Weighted average number of shares (millions)	3,325	3,305
Basic earnings/(loss) per ordinary share (cents)	**23.5**	**(14.5)**
Diluted earnings/(loss) per ordinary share (cents)	**23.3**	**(14.5)[2]**
Underlying basic earnings per ordinary share (cents)	**47.2**	**3.4**
Underlying diluted earnings per ordinary share (cents)	**46.7**	**3.4[2]**

1 No tax is included in respect of the impairment of goodwill as no tax relief is available
2 The impact of any diluted options has been excluded from this amount as required by IAS 33 *Earnings per share*

13. Financial instruments

Classification and measurement

Accounting policy
The Group classifies its financial assets into the following measurement categories: financial assets held at fair value through profit or loss; loans and receivables; held-to-maturity; or available-for-sale.

Financial liabilities are classified as either held at fair value through profit or loss or at amortised cost.

Management determines the classification of its financial assets and liabilities at initial recognition.

The following details the approach for the categories:

a) Financial assets and liabilities held at fair value through profit or loss: This category has two sub-categories:

- Financial assets and liabilities held for trading: A financial asset or liability is classified as held for trading if acquired principally for the purpose of selling in the short term, or forms part of a portfolio of financial instruments which are managed together and for which there is evidence of short-term profit-taking or is a derivative (excluding qualifying hedging relationships)
- Designated at fair value through profit or loss: Financial assets and liabilities may be designated at fair value through profit or loss when:
  - The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis (for example, the Group may designate certain fixed rate loans and receivables that are managed with derivative interest rate swaps)
  - A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis (for example, the Group may designate issued debt to fund a portfolio of trading assets and liabilities that are all managed on a fair value basis)
  - The assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately

b) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that apart from credit deterioration substantially all of the initial investment will be recovered.

c) Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

d) Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

e) Financial liabilities held at amortised cost: Financial liabilities, which include borrowings not classified as held at fair value through profit or loss, are classified as amortised cost instruments. Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholders, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

A financial guarantee issued is a special case of financial liability. Under a financial guarantee contract, the Group, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Amortisation is calculated so as to recognise fees receivable in profit or loss over the period of the guarantee.

Initial recognition of financial instruments
All financial instruments are initially recognised at fair value, which is normally the transaction price plus, for those financial assets and liabilities not carried at fair value through profit or loss, directly attributable transaction costs.

In certain circumstances the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based primarily on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated.

Regular way purchases and sales of financial assets and liabilities held at fair value through profit or loss, and financial assets classified as held-to-maturity and available-for-sale, are initially recognised on the trade date (the date on which the Group commits to purchase or sell the asset). Regular way loans are recognised on settlement date when cash is advanced to the borrowers.

Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are carried at fair value, with gains and losses arising from changes in fair value taken directly to the net trading income line in the income statement except for changes in fair value on financial liabilities designated at fair value attributable to the Group's own credit presented directly within other comprehensive income.

Available-for-sale financial assets are carried at fair value, with gains and losses arising from changes in fair value taken to the available-for-sale reserve within equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables are carried at amortised cost using the effective interest method.

Held-to-maturity financial assets are carried at amortised cost using the effective interest method.

Financial liabilities are stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

In addition to these instruments, the carrying value of a financial instrument carried at amortised cost that is the hedged item in a qualifying fair value hedge relationship is adjusted by the fair value gain or loss attributable to the hedged risk.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other income.

Reclassification of financial instruments:

Reclassifications of financial assets or financial liabilities between measurement categories are not permitted following initial recognition, other than:

- Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity
- Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity

Change in comparatives

Reverse repurchase agreements and other similar secured lending have been reported separately from loans and advances to banks and customers. Similarly, repurchase agreements and other similar secured borrowing have been reported separately from deposits by banks and customer accounts. Prior year comparatives have been re-presented to reflect this change. The Group's classification of its financial assets and liabilities is summarised in the following tables.

Assets	Notes	Assets at fair value: Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Available-for-sale $million	Total financial assets at fair value $million	Assets at amortised cost: Loans and receivables $million	Held-to-maturity $million	Total $million
Cash and balances at central banks		–	–	–	–	–	58,864	–	58,864
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		320	–	2,252	–	2,572	–	–	2,572
Loans and advances to customers[1]		1,689	–	1,229	–	2,918	–	–	2,918
Reverse repurchase agreements and other similar secured lending	17	454	–	458	–	912	–	–	912
Debt securities and other eligible bills	13	19,318	–	393	–	19,711	–	–	19,711
Equity shares	13	718	–	733	–	1,451	–	–	1,451
		22,499	–	5,065	–	27,564	–	–	27,564
Derivative financial instruments	14	46,333	698	–	–	47,031	–	–	47,031
Loans and advances to banks[1]	16	–	–	–	–	–	57,494	–	57,494
Loans and advances to customers[1]	16	–	–	–	–	–	248,707	–	248,707
Reverse repurchase agreements and other similar secured lending	17	–	–	–	–	–	54,275	–	54,275
Investment securities									
Debt securities and other eligible bills	15	–	–	–	109,161	109,161	2,630	4,340	116,131
Equity shares	15	–	–	–	894	894	–	–	894
		–	–	–	110,055	110,055	2,630	4,340	117,025
Other assets	21	–	–	–	–	–	29,922	–	29,922
Assets held for sale	21	–	–	466	–	466	62	–	528
Total at 31 December 2017		68,832	698	5,531	110,055	185,116	451,954	4,340	641,410

1 Further analysed in Risk review and Capital review

Assets	Notes	Assets at fair value: Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Available-for-sale $million	Total financial assets at fair value $million	Assets at amortised cost: Loans and receivables $million	Held-to-maturity $million	Total $million
Cash and balances at central banks		–	–	–	–	–	70,706	–	70,706
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		267	–	1,296	–	1,563	–	–	1,563
Loans and advances to customers[1]		614	–	2,241	–	2,855	–	–	2,855
Reverse repurchase agreements and other similar secured lending	17	322	–	497	–	819	–	–	819
Debt securities and other eligible bills	13	13,310	–	354	–	13,664	–	–	13,664
Equity shares	13	425	–	751	–	1,176	–	–	1,176
		14,938	–	5,139	–	20,077	–	–	20,077
Derivative financial instruments	14	64,433	1,076	–	–	65,509	–	–	65,509
Loans and advances to banks[1]	16	–	–	–	–	–	54,538	–	54,538
Loans and advances to customers[1]	16	–	–	–	–	–	226,693	–	226,693
Reverse repurchase agreements and other similar secured lending	17	–	–	–	–	–	44,097	–	44,097
Investment securities									
Debt securities and other eligible bills	15	–	–	–	104,308	104,308	3,106	170	107,584
Equity shares	15	–	–	–	1,388	1,388	–	–	1,388
		–	–	–	105,696	105,696	3,106	170	108,972
Other assets	21	–	–	–	–	–	33,942	–	33,942
Assets held for sale	21	–	–	–	–	–	1,102	–	1,102
Total at 31 December 2016		79,371	1,076	5,139	105,696	191,282	434,184	170	625,636

1 Further analysed in Risk review and Capital review

Liabilities	Notes	Liabilities at fair value: Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Total financial liabilities at fair value $million	Amortised cost $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	737	737	–	737
Customer accounts		–	–	5,236	5,236	–	5,236
Debt securities in issue	22	–	–	7,023	7,023	–	7,023
Short positions		3,637	–	–	3,637	–	3,637
		3,637	–	12,996	16,633	–	16,633
Derivative financial instruments	14	46,558	1,543	–	48,101	–	48,101
Deposits by banks		–	–	–	–	30,945	30,945
Customer accounts		–	–	–	–	370,509	370,509
Repurchase agreements and other similar secured borrowing	17	–	–	–	–	39,783	39,783
Debt securities in issue	22	–	–	–	–	46,379	46,379
Other liabilities	23	–	–	–	–	34,982	34,982
Subordinated liabilities and other borrowed funds	27	–	–	–	–	17,176	17,176
Liabilities included in disposal groups held for sale	23	–	–	–	–	–	–
Total at 31 December 2017		50,195	1,543	12,996	64,734	539,774	604,508

Liabilities	Notes	Trading $million	Liabilities at fair value: Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Total financial liabilities at fair value $million	Amortised cost $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		–	–	718	718	–	718
Customer accounts		–	–	6,447	6,447	–	6,447
Debt securities in issue	22	–	–	5,670	5,670	–	5,670
Short positions		3,763	–	–	3,763	–	3,763
		3,763	–	12,835	16,598	–	16,598
Derivative financial instruments	14	62,917	2,795	–	65,712	–	65,712
Deposits by banks		–	–	–	–	32,872	32,872
Customer accounts		–	–	–	–	338,185	338,185
Repurchase agreements and other similar secured borrowing	17	–	–	–	–	37,692	37,692
Debt securities in issue	22	–	–	–	–	46,700	46,700
Other liabilities	23	–	–	–	–	32,958	32,958
Subordinated liabilities and other borrowed funds	27	–	–	–	–	19,523	19,523
Liabilities included in disposal groups held for sale	23	–	–	–	–	958	958
Total at 31 December 2016		66,680	2,795	12,835	82,310	508,888	591,198

Debt securities, other eligible bills and equity shares held at fair value through profit or loss

	2017 Debt securities and other eligible bills $million	Equity shares $million	Total $million
Issued by public bodies:			
Government securities	**10,540**		
Other public sector securities	**68**		
	10,608		
Issued by banks:			
Certificates of deposit	**512**		
Other debt securities	**3,270**		
	3,782		
Issued by corporate entities and other issuers:			
Other debt securities	**5,321**		
Total debt securities and other eligible bills	**19,711**		
Of which:			
Listed on a recognised UK exchange	**238**	**92**	**330**
Listed elsewhere	**13,430**	**575**	**14,005**
Unlisted	**6,043**	**784**	**6,827**
	19,711	**1,451**	**21,162**
Market value of listed securities	**13,668**	**667**	**14,335**

	2016 Debt securities and other eligible bills $million	Equity shares $million	Total $million
Issued by public bodies:			
Government securities	8,628		
Other public sector securities	77		
	8,705		
Issued by banks:			
Certificates of deposit	406		
Other debt securities	1,546		
	1,952		
Issued by corporate entities and other issuers:			
Other debt securities	3,007		
Total debt securities and other eligible bills	13,664		
Of which:			
Listed on a recognised UK exchange	164	–	164
Listed elsewhere	8,099	44	8,143
Unlisted	5,401	1,132	6,533
	13,664	1,176	14,840
Market value of listed securities	8,263	44	8,307

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In practice, for credit mitigation, the Group is able to offset assets and liabilities which do not meet the IAS 32 netting criteria set out above. Such arrangements include master netting arrangements for derivatives and global master repurchase agreements for repurchase and reverse repurchase transactions. These agreements generally allow that all outstanding transactions with a particular counterparty can be offset but only in the event of default or other predetermined events.

In addition the Group also receives and pledges readily realisable collateral for derivative transactions to cover net exposure in the event of a default. Under repurchase and reverse repurchase agreements the Group pledges (legally sells) and obtains (legally purchases) respectively, highly liquid assets which can be sold in the event of a default.

The following tables set out the impact of netting on the balance sheet. This comprises derivative transactions settled through an enforceable netting agreement where we have the intent and ability to settle net and which are offset on the balance sheet.

	2017					
				Related amount not offset in the balance sheet		
	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	Financial instruments $million	Financial collateral $million	Net amount $million
Assets						
Derivative financial instruments	54,619	(7,588)	47,031	(29,135)	(9,825)	8,071
Reverse repurchase agreements and other similar secured lending	61,520	(6,333)[1]	55,187	–	(55,187)	–
At 31 December 2017	116,139	(13,921)	102,218	(29,135)	(65,012)	8,071
Liabilities						
Derivative financial instruments	55,689	(7,588)	48,101	(29,135)	(9,513)	9,453
Repurchase agreements and other similar secured borrowing	46,116	(6,333)[1]	39,783	–	(39,783)	–
At 31 December 2017	101,805	(13,921)	87,884	(29,135)	(49,296)	9,453

1 Increase in offset has been achieved through confirmation of single settlement from each bilateral counterparty. As a result the repurchase and reverse repurchase balances have decreased at year end by $6.3 billion

	2016					
				Related amount not offset in the balance sheet		
	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	Financial instruments $million	Financial collateral $million	Net amount $million
Assets						
Derivative financial instruments	73,822	(8,313)	65,509	(40,391)	(9,624)	15,494
Reverse repurchase agreements and other similar secured lending	44,916	–	44,916	–	(44,916)	–
At 31 December 2016	118,738	(8,313)	110,425	(40,391)	(54,540)	15,494
Liabilities						
Derivative financial instruments	74,025	(8,313)	65,712	(40,391)	(14,230)	11,091
Repurchase agreements and other similar secured borrowing	37,692	–	37,692	–	(37,692)	–
At 31 December 2016	111,717	(8,313)	103,404	(40,391)	(51,922)	11,091

Related amounts not offset in the balance sheet comprises:

- Financial instruments not offset in the balance sheet, but covered by an enforceable netting arrangement. This comprises master netting arrangements held against derivative financial instruments and excludes the effect of over-collateralisation
- Financial collateral – This comprises cash collateral pledged and received for derivative financial instruments and collateral bought and sold for reverse repurchase and repurchase agreements respectively and excludes the effect of over-collateralisation

Loans and advances designated at fair value through profit or loss

The maximum exposure to credit risk for loans and advances to banks and customers and reverse repurchase and

other similar secured lending designated at fair value through profit or loss was $3,939 million (2016: $4,034 million). The net fair value gain on loans and advances to banks and customers and reverse repurchase and other similar secured lending designated at fair value through profit or loss was $23 million (2016: $17 million). Of this, $1 million (2016: $1 million) relates to changes in credit risk. The cumulative fair value loss attributable to changes in credit risk was $1 million (2016: $2 million). Further details of the Group's valuation technique is described in this note.

Financial liabilities designated at fair value through profit or loss

	2017 $million	2016 $million
Carrying balance aggregate fair value	12,996	12,835
Amount contractually obliged to repay at maturity	13,052	12,941
Difference between aggregate fair value and contractually obliged to repay at maturity	(56)	(106)
Cumulative change in fair value accredited to credit risk difference	82	331

The net fair value loss on financial liabilities designated at fair value through profit or loss was $202 million for the period (2016: net loss of $178 million). Further details of the Group's own credit adjustment (OCA) valuation technique is described later in this note.

Valuation of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in the absence of this, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects the Group's non-performance risk. The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risks or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments held by the Group. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison with instruments that have characteristics similar to those of the instruments held by the Group.

The Valuation Control function is responsible for independent price verification, oversight of fair value and prudent value adjustments and escalation of valuation issues. Independent price verification is the process of determining that the valuations incorporated into the financial statements are validated independent of the business area responsible for the product. The Valuation Control function has oversight of the fair value adjustments to ensure the financial instruments are priced to exit. These are key controls in ensuring the material accuracy of the valuations incorporated in the financial statements. The market data used for price verification may include data sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. Valuation Control performs a semi-annual review of the suitability of the market data used for price testing. Price verification uses independently sourced data that is deemed most representative of the market the instruments trade in. To determine the quality of the market data inputs, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are taken into consideration.

Formal committees for the business clusters, consisting of representatives from Group Market Risk, Product Control, Valuation Control and the business meet monthly to discuss and approve the valuations of the inventory. For Principal Finance, the Investment Committee meeting is held on a quarterly basis to review investments and valuations. The business cluster valuation committees fall under the Valuation Benchmarks Committee as part the of the valuation governance structure.

Significant accounting estimates and judgements

The Group evaluates the significance of financial instruments and material accuracy of the valuations incorporated in the financial statements as they involve a high degree of judgement and estimation uncertainty in determining the carrying values of financial assets and liabilities at the balance sheet date.

- Fair value of financial instruments are determined using valuation techniques (see below) which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Changes in the observability of significant valuation inputs can materially affect the fair values of financial instruments
- When establishing the exit price of a financial instrument using a valuation technique, the Group considers valuation adjustments in determining the fair value
- 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

- Where the measurement of fair value is more judgemental in respect of Level 3 assets, these are valued based on models that use a significant degree of non-market-based unobservable inputs

Valuation techniques
Refer to the fair value hierarchy explanation – Level 1, 2 and 3

- **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
  - **Other debt securities:** These debt securities include convertible bonds, corporate bonds, credit and structured notes. Where quoted prices are available through pricing vendors, brokers or observable trading activities from liquid markets, these are classified as Level 2 and valued using such quotes. Where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product, these are classified as Level 3. The valuations of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets
  - **Equity shares – private equity:** The majority of private equity unlisted investments are valued based on earning multiples – Price-to-Earnings (P/E) or enterprise value to earnings before income tax, depreciation and amortisation (EV/EBITDA) ratios – of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. To ensure comparability between these unquoted investments and the comparable listed companies, appropriate adjustments are also applied (for example, liquidity and size) in the valuation. In circumstances where an investment does not have direct comparables or where the multiples for the comparable companies cannot be sourced from reliable external sources, alternate valuation techniques (for example, discounted cash flow models), which use predominantly unobservable inputs or Level 3 inputs, may be applied. Even though earning multiples for the comparable listed companies can be sourced from third-party sources (for example, Bloomberg), and those inputs can be deemed Level 2 inputs, all unlisted investments (excluding those where observable inputs are available, for example, over-the-counter (OTC) prices) are classified as Level 3 on the basis that the valuation methods involve judgments ranging from determining comparable companies to discount rates where the discounted cash flow method is applied
  - **Derivatives:** Derivative products are classified as Level 2 if the valuation of the product is based upon input parameters which are observable from independent and reliable market data sources. Derivative products are classified as Level 3 if there are significant valuation input parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying variable. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. In most cases these unobservable correlation parameters cannot be implied from the market, and methods such as historical analysis and comparison with historical levels or other benchmark data must be employed
  - **Debt securities in issue:** These debt securities relate to structured notes issued by the Group. Where independent market data is available through pricing vendors and broker sources these positions are classified as Level 2. Where such liquid external prices are not available, valuation of these debt securities are implied using input parameters such as bond spreads and credit spreads, and are classified as Level 3. These input parameters are determined with reference to the same issuer (if available) or proxies from comparable issuers or assets

- **Financial instruments held at amortised cost**

The following sets out the Group's basis of establishing fair values of amortised cost financial instruments and their classification between Levels 1, 2 and 3. As certain categories of financial instruments are not actively traded, there is a significant level of management judgement involved in calculating the fair values:

- **Cash and balances at central banks:** The fair value of cash and balances at central banks is their carrying amounts
- **Loans and advances to banks and customers:** For loans and advances to banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity. The Group's loans and advances to the customers' portfolio is well diversified by geography and industry. Approximately a quarter of the portfolio re-prices within one month, and approximately half re-prices within 12 months. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and, credit risk/credit spreads. Expected cash flows are discounted at current market rates to determine fair value. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical
- **Investment securities:** For investment securities that do not have directly observable market values, the Group utilises a number of valuation techniques to determine fair value. Where available, securities are valued using inputs proxies from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or inputs proxies from a different underlying (for example, a similar bond but using spreads for a particular sector and rating). Certain instruments cannot be proxies as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relates to asset backed securities. The fair value for such instruments is usually proxies from internal assessments of the underlying cash flows
- **Deposits and borrowings:** The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity
- **Debt securities in issue, subordinated liabilities and other borrowed funds:** The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market-related yield curve appropriate for the remaining term to maturity
- **Other assets:** Other assets comprise primarily of cash collateral and trades pending settlement. The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are either short term in nature or re-price to current market rates frequently

Fair value adjustments

When establishing the exit price of a financial instrument using a valuation technique, the Group considers adjustments to the modelled price which market participants would make when pricing that instrument. The main valuation adjustments (described further below) in determining fair value for financial assets and financial liabilities are as follows:

	2017 $million	2016 $million
Bid-offer valuation adjustment	82	106
CVA	229	466
DVA	(66)	(23)
Model valuation adjustment	6	6
FVA	79	248
Others (including day one)	148	132
Total	478	935

- **Bid-offer valuation adjustment:** Where market parameters are marked on a mid-market basis in the revaluation systems, a bid offer valuation adjustment is required to quantify the expected cost of neutralising the business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. The methodology to calculate the bid-offer adjustment for a derivative portfolio involves netting between long and short positions and the grouping of risk by strike and tenor based on the hedging strategy where long positions are marked to bid and short positions marked to offer in the systems

- **Credit valuation adjustment (CVA):** The Group makes CVA adjustment against the fair value of derivative products. CVA is an adjustment to the fair value of the transactions to reflect the possibility that our counterparties may default and we may not receive the full market value of the outstanding transactions. It represents an estimate of the adjustment a market participant would include when deriving a purchase price to acquire our exposures. CVA is calculated for each subsidiary, and within each entity for each counterparty to which the entity has exposure and takes account of any collateral we may hold. The Group calculates the CVA by applying the probability of default (PD) on the potential estimated future positive exposure of the counterparty using market-implied PD. Where market-implied data is not readily available, we use market-based proxies to estimate the PD. Wrong-way risk arises when the underlying value of the derivative prior to any CVA is positively correlated to the probability of default by the counterparty and the Group has implemented a model to capture this impact for certain key wrong way exposures. The Group continues to include 'wrong-way risk' in its Prudential Valuation Adjustments
- **Debit valuation adjustment (DVA):** The Group calculates DVA adjustments on its derivative liabilities to reflect changes in its own credit standing. The Group's DVA adjustments will increase if its credit standing worsens and, conversely, decrease if its credit standing improves. The Group's DVA adjustments will reverse over time as its derivatives mature. For derivative liabilities, a DVA adjustment is determined by applying the Group's probability of default to the Group's negative expected exposure against the counterparty. The Group's probability of default and loss expected in the event of default is derived based on internally assessed credit ratings and market standard recovery levels. The expected exposure is modelled based on simulation methodology and is generated through simulation of underlying risk factors over the life of the deal booked against the particular counterparty. This simulation methodology incorporates the collateral posted by the Group and the effects of master netting agreements. In December 2017, the Group refined its methodology used to calculate DVA to better align with current industry practice. This change in calculation methodology is treated as a change in estimate and resulted in an increase in the DVA balance of $66 million
- **Model valuation adjustment:** Valuation models may have pricing deficiencies or limitations that require a valuation adjustment. These pricing deficiencies or limitations arise due to the choice, implementation and calibration of the pricing model
- **Funding valuation adjustment (FVA):** The Group makes FVA adjustments against derivative products. FVA reflects an estimate of the adjustment to its fair value that a market participant would make to incorporate funding costs that could arise in relation to the exposure. FVA is calculated by determining the net expected exposure at a counterparty level and then applying a funding rate to those exposures that reflect the market cost of funding. The FVA for collateralised derivatives is based on discounting the expected future cash flows at the relevant overnight indexed swap (OIS) rate after taking into consideration the terms of the underlying collateral agreement with the counterparty. The FVA for uncollateralised (including partially collateralised) derivatives incorporates the estimated present value of the market funding cost or benefit associated with funding these transactions
- **Day one profit and loss:** In certain circumstances the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based primarily on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated

In addition, the Group calculates own credit adjustment (OCA) on its issued debt designated at fair value, including structured notes, in order to reflect changes in its own credit standing. The Group's OCA adjustments will increase if its credit standing worsens and, conversely, decrease if its credit standing improves. The Group's OCA adjustments will reverse over time as its liabilities mature. For issued debt and structured notes designated at fair value, an OCA adjustment is determined by discounting the contractual cash flows using a yield curve adjusted for market observed secondary senior debt issuance spreads above average interbank rates. The OCA is $82 million (2016: $331 million).

Fair value hierarchy – Financial instruments held at fair value

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the observability of the significant inputs used to determine the fair values. Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Group recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

- **Level 1:** Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities
- **Level 2:** Fair value measurements are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all

significant inputs are observable

- **Level 3:** Fair value measurements are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data

The following tables show the classification of financial instruments held at fair value into the valuation hierarchy:

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	–	2,501	71	2,572
Loans and advances to customers	–	2,792	126	2,918
Reverse repurchase agreements and other similar secured lending	–	912	–	912
Debt securities and other eligible bills	5,860	13,800	51	19,711
Of which:				
Government bonds and treasury bills	4,988	5,531	–	10,519
Issued by corporates other than financial institutions	171	4,017	48	4,236
Issued by financial institutions	701	4,252	3	4,956
Equity shares	725	–	726	1,451
Derivative financial instruments	402	46,589	40	47,031
Of which:				
Foreign exchange	97	35,641	17	35,755
Interest rate	2	10,065	7	10,074
Commodity	303	609	2	914
Credit	–	249	–	249
Equity and stock index	–	25	14	39
Investment securities				
Debt securities and other eligible bills	61,246	47,511	404	109,161
Of which:				
Government bonds and treasury bills	51,257	21,364	318	72,939
Issued by corporates other than financial institutions	5,648	7,590	86	13,324
Issued by financial institutions	4,341	18,557	–	22,898
Equity shares	369	5	520	894
Total financial instruments at 31 December 2017	68,602	114,110	1,938	184,650

Liabilities	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	668	69	737
Customer accounts	–	5,236	–	5,236
Debt securities in issue	–	6,581	442	7,023
Short positions	1,495	2,142	–	3,637
Derivative financial instruments	470	47,606	25	48,101
Of which:				
Foreign exchange	90	36,149	–	36,239
Interest rate	9	9,851	18	9,878
Commodity	371	590	–	961
Credit	–	871	2	873
Equity and stock index	–	145	5	150
Total financial instruments at 31 December 2017	1,965	62,233	536	64,734

There have been no significant changes to valuation or levelling approaches in 2017.

There are no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during the year.

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	–	1,563	–	1,563
Loans and advances to customers	–	2,676	179	2,855
Reverse repurchase agreements and other similar secured lending	–	819	–	819
Debt securities and other eligible bills	4,249	9,411	4	13,664
Of which:				
Government bonds and treasury bills	4,044	4,242	–	8,286
Issued by corporates other than financial institutions	77	2,467	3	2,547
Issued by financial institutions	128	2,702	1	2,831
Equity shares	181	–	995	1,176
Derivative financial instruments	513	64,636	360	65,509
Of which:				
Foreign exchange	52	53,706	324	54,082
Interest rate	14	9,858	6	9,878
Commodity	447	879	–	1,326
Credit	–	171	–	171
Equity and stock index	–	22	30	52
Investment securities				
Debt securities and other eligible bills	58,547	45,562	199	104,308
Of which:				
Government bonds and treasury bills	47,002	14,491	173	61,666
Issued by corporates other than financial institutions	6,928	7,741	24	14,693
Issued by financial institutions	4,617	23,330	2	27,949
Equity shares	798	41	549	1,388
Total financial instruments at 31 December 2016	64,288	124,708	2,286	191,282
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposits by banks	–	718	–	718
Customer accounts	–	6,447	–	6,447
Debt securities in issue	–	5,140	530	5,670
Short positions	1,845	1,918	–	3,763
Derivative financial instruments	547	64,849	316	65,712
Of which:				
Foreign exchange	52	53,838	233	54,123
Interest rate	25	9,911	25	9,961
Commodity	470	628	–	1,098
Credit	–	442	30	472
Equity and stock index	–	30	28	58
Total financial instruments at 31 December 2016	2,392	79,072	846	82,310

There are no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during 2016.

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	Fair value Level 1 $million	Fair value Level 2 $million	Fair value Level 3 $million	Fair value Total $million
Assets					
Cash and balances at central banks[1]	58,864	–	58,864	–	58,864
Loans and advances to banks	57,494	–	57,388	4	57,392
Loans and advances to customers	248,707	–	14,644	234,812	249,456
Reverse repurchase agreements and other similar secured lending	54,275	–	23,068	31,218	54,286
Investment securities	6,970	–	6,955	36	6,991
Other assets[1]	29,922	–	29,922	–	29,922
Assets held for sale	62	–	62	–	62
At 31 December 2017	456,294	–	190,903	266,070	456,973
Liabilities					
Deposits by banks	30,945	–	30,939	–	30,939
Customer accounts	370,509	–	370,489	–	370,489
Repurchase agreements and other similar secured borrowing	39,783	–	39,783	–	39,783
Debt securities in issue	46,379	15,264	30,158	–	45,422
Subordinated liabilities and other borrowed funds	17,176	17,456	161	–	17,617
Other liabilities[1]	34,982	–	34,982	–	34,982
At 31 December 2017	539,774	32,720	506,512	–	539,232

	Carrying value $million	Fair value Level 1 $million	Fair value Level 2 $million	Fair value Level 3 $million	Fair value Total $million
Assets					
Cash and balances at central banks[1]	70,706	–	70,706	–	70,706
Loans and advances to banks	54,538	–	54,473	–	54,473
Loans and advances to customers	226,693	–	7,401	218,998	226,399
Reverse repurchase agreements and other similar secured lending	44,097	–	18,433	25,664	44,097
Investment securities	3,276	–	3,252	6	3,258
Other assets[1]	33,942	–	33,942	–	33,942
Assets held for sale	1,102	–	–	1,102	1,102
At 31 December 2016	434,354	–	188,207	245,770	433,977
Liabilities					
Deposits by banks	32,872	–	32,740	–	32,740
Customer accounts	338,185	–	338,153	–	338,153
Repurchase agreements and other similar secured borrowing	37,692	–	37,692	–	37,692
Debt securities in issue	46,700	17,132	29,568	–	46,700
Subordinated liabilities and other borrowed funds	19,523	18,655	177	–	18,832
Other liabilities[1]	32,958	–	32,958	–	32,958
Liabilities included in disposal groups held for sale	958	–	958	–	958
At 31 December 2016	508,888	35,787	472,246	–	508,033

1 The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are short term in nature or reprice to current market rates frequently

Loans and advances to customers by client segment[1]

	2017					
	Carrying value			Fair value		
	Impaired $million	Not impaired $million	Total $million	Impaired $million	Not impaired $million	Total $million
Corporate & Institutional Banking	2,465	126,224	128,689	2,491	126,695	129,186
Retail Banking	420	102,593	103,013	422	102,828	103,250
Commercial Banking	596	27,296	27,892	646	27,269	27,915
Private Banking	140	13,211	13,351	140	13,202	13,342
Central & other items	–	9,343	9,343	–	9,349	9,349
At 31 December 2017	3,621	278,667	282,288	3,699	279,343	283,042

	2016					
	Carrying value			Fair value		
	Impaired $million	Not impaired $million	Total $million	Impaired $million	Not impaired $million	Total $million
Corporate & Institutional Banking	2,500	116,601	119,101	2,481	116,501	118,982
Retail Banking	458	93,030	93,488	460	92,786	93,246
Commercial Banking	751	23,215	23,966	736	23,306	24,042
Private Banking	289	11,619	11,908	289	11,609	11,898
Central & other items	–	4,256	4,256	–	4,256	4,256
At 31 December 2016	3,998	248,721	252,719	3,966	248,458	252,424

1 Loans and advances includes reverse repurchase agreements and other similar secured lending: carrying value $33,581 million and fair value $33,586 million (2016: $26,026 million and $26,026 million respectively)

Level 3 Summary and significant unobservable inputs

The following table presents the Group's primary Level 3 financial instruments which are held at fair value. The table also presents the valuation techniques used to measure the fair value of those financial instruments, the significant unobservable inputs, the range of values for those inputs and the weighted average of those inputs.

	Value at 31 December 2017					
Instrument	Assets $million	Liabilities $million	Principal valuation technique	Significant unobservable inputs	Range[1]	Weighted average[2]
Loans and advances to banks	71	–	Comparable pricing/yield	Price/yield	2.3%	2.3%
Loans and advances to customers	126	–	Comparable pricing/yield	Price/yield	3.6%	3.6%
			Comparable pricing/yield	Recovery rates	27.8% to 48.3%	43.5%
Debt securities	98	–	Comparable pricing/yield	Price/yield	8%	8%
Asset backed securities	39	–	Discounted cash flows	Price/yield	1.6% to 5%	1.7%
Deposits by banks	–	69	Discounted cash flows	Credit spreads	1%	1%
Debt securities in issue	–	442	Discounted cash flows	Credit spreads	0.4% to 4%	1.7%
Government bonds and treasury bills	318	–	Discounted cash flows	Price/yield	2.4% to 11%	8.1%
Derivative financial instruments of which:						
Foreign exchange	17	–	Option pricing model	Foreign exchange option implied volatility	5.4% to 7.1%	5.9%
			Discounted cash flows	Foreign exchange curves	4.1% to 5.1%	4.6%
Interest rate	7	18	Discounted cash flows	Interest rate curves	1.5% to 16.4%	7.2%
Credit	–	2	Discounted cash flows	Credit spreads	0.8% to 3%	1.3%
Commodities	2	–	Internal pricing model	Commodities correlation	81.4% to 99.4%	92.1%
Equity	14	5	Internal pricing model	Equity correlation	5% to 85%	N/A
				Equity-FX correlation	-85% to 85%	N/A
Equity shares (includes private equity investments)[3]	1,246	–	Comparable pricing/yield	EV/EBITDA multiples	7.6x to 18.6x	10.8x
				P/E multiples	8.6x to 17.7x	16.3x
				P/B multiples	1.2x	1.2x
				P/S multiples	2x	2x
				Liquidity discount	10% to 20%	15.5%
			Discounted cash flows	Discount rates	8.6% to 14%	10.7%
Total	1,938	536				

1 The ranges of values shown in the above table represent the highest and lowest levels used in the valuation of the Group's Level 3 financial instruments as at 31 December 2017. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments

2 Weighted average for non-derivative financial instruments have been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator

3 The Group has an equity investment in the Series B preferred shares of Ripple Labs, Inc., which owns a digital currency (XRP) and is being carried at a fair value based on the shares' initial offering price. The shares will continue to be valued at the initial offering price until such time as a reliable means of valuing the cash flows and underlying assets is possible or additional sales are observable

The following section describes the significant unobservable inputs identified in the valuation technique table:

- **Commodities correlation:** This refers to the correlation between two commodity underlyings over a specified time
- **Comparable price/yield** is a valuation methodology in which a price of a comparable instrument is used to estimate the fair value where there are no direct observable prices. Yield is the interest rate that is used to discount the future cash-flows in a discounted cash-flow model. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable instrument, then adjusting that yield (or spread) to derive a value for the instrument. The adjustment should account for relevant differences in the financial instruments such as maturity and/or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and the instrument being valued in order to establish the value of the instrument (for example, deriving a fair value for a junior unsecured bond from the price of a senior secured bond).

An increase in price, in isolation, would result in a favourable movement in the fair value of the asset. An increase in yield, in isolation, would result in an unfavourable movement in the fair value of the asset

- **Correlation** is the measure of how movement in one variable influences the movement in another variable. An equity correlation is the correlation between two equity instruments while an interest rate correlation refers to the correlation between two swap rates
- **Credit spread** represents the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument
- **Discount rate** refers to the rate of return used to convert expected cash flows into present value
- **EV/EBITDA ratio multiples:** This is the ratio of Enterprise Value (EV) to Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). EV is the aggregate market capitalisation and debt minus the cash and cash equivalents. An increase in EV/EBITDA multiples in isolation, will result in a favourable movement in the fair value of the unlisted firm
- **Interest rate curves** is the term structure of interest rates and measure of future interest rates at a particular point in time
- **Liquidity discounts in the valuation of unlisted investments:** A liquidity discount is primarily applied to the valuation of unlisted firms' investments to reflect the fact that these stocks are not actively traded. An increase in liquidity discount will result in unfavourable movement in the fair value of the unlisted firm
- **Price-Book (P/B) multiple:** This is the ratio of the market value of equity to the book value of equity. An increase in P/B multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Earnings (P/E) multiples:** This is the ratio of the Market Capitalisation to the Net Income after tax. The multiples are determined from multiples of listed comparables, which are observable. An increase in P/E multiple will result in a favourable movement in the fair value of the unlisted firm
- **Price-Sales (P/S) multiple:** This is the ratio of the market value of equity to sales. An increase in P/S multiple will result in a favourable movement in the fair value of the unlisted firm
- **Recovery rates** are the expectation of the rate of return resulting from the liquidation of a particular loan. As the probability of default increases for a given instrument, the valuation of that instrument will increasingly reflect its expected recovery level assuming default. An increase in the recovery rate, in isolation, would result in a favourable movement in the fair value of the loan
- **Volatility** represents an estimate of how much a particular instrument, parameter or index will change in value over time. Generally, the higher the volatility, the more expensive the option will be

Level 3 movement tables – financial assets

The table below analyses movements in level 3 financial assets carried at fair value.

Assets	Held at fair value through profit or loss					Investment securities		
	Loans and advances to banks $million	Loans and advances to customers $million	Debt securities and other eligible bills $million	Equity shares $million	Derivative financial instruments $million	Debt securities and other eligible bills $million	Equity shares $million	Total $million
At 1 January 2017	–	179	4	995	360	199	549	2,286
Total (losses)/gains recognised in income statement	(1)	(11)	(2)	121	(4)	(15)	(9)	79
Net interest income	–	–	–	–	–	(15)	–	(15)
Net trading income	(1)	(11)	(2)	121	(4)	–	(1)	102
Other operating income	–	–	–	–	–	–	9	9
Impairment charge	–	–	–	–	–	–	(17)	(17)
Total gains recognised in other comprehensive income	–	–	–	–	–	7	54	61
Available-for-sale reserve	–	–	–	–	–	–	41	41
Exchange difference	–	–	–	–	–	7	13	20
Purchases	–	–	94	111[3]	6	399	22	632
Sales	–	–	(20)	(254)	(13)	(1)	(91)	(379)
Settlements	–	–	–	–	(250)	(169)	–	(419)
Transfers out[1]	–	(72)	(25)	(247)[3]	(61)	(16)	(5)	(426)
Transfers in[2]	72	30	–	–	2	–	–	104
At 31 December 2017	71	126	51	726	40	404	520	1,938
Total unrealised losses recognised in the income statement, within net interest income, relating to change in fair value of assets held at 31 December 2017	–	–	–	–	–	(15)	–	(15)
Total unrealised (losses)/gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 31 December 2017	(1)	(5)	(2)	65	(7)	–	(1)	49
Total unrealised losses recognised in the income statement, within impairment charges at 31 December 2017	–	–	–	–	–	–	(17)	(17)

1 Transfers out include debt securities, equity shares and derivative financial instruments where the valuation parameters became observable during the year, and were transferred to Level 1 and Level 2. Transfers out further relate to equity shares and debt securities held at fair value through profit or loss which are now presented under held for sale

2 Transfers in during the year primarily relate to loans and advances and derivative financial instruments where the valuation parameters become unobservable during the year

3 When an entity is consolidated through a step up in ownership, the additional equity shares acquired are disclosed in the Purchases line. Subsequently these shares are eliminated on consolidation and disclosed in the Transfer out line. Any underlying Level 3 financial instruments which are recognised as a result of the consolidation are disclosed in the Transfers in line

Assets	Held at fair value through profit or loss					Investment securities		
	Loans and advances to banks $million	Loans and advances to customers $million	Debt securities and other eligible bills $million	Equity shares $million	Derivative financial instruments $million	Debt securities and other eligible bills $million	Equity shares $million	Total $million
At 1 January 2016	–	232	256	813	478	339	841	2,959
Total (losses)/gains recognised in income statement	–	(87)	4	(268)	44	(64)	(198)	(569)
Net trading income	–	(87)	4	(268)	44	–	–	(307)
Other operating income	–	–	–	–	–	–	(7)	(7)
Impairment charge	–	–	–	–	–	(64)	(191)	(255)
Total (losses)/gains recognised in other comprehensive income	–	–	–	–	–	(4)	1	(3)
Available-for-sale reserve	–	–	–	–	–	–	5	5
Exchange difference	–	–	–	–	–	(4)	(4)	(8)
Purchases	–	–	73	300	32	104	121	630
Sales	–	(6)	(197)	(60)	(13)	(50)	(36)	(362)
Settlements	–	(67)	(10)	–	(54)	(23)	–	(154)
Transfers out[1]	–	(100)	(122)	–	(127)	(120)	(180)	(649)
Transfers in[2]	–	207	–	210	–	17	–	434
At 31 December 2016	–	179	4	995	360	199	549	2,286
Total unrealised (losses)/gains recognised in the income statement, within net trading income, relating to change in fair value of assets held at 31 December 2016	–	(87)	5	(258)	24	–	–	(316)
Total unrealised losses recognised in the income statement, within impairment charges at 31 December 2016	–	–	–	–	–	(64)	(191)	(255)

1 Transfers out during the year primarily relate to loans and advances, debt securities and other eligible bills, derivative financial instruments and equity shares where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2 financial assets

2 Transfers in during the year primarily relate to loans and advances, equity shares and debt securities and other eligible bills where the valuation parameters become unobservable during the year

Level 3 movement tables – financial liabilities

	2017				
	Deposits by banks $million	Customer accounts $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million
At 1 January 2017	–	–	530	316	846
Total gains recognised in income statement – net trading income	–	–	(9)	(24)	(33)
Issues	79	–	274	1	354
Settlements	(10)	–	(353)	(266)	(629)
Transfers out[1]	–	–	–	(2)	(2)
At 31 December 2017	69	–	442	25	536
Total unrealised gains recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 31 December 2017	–	–	–	(17)	(17)

1 Transfers out during the year primarily relate to derivative financial instruments where the valuation parameters became observable during the year and were transferred to Level 2 financial liabilities

	2016				
	Deposits by banks $million	Customer accounts $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million
At 1 January 2016	–	1	495	319	815
Total losses recognised in income statement – net trading income	–	–	1	31	32
Issues	–	–	268	78	346
Settlements	–	–	(237)	(74)	(311)
Transfers out[1]	–	(1)	–	(38)	(39)
Transfers in[2]	–	–	3	–	3
At 31 December 2016	–	–	530	316	846
Total unrealised losses recognised in the income statement, within net trading income, relating to change in fair value of liabilities held at 31 December 2016	–	–	5	39	44

1 Transfers out during the year primarily relate to customer accounts and derivative financial instruments where the valuation parameters became observable during the year and were transferred to Level 2 financial liabilities
2 Transfers in during the year primarily relate to debt securities in issue for which parameters became unobservable during the year

Sensitivities in respect of the fair values of Level 3 assets and liabilities

Sensitivity analysis is performed on products with significant unobservable inputs. The Group applies a 10 per cent increase or decrease on the values of these unobservable inputs, to generate a range of reasonably possible alternative valuations. The percentage shift is determined by statistical analyses performed on a set of reference prices based on the composition of our Level 3 assets. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This Level 3 sensitivity analysis assumes a one-way market move and does not consider offsets for hedges.

	Held at fair value through profit or loss			Available-for-sale		
	Net exposure $million	Favourable changes $million	Unfavourable changes $million	Net exposure $million	Favourable changes $million	Unfavourable changes $million
Financial instruments held at fair value						
Debt securities and other eligible bills	51	56	46	404	415	393
Equity shares	726	799	653	520	572	468
Loan and advances	197	201	194	–	–	–
Derivative financial instruments	15	17	12	–	–	–
Deposits by banks	(69)	(68)	(70)	–	–	–
Debt securities in issue	(442)	(434)	(450)	–	–	–
At 31 December 2017	478	571	385	924	987	861
Financial instruments held at fair value						
Debt securities and other eligible bills	4	4	4	199	200	198
Equity shares	995	1,095	896	549	604	494
Loan and advances	179	187	171	–	–	–
Derivative financial instruments	44	158	25	–	–	–
Debt securities in issue	(530)	(521)	(539)	–	–	–
At 31 December 2016	692	923	557	748	804	692

The reasonably possible alternatives could have increased or decreased the fair values of financial instruments held at fair value through profit or loss and those classified as available-for-sale by the amounts disclosed below.

Financial instruments	Fair value changes	2017 $million	2016 $million
Held at fair value through profit or loss	Possible increase	93	231
	Possible decrease	(93)	(135)
Available-for-sale	Possible increase	63	56
	Possible decrease	(63)	(56)

14. Derivative financial instruments

Accounting policy

Accounting for derivatives: Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

Derivatives are initially recognised and subsequently measured at fair value, with revaluation gains recognised in profit and loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond held, are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives.

Hedge accounting: The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge)

b) Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge)

c) Hedges of the net investment of a foreign operation (net investment hedges)

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group may enter into economic hedges that do not qualify for IAS 39 hedge accounting treatment. Where these economic hedges use derivatives to offset risk, the derivatives are fair valued, with fair value changes recognised through profit or loss.

Fair value hedge: Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity or derecognition.

Cash flow hedge: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge: Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is disposed of.

The tables below analyse the notional principal amounts and the positive and negative fair values of derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

	2017			2016		
Derivatives	Notional principal amounts $million	Assets $million	Liabilities $million	Notional principal amounts $million	Assets $million	Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	1,825,488	18,905	19,702	1,896,056	24,872	24,475
Currency swaps and options	1,211,332	16,850	16,537	1,288,908	29,210	29,648
Exchange traded futures and options	100	–	–	225	–	–
	3,036,920	35,755	36,239	3,185,189	54,082	54,123
Interest rate derivative contracts:						
Swaps	2,831,025	8,603	8,414	2,191,851	8,425	8,409
Forward rate agreements and options	153,697	1,351	1,364	114,988	1,305	1,404
Exchange traded futures and options	637,883	120	100	789,901	148	148
	3,622,605	10,074	9,878	3,096,740	9,878	9,961
Credit derivative contracts	34,772	249	873	25,101	171	472
Equity and stock index options	2,520	39	150	2,535	52	58
Commodity derivative contracts	74,133	914	961	80,921	1,326	1,098
Total derivatives	6,770,950	47,031	48,101	6,390,486	65,509	65,712

The Group limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business. Details of the amounts available for offset are set out in note 13.

The Derivatives and Hedging sections of the Risk review and Capital review explain the Group's risk management of derivative contracts and application of hedging.

Derivatives held for hedging

Included in the table above are derivatives held for hedging purposes as follows:

	2017			2016		
	Notional principal amounts $million	Assets $million	Liabilities $million	Notional principal amounts $million	Assets $million	Liabilities $million
Derivatives designated as fair value hedges:						
Interest rate swaps	45,420	456	272	48,565	972	303
Forward foreign exchange contracts	–	–	–	419	12	15
Currency swaps	19,973	174	899	21,495	37	2,377
	65,393	630	1,171	70,479	1,021	2,695
Derivatives designated as cash flow hedges:						
Interest rate swaps	13,348	43	48	10,236	3	84
Forward foreign exchange contracts	356	2	29	883	–	13
Currency swaps	2,987	23	107	1,258	1	3
	16,691	68	184	12,377	4	100
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	3,470	–	188	1,313	51	–
Total derivatives held for hedging	85,554	698	1,543	84,169	1,076	2,795

Fair value hedges

The Group uses interest rate swaps to exchange fixed rates for floating rates on funding to match floating rates received on assets, or exchange fixed rates on assets to match floating rates paid on funding.

For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit or loss. All qualifying hedges were effective.

Included in net losses and net gains below is an adjustment in respect of hedge ineffectiveness.

	2017 $million	2016 $million
Net losses on hedging instruments	(154)	(77)
Net gains on hedged items[1]	81	57

1 Includes amortisation of fair value adjustments in respect of hedges no longer qualifying for hedge accounting

Cash flow hedges

The Group uses interest rate swaps to manage the variability in future cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts and currency swaps to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies.

Gains and losses arising on the effective portion of the hedges are deferred in equity until the variability on the cash flow affects profit or loss, at which time the gains or losses are transferred to profit or loss.

	2017 $million	2016 $million
Losses reclassified from reserves to income statement	(11)	(57)
Losses recognised in operating costs	(4)	(67)
Gains/(losses) recognised in other comprehensive income	35	10

The Group has hedged the following cash flows which are expected to impact the income statement in the following years:

	2017						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	122	40	30	22	8	–	222
Forecast payable cash flows	(97)	(83)	(51)	(49)	(48)	(134)	(462)
	25	(43)	(21)	(27)	(40)	(134)	(240)

	2016						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	68	48	50	35	23	8	232
Forecast payable cash flows	(20)	(9)	(28)	(1)	–	–	(58)
	48	39	22	34	23	8	174

Net investment hedges

The Group uses a combination of foreign exchange contracts and non-derivative financial assets to manage the variability in future exchange rates on its net investments in foreign currencies. Gains and losses arising on the effective portion of the hedges are deferred in equity until the net investment is disposed of.

	2017 $million	2016 $million
(Losses)/gains recognised in other comprehensive income	(288)	30

15. Investment securities

Accounting policy

Investment securities are debt securities, other eligible bills and equity shares intended to be held on a continuing basis. The securities are predominantly classified as available for sale. Refer to note 13 Financial instruments for the accounting policy.

Change in comparatives

Treasury bills are now included within other debt securities, prior year comparatives have been updated to reflect this change.

	2017				
	Debt securities and other eligible bills				
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares[1] $million	Total $million
Issued by public bodies:					
Government securities	4,340	72,843	–		
Other public sector securities	–	2,720	274		
	4,340	75,563	274		
Issued by banks:					
Certificates of deposit	–	4,236	–		
Other debt securities	–	18,734	63		
	–	22,970	63		
Issued by corporate entities and other issuers:					
Other debt securities	–	10,628	2,293		
Total debt securities and other eligible bills	4,340	109,161	2,630		
Of which:					
Listed on a recognised UK exchange	–	6,849	23[2]	4	6,876
Listed elsewhere	4,271	49,276	549[2]	383	54,479
Unlisted	69	53,036	2,058	507	55,670
	4,340	109,161	2,630	894	117,025
Market value of listed securities	4,271	56,125	572	387	61,355

	2016				
	Debt securities and other eligible bills				
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares[1] $million	Total $million
Issued by public bodies:					
Government securities	163	65,416	10		
Other public sector securities	–	1,705	222		
	163	67,121	232		
Issued by banks:					
Certificates of deposit	–	5,764	–		
Other debt securities	–	21,748	79		
	–	27,512	79		
Issued by corporate entities and other issuers:					
Other debt securities	7	9,675	2,795		
Total debt securities and other eligible bills	170	104,308	3,106		
Of which:					
Listed on a recognised UK exchange	–	9,475	108[2]	3	9,586
Listed elsewhere	7	48,350	596[2]	741	49,694
Unlisted	163	46,483	2,402	644	49,692
	170	104,308	3,106	1,388	108,972
Market value of listed securities	7	57,825	704	744	59,280

1 Equity shares largely comprise investments in corporates
2 These debt securities listed or registered on a recognised UK exchange or elsewhere are thinly traded or the markets for these securities are illiquid

The change in the carrying amount of investment securities comprised:

	2017			2016		
	Debt securities and other eligible bills $million	Equity shares $million	Total $million	Debt securities and other eligible bills $million	Equity shares $million	Total $million
At 1 January	107,584	1,388	108,972	113,047	1,720	114,767
Exchange translation differences	3,463	17	3,480	(2,261)	(30)	(2,291)
Additions	265,126	60	265,186	207,081	193	207,274
Maturities and disposals	(260,271)	(814)	(261,085)	(210,540)	(284)	(210,824)
Transfers to assets held for sale	(60)	–	(60)	–	–	–
Impairment, net of recoveries on disposal	(20)	(16)	(36)	(151)	(246)	(397)
Changes in fair value (including the effect of fair value hedging)	17	259	276	143	35	178
Amortisation of discounts and premiums	292	–	292	265	–	265
At 31 December	116,131	894	117,025	107,584	1,388	108,972

The analysis of unamortised premiums and unamortised discounts on debt securities and income on equity shares held for investment purposes is provided below:

	2017 $million	2016 $million
Debt securities:		
Unamortised premiums	765	462
Unamortised discounts	104	139
Income from listed equity shares	36	38
Income from unlisted equity shares	10	14

The following table sets out the movement in the allowance of impairment provisions for investment securities classified as loans and receivables:

	2017 $million	2016 $million
At 1 January	144	57
Exchange translation differences	(3)	(3)
Amounts written off	(47)	(7)
Impairment charge	20	97
At 31 December	114	144

16. Loans and advances to banks and customers

Accounting policy

Refer to note 13 Financial instruments for the relevant accounting policy.

	2017 $million	2016 $million
Loans and advances to banks	78,193	72,773
Individual impairment provision	(4)	(163)
Portfolio impairment provision	(1)	(1)
	78,188	72,609
Loans and advances to customers	287,990	259,073
Individual impairment provision	(5,237)	(5,667)
Portfolio impairment provision	(465)	(687)
	282,288[1]	252,719
Total loans and advances to banks and customers	360,476	325,328

1 Loans and advances to customers (net of provision) totalling $2 million (2016: $1,101 million) have been classified and disclosed as held for sale in note 21

The Group has outstanding residential mortgage loans to Korea residents of $18.5 billion (2016: $15.3 billion) and Hong Kong residents of $28.3 billion (2016: $28.7 billion).

Analysis of loans and advances to customers by geographic region and client segments and related impairment provisions as set out within the Risk review and Capital review.

17. Reverse repurchase and repurchase agreements including other similar secured lending and borrowing

Accounting policy

The Group purchases securities (a reverse repurchase agreement – 'reverse repo') typically with financial institutions subject to a commitment to resell or return the securities at a predetermined price. These securities are not included in the balance sheet as the Group does not acquire the risks and rewards of ownership, however are recorded off balance sheet as collateral received. Consideration paid (or cash collateral provided) is accounted for as a loan asset at amortised cost, unless it is designated at fair value through profit or loss.

The Group also sells securities (a repurchase agreement – 'repo') subject to a commitment to repurchase or redeem the securities at a predetermined price. The securities are retained on the balance sheet as the Group retains substantially all the risks and rewards of ownership and these securities are disclosed as pledged collateral. Consideration received (or cash collateral received) is accounted for as a financial liability at amortised cost, unless it is designated at fair value through profit or loss.

Repo and reverse repo transactions typically entitle the Group and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos, either by way of a Global Master Repurchase Agreement (GMRA), or through a securities sale and Total Return Swap (TRS) continue to be recognised on the balance sheet as the Group retains substantially the associated risks and rewards of the securities (the TRS is not recognised). The counterparty liability is included in deposits by banks or customer accounts, as appropriate. Assets sold under repurchase agreements are considered encumbered as the group cannot pledge these to obtain funding.

Reverse repurchase agreements and other similar secured lending[1]

	2017 $million	2016 $million
Banks	21,259	18,569
Customers	33,928	26,347
	55,187	44,916
Of which:		
Fair value through profit or loss	912	819
Banks	565	497
Customers	347	322
Held at amortised cost	54,275	44,097
Banks	20,694	18,071
Customers	33,581	26,026

1 Includes other similar secured lending

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	2017 $million	2016 $million
Securities and collateral received (at fair value)	75,088	55,394
Securities and collateral which can be repledged or sold (at fair value)	72,982	54,473
Amounts repledged/transferred to others for financing activities, to satisfy liabilities under sale and repurchase agreements (at fair value)	34,018	33,053

Repurchase agreements and other similar secured borrowing held at amortised cost

	2017 $million	2016 $million
Banks	3,804	4,022
Customers	35,979	33,670
	39,783	37,692

The tables below set out the financial assets provided as collateral for repurchase and other secured borrowing transactions:

	2017			
Collateral pledged against repurchase agreements	Fair value through profit or loss $million	Available for sale $million	Loans and receivables $million	Total $million
On balance sheet				
Debt securities and other eligible bills	2,178	3,618	–	5,796
Off balance sheet				
Repledged collateral received	–	–	34,018	34,018
At 31 December 2017	2,178	3,618	34,018	39,814

	2016			
Collateral pledged against repurchase agreements	Fair value through profit or loss $million	Available for sale $million	Loans and receivables $million	Total $million
On balance sheet				
Debt securities and other eligible bills	1,094	3,686	–	4,780
Off balance sheet				
Repledged collateral received	–	–	33,053	33,053
At 31 December 2016	1,094	3,686	33,053	37,833

18. Goodwill and intangible assets

Accounting policy

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill included in intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units (CGUs) and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement. Goodwill is allocated to

CGUs for the purpose of impairment testing. CGUs represent the lowest level within the Group which generate separate cash inflows and at which the goodwill is monitored for internal management purposes. These are equal to or smaller than the Group's reportable segments (as set out in note 2) as the Group views its reportable segments on a global basis. The major CGUs to which goodwill has been allocated are set out in the CGU table.

Significant accounting estimates and judgements
The carrying amount of goodwill is based on the extent of judgements including the basis of assumptions and forecasts used for determining cash flows for CGUs, headroom availability, and sensitivities of the forecasts to reasonably possible changes in assumptions. The Group undertakes an annual assessment to evaluate whether the carrying value of goodwill on balance sheet is impaired. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgement and subject to potential change over time.

Acquired intangibles
At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and which arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (4 to 16 years). At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Direct costs of the development of separately identifiable internally generated software are capitalised where it is probable that future economic benefits attributable to the asset will flow from its use (internally generated software). These costs include salaries and wages, materials, service providers and contractors, and directly attributable overheads. Costs incurred in the ongoing maintenance of software are expensed immediately when incurred. Internally generated software is amortised over a three-year time period.

	2017				2016			
	Goodwill $million	Acquired intangibles $million	Computer software $million	Total $million	Goodwill $million	Acquired intangibles $million	Computer software $million	Total $million
Cost								
At 1 January	3,456	505	1,881	5,842	3,616	494	1,551	5,661
Exchange translation differences	85	38	152	275	6	(1)	(55)	(50)
Additions	31	44	704	779	–	24	567	591
Disposals	–	–	(2)	(2)	–	–	(1)	(1)
Impairment	(320)	–	–	(320)	(166)	–	–	(166)
Amounts written off	–	(9)	(206)	(215)	–	(12)	(181)	(193)
At 31 December	3,252	578	2,529	6,359	3,456	505	1,881	5,842
Provision for amortisation								
At 1 January	–	431	692	1,123	–	430	589	1,019
Exchange translation differences	–	35	42	77	–	(1)	(15)	(16)
Amortisation	–	11	320	331	–	14	272	286
Impairment charge	–	2	21	23	–	–	14	14
Disposals	–	–	(2)	(2)	–	–	(1)	(1)
Amounts written off	–	(9)	(197)	(206)	–	(12)	(167)	(179)
At 31 December	–	470	876	1,346	–	431	692	1,123
Net book value	3,252	108	1,653	5,013	3,456	74	1,189	4,719

At 31 December 2017, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $2,801 million (2016: $2,481 million), of which $320 million was recognised in 2017 (2016: $166 million).

Goodwill

CGU structure
In 2017, the Group realigned its CGUs in line with its management structure and goodwill has been reallocated accordingly. When considering the generation of independent cash inflows and appropriate level of management, Corporate Finance, Private Banking and Transaction Banking are managed on a global basis, while Retail Banking and Commercial Banking activities are managed on a country basis. Comparatives have been amended to reflect the new structure of the CGUs.

Testing of goodwill for impairment
An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. Indicators of impairment include changes in the economic performance and outlook of the region including geopolitical changes, changes in market value of

regional investments, large credit defaults and strategic decisions to exit certain regions. The recoverable amounts for all the CGUs were measured based on value-in-use (ViU). The calculation of ViU for each CGU is calculated using five-year cash flow projections and an estimated terminal value based on a perpetuity value after year five. The cash flow projections are based on forecasts approved by management up to 2022. The perpetuity terminal value amount is calculated using year five cash flows using long-term GDP growth rates. All cash flows are discounted using pre-tax discount rates which reflect market rates appropriate to the CGU.

At 31 December 2017, all CGUs had recoverable amounts that exceed the carrying amounts, with the exception of the Taiwan CGU, where, primarily as a result of a one per cent increase in the discount rate, the carrying amount exceeded the recoverable value and therefore an impairment charge of $320 million has been recognised. The goodwill allocated to each CGU and key assumptions used in determining the recoverable amounts are set out below and are solely estimates for the purposes of assessing impairment of acquired goodwill.

		2017			2016[1]	
Cash Generating Unit	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
Regional CGUs						
Greater China & North Asia	913			1,165		
Hong Kong	357	14.9	3.0	357	12.1	2.8
Taiwan	556	13.9	2.1	808	12.8	2.2
Africa & Middle East	569			583		
Pakistan	242	21.3	5.8	256	23.8	5.3
UAE	204	10.8	3.2	204	10.9	3.2
Others (5)[2]	123	11.5-19.6	2.0-6.1	123	11.7-20.5	1.9-5.9
ASEAN & South Asia	790			728		
India	289	18.9	7.9	270	17.0	7.8
Singapore	343	11.8	2.6	327	10.1	2.6
Others (6)[3]	158	15.2-19.0	4.0-7.0	131	15.0-20.1	3.9-8.2
Global CGUs	980			980		
Global Private Banking	84	10.2	3.7	84	13.5	2.9
Global Corporate Finance	219	10.3	3.7	219	13.4	2.9
Global Transaction Banking	677	10.3	3.7	677	13.4	2.9
	3,252			3,456		

1 CGUs reported in 2016 have been re-presented to align with the Group's management structure
2 Bahrain, Ghana, Jordan, Oman and Qatar
3 Bangladesh, Brunei, Indonesia, Nepal, Sri Lanka and Vietnam

The Group has performed sensitivity analysis on the key assumptions for each CGU's recoverable amount. The key CGUs at risk of future impairment as a result of potentially adverse movements are:

		2017	
	Decrease in cash flow by 10% $million	Increase in discount rate by 1% $million	Decrease in GDP growth rate by 1% $million
Taiwan	138	135	92
India	77	162	96

The headroom of $150 million relating to the India CGU would be eliminated if there was either a 6.5 per cent decrease in cash flows, a 0.5 per cent increase in the discount rate or a 0.6 per cent decrease in GDP.

Acquired intangibles

These primarily comprise those items recognised as part of the acquisitions of Union Bank (now amalgamated into Standard Chartered Bank (Pakistan) Limited), Hsinchu (now amalgamated into Standard Chartered Bank (Taiwan) Limited), Pembroke, American Express Bank and ABSA's custody business in Africa. Maintenance intangible assets represent the value in the difference between the contractual right under acquired leases to receive aircraft in a specified maintenance condition at the end of the lease and the actual physical condition of the aircraft at the date of acquisition.

The acquired intangibles are amortised over periods from four years to a maximum of 16 years. The constituents are as follows:

	2017 $million	2016 $million
Acquired intangibles comprise:		
Aircraft maintenance	24	24
Brand names	31	–
Core deposits	2	3
Customer relationships	32	39
Licences	19	8
Net book value	108	74

19. Property, plant and equipment

Accounting policy

All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

At each balance sheet date the assets' residual values and useful lives are reviewed, and adjusted if appropriate, including assessing for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down to the recoverable amount. Gains and losses on disposals are included in the income statement.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and buildings comprise mainly branches and offices. Freehold land is not depreciated although it is subject to impairment testing.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings — up to 50 years
- Leasehold improvements life of lease — up to 50 years
- Equipment and motor vehicles — three to 15 years
- Aircraft — up to 18 years
- Ships — up to 15 years

Where the Group is a lessee under finance leases, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in Other liabilities. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

	2017				2016			
	Premises $million	Equipment $million	Operating lease assets $million	Total $million	Premises $million	Equipment $million	Operating lease assets $million	Total $million
Cost or valuation								
At 1 January	2,117	699	6,982	9,798	2,156	735	6,527	9,418
Exchange translation differences	119	31	2	152	(62)	(28)	–	(90)
Additions	61	104	1,603	1,768	79	116	1,016	1,211
Disposals and fully depreciated assets written off	(75)	(66)	(1,587)	(1,728)	(38)	(123)	(561)	(722)
Transfers to assets held for sale	(6)	(1)	–	(7)	(18)	(1)	–	(19)
As at 31 December	2,216	767	7,000	9,983	2,117	699	6,982	9,798
Depreciation								
Accumulated at 1 January	713	474	1,359	2,546	668	528	1,013	2,209
Exchange translation differences	27	21	1	49	(19)	(17)	–	(36)
Charge for the year	85	85	328	498	98	84	271	453
Impairment (release)/charge	(8)	–	145	137	–	–	131	131
Attributable to assets sold, transferred or written off	(58)	(65)	(327)	(450)	(28)	(120)	(56)	(204)
Transfers to assets held for sale	(6)	(2)	–	(8)	(6)	(1)	–	(7)
Accumulated at 31 December	753	513	1,506	2,772	713	474	1,359	2,546
Net book amount at 31 December	1,463	254	5,494	7,211	1,404	225	5,623	7,252

During the year, an impairment charge of $145 million (2016: $131 million) was recognised in respect of aircraft and ships held as operating lease assets, as the ViU or current market value (CMV) of the assets was lower than the net book value.

Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft and ships which are included within property, plant and equipment. At 31 December 2017, these assets had a net book value of $5,494 million (2016: $5,623 million).

	2017 Minimum lease receivables under operating leases falling due: $million	2016 Minimum lease receivables under operating leases falling due: $million
Within one year	564	611
Later than one year and not later than five years	1,881	2,186
After five years	1,228	1,182
	3,673	3,979

20. Operating lease commitments

Accounting policy

The leases entered into by the Group are primarily operating leases. An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor. The Group leases various premises under non-cancellable lease arrangements. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

If an operating lease contains a reinstatement clause, a provision will be raised for the best estimate of the expenses to be incurred at the end of the lease to reinstate the property to its original condition. This cost is amortised over the life of the lease.

	2017		2016	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	255	2	258	1
Later than one year and not later than five years	603	3	623	1
After five years	189	–	245	–
	1,047	5	1,126	2

During the year $340 million (2016: $400 million) was recognised as an expense in the income statement in respect of operating leases. The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2017 is $9 million (2016: $96 million).

21. Other assets

Accounting policy

Financial instruments can be reclassified as held for sale if they are non-current assets or if they are part of a disposal group; however, the measurement provisions for the financial instruments remain governed by the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*. Refer to note 13 Financial instruments for the relevant accounting policy.

Commodities represent physical holdings where the Group has title and exposure to the market risk associated with the holding. Commodities are fair valued with the fair value derived from observable spot or short-term futures prices from relevant exchanges.

	2017 $million	2016 $million
Financial assets held at amortised cost (note 13):		
Hong Kong SAR Government certificates of indebtedness (note 23)[1]	5,417	5,444
Cash collateral	9,513	14,230
Acceptances and endorsements	5,096	4,479
Unsettled trades and other financial assets	9,896	9,789
	29,922	33,942
Non-financial assets:		
Commodities[2]	3,263	2,719
Other assets	305	279
	33,490	36,940

1 The Hong Kong SAR Government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued
2 Commodities are carried at fair value and classified as Level 2

Assets held for sale

Non-current assets (such as property) and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when:

a) their carrying amounts will be recovered principally through sale

b) they are available-for-sale in their present condition

c) their sale is highly probable

Immediately before the initial classification as held for sale, the carrying amounts of the assets (or assets and liabilities in the disposal group) are measured in accordance with the applicable accounting policies related to the asset or liability before reclassification as held for sale.

The assets below have been presented as held for sale following the approval of Group management and the transactions are expected to complete in 2018.

Assets held for sale	2017 $million	2016 $million
Non-current assets		
Loans and advances to customers	2	–
Financial assets held at fair value through profit or loss	466	–
Debt securities held at amortised cost	60	–
Interests in associates	–	131
Others	17	12
	545	143
Disposal group		
Cash and balances at central banks	–	1
Loans and advances to customers	–	1,101
Prepayments and accrued income	–	9
	545	1,254

Assets held for sale include disposal groups and non-current assets as follows:

- Principal Finance assets of $280 million, classified in Financial assets held at fair value through profit or loss ($216 million), Debt securities ($60 million) and Others ($4 million), expected to be completed in 2018
- Asia Commercial Bank assets of $250 million classified as Financial assets held at fair value through profit or loss (sale completed in 2018, classified as an interest in associate in 2016, and reclassified after loss of significant influence in 2017)
- The disposal group disclosed in 2016 consisted of the Retail Banking Business of Standard Chartered Bank (Thai) Public Company Limited, the sale of which was completed in 2017

The assets reported above are in Level 3 except for Debt securities held at amortised cost and loans and advances to customers which are classified as Level 2.

22. Debt securities in issue

Accounting policy
Refer to note 13 Financial instruments for the relevant accounting policy.

	2017			2016		
	Certificates of deposit of $100,000 or more $million	Other debt securities in issue $million	Total $million	Certificates of deposit of $100,000 or more $million	Other debt securities in issue $million	Total $million
Debt securities in issue	**20,460**	**25,919**	**46,379**	15,020	31,680	46,700
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 13)	**117**	**6,906**	**7,023**	35	5,635	5,670
Total debt securities in issue	**20,577**	**32,825**	**53,402**	15,055	37,315	52,370

In 2017, the Company issued a total of $1.5 billion senior notes for general business purposes of the Group as shown below:

Securities	$million
€750 million callable fixed rate senior notes due 2023	**901**
€500 million callable fixed rate senior notes due 2027	**600**

23. Other liabilities

Accounting policy
Refer to note 13 Financial instruments for the relevant accounting policy.

	2017 $million	2016 $million
Financial liabilities held at amortised cost (note 13)		
Notes in circulation[1]	**5,417**	5,444
Acceptances and endorsements	**5,096**	4,479
Cash collateral	**9,825**	9,624
Unsettled trades and other financial liabilities	**14,644**	13,411
	34,982	32,958
Non-financial liabilities		
Cash-settled share-based payments	**39**	26
Other liabilities	**236**	162
	35,257	33,146

1 Hong Kong currency notes in circulation of $5,417 million (2016: $5,444 million) that are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 21)

Liabilities included in disposal group held for sale[1]	2017 $million	2016 $million
Customer accounts	**–**	958
Other liabilities	**–**	1
Accruals and deferred income	**–**	6
	–	965

1 Liabilities included in disposal group held for sale are classified within Level 2 of the fair value hierarchy. The disposal group disclosed in 2016 consisted of the Retail Banking Business of Standard Chartered Bank (Thai) Public Company Limited, the sale of which was completed in 2017

24. Provisions for liabilities and charges

Accounting policy
The Group recognises a provision for a present legal or constructive obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably. Where a liability arises based on participation in a market at a specified date, the obligation is recognised in the financial statements on that date and is not accrued over the period.

Significant accounting estimates and judgements
The recognition and measurement of provisions for liabilities and charges requires significant judgement and the use of estimates about uncertain future conditions or events. Determining the best estimate of the probability of outflow of economic resources, cost of settling a provision and timing of settlement, requires significant judgement by management. These areas are inherently uncertain such as legal decisions, outcome of regulator reviews and anticipated cost of redress.

	2017			2016		
	Provision for credit commitments $million	Other provisions $million	Total $million	Provision for credit commitments $million	Other provisions $million	Total $million
At 1 January	109	104	213	100	115	215
Exchange translation differences	(2)	1	(1)	(2)	(2)	(4)
(Release)/charge against profit	(23)	83	60	45	37	82
Provisions utilised	(1)	(88)	(89)	(34)	(46)	(80)
At 31 December	83	100	183	109	104	213

Provision for credit commitment comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations.

Other provisions consists mainly of provisions for regulatory settlements and legal claims, the nature of which are described in note 26.

25. Contingent liabilities and commitments

Accounting policy

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

Where the Group undertakes to make a payment on behalf of its customers for guarantees issued such as for performance bonds or as irrevocable letters of credit as part of the Group's Transaction Banking business for which an obligation to make a payment has not arisen at the reporting date those are included in these financial statements as contingent liabilities.

Other contingent liabilities primarily include revocable letters of credit and bonds issued on behalf of customers to customs officials, for bids or offers and as shipping guarantees.

Commitments are where the Group has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees whether cancellable or not or letters of credit and the Group has not made payments at the balance sheet date, those instruments are included in these financial statement as commitments.

Capital commitments are contractual commitments the Group has entered into to purchase non-financial assets.

The table below shows the contract or underlying principal amounts and risk-weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

	2017 $million	2016 $million
Contingent liabilities		
Guarantees and irrevocable letters of credit	37,311	32,286[1]
Other contingent liabilities	6,210	6,016[1]
	43,521	38,302[1]
Commitments		
Documentary credits and short-term trade-related transactions	3,880	4,120
Forward asset purchases and forward deposits placed	–	6
Undrawn formal standby facilities, credit lines and other commitments to lend		
One year and over	43,730	38,108
Less than one year	20,160	17,547
Unconditionally cancellable	113,584	118,330
	181,354	178,111
Capital commitments		

1 Total contingent liabilities of the Group have been restated from $37.4 billion to $38.3 billion (increase of $0.9 billion). Guarantees and irrevocable letters of credit have been restated from $33.6 billion to $32.3 billion (reduction of $1.3 billion), and other contingent liabilities have been restated from $3.8 billion to $6.0 billion (offsetting increase of $2.2 billion)

The Group's share of contingent liabilities and commitments relating to joint ventures is $0.2 billion (31 December 2016: $0.2 billion).

The Group has committed to purchase 10 aircraft for delivery in 2018. The total purchase commitment for these orders is $458 million. Pre-delivery payments of $88.5 million have been made to date in respect of these aircraft.

As set out in note 26, the Group has contingent liabilities in respect of certain legal and regulatory matters for which it

is not practicable to estimate the financial impact as there are many factors that may affect the range of possible outcomes.

26. Legal and regulatory matters

Accounting policy

Where appropriate, the Group recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. The uncertainties inherent in legal and regulatory matters affect the amount and timing of any potential outflows with respect to which provisions have been established.

Claims and other proceedings

The Group receives legal claims against it in a number of jurisdictions and is a party to regulatory proceedings arising in the normal course of business.

Apart from the matters described below, the Group currently considers none of these claims or proceedings to be material.

2012 Settlements with certain US authorities

In 2012, the Group reached settlements with certain US authorities regarding US sanctions compliance in the period 2001 to 2007, involving a Consent Order by the New York Department of Financial Services (NYDFS), a Cease and Desist Order by the Board of Governors of the Federal Reserve System (Fed), Deferred Prosecution Agreements (DPAs) with each of the Department of Justice (DOJ) and the New York County District Attorney's Office (DANY) and a Settlement Agreement with the Office of Foreign Assets Control (together, the 'Settlements' and together the foregoing authorities, the 'US authorities'). In addition to the civil penalties totalling $667 million, the terms of these Settlements include a number of conditions and ongoing obligations with regard to improving sanctions, Anti-Money Laundering (AML) and Bank Secrecy Act (BSA) controls such as remediation programmes, reporting requirements, compliance reviews and programmes, banking transparency requirements, training measures, audit programmes, disclosure obligations and, in connection with the NYDFS Consent Order, the appointment of an independent monitor (Monitor). These obligations are managed under a programme of work referred to as the US Supervisory Remediation Program (SRP). The SRP comprises work streams designed to ensure compliance with the remediation requirements contained in all of the Settlements and the Group is engaged with all relevant authorities to implement these programmes and meet the Group's obligations under
the Settlements.

On 9 December 2014, the Group announced that the DOJ, DANY and the Group had agreed to a three-year extension of the DPAs until 10 December 2017, resulting in the subsequent retention of the Monitor to evaluate and make recommendations regarding the Group's sanctions compliance programme. On 9 November 2017, the Group announced the further extension of the DPAs until 28 July 2018.

The November 2017 DPA extension agreement noted that the Group had taken a number of steps and made significant progress to comply with the requirements of the DPA and enhance its sanctions compliance programme, but that the programme had not at the time reached
the standard required by the DPA. The Group is committed to ongoing cooperation with the authorities and to continuing to implement a comprehensive programme of improvements to its financial crime controls.

2014 Settlement with NYDFS

On 19 August 2014, the Group announced that it had reached a final settlement with the NYDFS regarding deficiencies in the AML transaction surveillance system in its New York branch (the 'Branch'). The system, which is separate from the sanctions screening process, is one part of the Group's overall financial crime controls and is designed to alert the Branch to unusual transaction patterns that require further investigation on a post-transaction basis.

The settlement provisions are summarised as follows:

(i) A civil monetary penalty of $300 million

(ii) Enhancements to the transaction surveillance system at the Branch

(iii) A two-year extension to the term of the Monitor (which, on 21 April 2017, was further extended to operate until 31 December 2018)

(iv) A set of temporary remediation measures, which will remain in place until the transaction surveillance system's detection scenarios are operating to a standard approved by the Monitor. These temporary remediation measures include a restriction on opening, without prior approval of the NYDFS, a US dollar demand deposit account for any client that does not already have such an account with the Branch, a restriction on US dollar-clearing services for certain clients in Hong Kong and enhanced monitoring of certain high-risk clients in the UAE.

The remit of the SRP covers the management of these obligations.

Other ongoing investigations and reviews
The Group continues to cooperate with an investigation by the US authorities relating to historical violations of US sanctions laws and regulations. In contrast to the 2012 settlements, which focused on the period before the Group's 2007 decision to stop doing new business with known Iranian parties, the ongoing investigation is focused on examining the extent to which conduct and control failures permitted clients with Iranian interests to conduct transactions through Standard Chartered Bank after 2007 and the extent to which any such failures were shared with relevant US authorities in 2012.

The Group is engaged in ongoing discussions with the relevant US authorities regarding the resolution of this investigation, and such resolution may involve a range of civil and criminal penalties for sanctions compliance violations including substantial monetary penalties combined with other compliance measures such as remediation requirements and/or business restrictions.

Standard Chartered Bank is also engaged in ongoing discussions with the Financial Conduct Authority (FCA) regarding an investigation concerning its financial crime controls. The investigation is looking at the effectiveness and governance of those controls within the correspondent banking business carried out by Standard Chartered Bank's London branch, particularly in relation to the business carried on with respondent banks from outside the European Economic Area and the effectiveness and governance of those controls in one of Standard Chartered Bank's overseas branches and the oversight exercised at Group level over those controls. Any resolution of the investigation could involve a substantial monetary penalty and other civil measures available to the FCA.

As part of their remit to oversee market conduct, regulators and other agencies in certain markets are conducting investigations or requesting reviews into a number of areas of regulatory compliance and market conduct, including sales and trading, involving a range of financial products, and submissions made to set various market interest rates and other financial benchmarks, such as foreign exchange. At relevant times, certain of the Group's branches and/or subsidiaries were (and are) participants in some of those markets, in some cases submitting data to bodies that set such rates and other financial benchmarks and responding to inquiries and investigations by relevant authorities, and the Group is facing regulatory investigations and proceedings in various jurisdictions related to foreign exchange trading. There may be penalties or other financial consequences to the Group as a result. The Group is contributing to industry proposals to strengthen financial benchmarks processes in certain markets and continues to review its practices and processes in the light of the investigations, reviews and the industry proposals.

It is not practicable to estimate the financial impact of these matters as there are many factors that may affect the range of possible outcomes; however, the resulting financial impact could be substantial.

The Securities and Futures Commission (SFC) in Hong Kong has been investigating Standard Chartered Securities (Hong Kong) Limited's (SCSHK) role as a joint sponsor of an initial public offering of China Forestry Holdings Limited, which was listed on the Hong Kong Stock Exchange in 2009. The SFC is pursuing disciplinary action against SCSHK, and there may be financial consequences for SCSHK in connection with this action.

27. Subordinated liabilities and other borrowed funds

Accounting policy
Subordinated liabilities and other borrowed funds are classified as financial instruments. Refer to note 13 Financial instruments for the accounting policy.

All subordinated liabilities are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements.

	2017 $million	2016 $million
Subordinated loan capital – issued by subsidiary undertakings		
£700 million 7.75 per cent subordinated notes 2018	956	898
£675 million 5.375 per cent undated step up subordinated notes (callable 2020)	327	307
£200 million 7.75 per cent subordinated notes (callable 2022)	221	215
$750 million 5.875 per cent subordinated notes 2020	768	785
$700 million 8.0 per cent subordinated notes 2031	426	432
BWP 127.26 million 8.2 per cent subordinated notes 2022 (callable)	13	12
BWP 70 million floating rate subordinated notes 2021 (callable)	7	7
BWP 50 million floating rate notes 2022 (callable)	5	5
JPY 10 billion 3.35 per cent subordinated notes 2023 (callable 2018)	89	88
KRW 90 billion 6.05 per cent subordinated debt 2018	85	79
SGD 450 million 5.25 per cent subordinated notes 2023 (callable 2018)	339	318
€700 million 5.875 per cent subordinated notes 2017	–	766
€400 million 5.875 per cent subordinated notes 2017	–	431
$1 billion 6.4 per cent notes subordinated notes 2017	–	512
PKR 2.5 billion floating rate notes 2022 (callable)	–	24
	3,236	4,879
Subordinated loan capital – issued by the Company		
Primary capital floating rate notes:		
$400 million	16	16
$300 million (Series 2)	69	69
$400 million (Series 3)	50	50
$200 million (Series 4)	26	26
£150 million	16	15
£900 million 5.125 per cent subordinated debt 2034	1,498	1,307
$2 billion 5.7 per cent subordinated debt 2044	2,395	2,372
$2 billion 3.95 per cent subordinated debt 2023	1,959	1,971
$1 billion 5.7 per cent subordinated notes 2022	1,004	996
$1 billion 5.2 per cent subordinated debt 2024	1,014	1,027
$750 million 5.3 per cent subordinated debt 2043	787	788
$1.25 billion 4.3 per cent subordinated debt 2027	1,144	1,220
€1.25 billion 4 per cent subordinated debt 2025 (callable 2020)	1,565	1,387
€750 million 3.625 per cent subordinated notes 2022	958	852
€500 million 3.125 per cent subordinated debt 2024	613	543
SGD 700 million 4.4 per cent subordinated notes 2026 (callable 2021)	531	473
Other subordinated borrowings – issued by company[1]	295	283
$1.25 billion 4 per cent subordinated notes 2022 (callable)	–	1,249
	13,940	14,644
Total for Group	17,176	19,523

1 Other borrowings comprise irredeemable sterling preference shares (note 28). In the balance sheet of the Company the amount recognised is $58 million (2016: $221 million), with the difference being the effect of hedge accounting achieved on a Group basis

	2017				
	USD $million	GBP $million	EUR $million	Others $million	Total $million
Fixed rate subordinated debt	9,497	3,297	3,136	1,057	16,987
Floating rate subordinated debt	161	16	–	12	189
Total	9,658	3,313	3,136	1,069	17,176

	2016				
	USD[1] $million	GBP $million	EUR $million	Others $million	Total $million
Fixed rate subordinated debt	11,352	3,010	3,979	970	19,311
Floating rate subordinated debt	161	15	–	36	212
Total	11,513	3,025	3,979	1,006	19,523

1 2016 numbers have been restated moving $1.2 billion from floating rate to fixed rate subordinated debt

Redemptions during the year

On 12 July 2017, Standard Chartered PLC exercised its right to redeem its $1.25 billion 4.0 per cent callable subordinated notes in full on the first call date.

On 26 September 2017, Standard Chartered Bank redeemed:

- The remaining $512 million of its $1 billion 6.4 per cent subordinated notes on the date of maturity
- €700 million 5.875 per cent subordinated notes in full on its maturity

- €400 million 5.875 per cent subordinated notes in full on its maturity

On 28 December 2017, Standard Chartered Bank Pakistan exercised its right to redeem PKR 2.5 billion floating rate notes 2022 in full on the first call date.

Issuances during the year

There were no new issuances during the year ended 31 December 2017.

28. Share capital, other equity instruments and reserves

Accounting policy

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue available number of own equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Securities which carry a discretionary coupon and have no fixed maturity or redemption date are classified as other equity instruments. Interest payments on these securities are recognised, net of tax, as distributions from equity in the period in which they are paid.

Where the Company or other members of the consolidated Group purchase the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity of the Group and/or of the Company as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity of the Group and/or the Company.

Group and Company	Number of ordinary shares millions	Ordinary share capital[1] $million	Share premium[2] $million	Total share capital & share premium $million	Other equity instruments $million
At 1 January 2016	3,278	1,639	5,449	7,088	1,987
Shares issued	6	3	–	3	–
Additional Tier 1 equity issuance	–	–	–	–	1,982
At 31 December 2016	3,284	1,642	5,449	7,091	3,969
Shares issued	12	6	–	6	–
Additional Tier 1 equity issuance	–	–	–	–	992
At 31 December 2017	3,296	1,648	5,449	7,097	4,961

1 Issued and fully paid ordinary shares of 50 cents each
2 Includes $1,494 million of share premium relating to preference capital

Ordinary share capital

In accordance with the Companies Act 2006 the Company does not have authorised share capital. The nominal value of each ordinary share is 50 cents.

During the year 12,272,991 shares were issued under employee share plans at prices between nil and 557.76 pence.

Preference share capital

At 31 December 2016 and 2017, the company has 15,000 $5 non-cumulative redeemable preference shares in issue, with a premium of $99,995 making a paid up amount per preference share of $100,000. The preference shares are redeemable at the option of the company and are classified in equity.

The available profits of the company are distributed to the holders of the issued preference shares in priority to payments made to holders of the ordinary shares and in priority to, or pari passu with, any payments to the holders of any other class of shares in issue. On a winding up, the assets of the Company are applied to the holders of the preference shares in priority to any payment to the ordinary shareholders and in priority to, or pari passu with, the holders of any other shares in issue, for an amount equal to any dividends accrued and/or payable and the nominal value of the shares together with any premium as determined by the board. The redeemable preference shares are redeemable at the paid up amount (which includes premium) at the option of the Company in accordance with the terms of the shares. The holders of the preference shares are not entitled to attend or vote at any general meeting except where any relevant dividend due is not paid in full or where a resolution is proposed varying the rights of the preference shares.

Other equity instruments

On 2 April 2015 Standard Chartered PLC issued $2,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as Additional Tier 1 (AT1) securities, raising $1,987 million after issue costs. On 18 August 2016, Standard Chartered PLC issued a further $2,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising $1,982 million after issue costs. On 18 January 2017, Standard Chartered PLC issued a further $1,000 million Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities as AT1 securities, raising $992 million after issue costs. All the issuances were made for general business purposes and to increase the regulatory capital base of the Group.

The principal terms of the AT1 securities are described below:

- The securities are perpetual and redeemable, at the option of Standard Chartered PLC in whole but not in part, on the first interest reset date and each date falling five years after the first reset date
- The securities are also redeemable for certain regulatory or tax reasons on any date at 100 per cent of their principal amount together with any accrued but unpaid interest upto (but excluding) the date fixed for redemption. Any redemption is subject to Standard Chartered PLC giving notice to the relevant regulator and the regulator granting permission to redeem
- The interest rate in respect of the securities issued on 2 April 2015 for the period from (and including) the issue date to (but excluding) 2 April 2020 is a fixed rate of 6.50 per cent per annum. The first reset date for the interest rate is 2 April 2020 and each date falling five, or an integral multiple of five years after the first reset date
- The interest rate in respect of the securities issued on 18 August 2016 for the period from (and including) the issue date to (but excluding) 2 April 2022 is a fixed rate of 7.50 per cent per annum. The first reset date for the interest rate is 2 April 2022 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest rate in respect of the securities issued on 18 January 2017 for the period from (and including) the issue date to (but excluding) 2 April 2023 is a fixed rate of 7.75 per cent per annum. The first reset date for the interest rate is 2 April 2023 and each date falling five years, or an integral multiple of five years, after the first reset date
- The interest on each of the securities will be payable semi-annually in arrears on 2 April and 2 October in each year, accounted for as a dividend
- Interest on the securities is due and payable only at the sole and absolute discretion of Standard Chartered PLC, subject to certain additional restrictions set out in the terms and conditions. Accordingly, Standard Chartered PLC may at any time elect to cancel any interest payment (or part thereof) which would otherwise be payable on any interest payment date
- The securities convert into ordinary shares of Standard Chartered PLC, at a pre-determined price, should the fully loaded Common Equity Tier 1 ratio of the Group fall below 7.0 per cent. Approximately 572 million ordinary shares would be required to satisfy the conversion of all the securities mentioned above

The securities rank behind the claims against Standard Chartered PLC of: (a) unsubordinated creditors; (b) which are expressed to be subordinated to the claims of unsubordinated creditors of Standard Chartered PLC but not further or otherwise; or (c) which are, or are expressed to be, junior to the claims of other creditors of Standard Chartered PLC, whether subordinated or unsubordinated, other than claims which rank, or are expressed to rank, pari passu with, or junior to, the claims of holders of the AT1 securities in a winding-up occurring prior to the conversion trigger.

Reserves

The constituents of the reserves are summarised as follows:

- The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001. The capital redemption reserve represents the nominal value of preference shares redeemed
- Merger reserve represents the premium arising on shares issued using a cash box financing structure, which required the Company to create a merger reserve under section 612 of the Companies Act 2006. Shares were issued using this structure in 2005 and 2006 to assist in the funding of certain acquisitions, in 2008, 2010 and 2015 for the shares issued by way of a rights issue, and for the shares issued in 2009 in the placing. The funding raised by the 2008 and 2010 rights issues and 2009 share issue was fully retained within the Company
- Own credit adjustment reserve represents the cumulative gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit. Following the Group's decision to early apply this IFRS 9 requirement the cumulative OCA component of financial liabilities designated at fair value through profit or loss has been transferred from opening retained earnings to the OCA reserve. Gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit in the year have been taken through other comprehensive income into this reserve. On derecognition of applicable instruments, the balance of any OCA will not be recycled to the income statement, but will be transferred within equity to retained earnings
- Available-for-sale reserve represents the unrealised fair value gains and losses in respect of financial assets classified as available-for-sale, net of taxation. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying asset is sold, matures or becomes impaired
- Cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria for these types of hedges. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur

- Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve and are reclassified to the income statement when the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations
- Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions and own shares held (treasury shares)

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise

As at 31 December 2017, the distributable reserves of Standard Chartered PLC (the Company) were $15.1 billion (2016: $15.2 billion). These comprised retained earnings and $12.5 billion of the merger reserve account. Distribution of reserves is subject to maintaining minimum capital requirements.

Own shares

Computershare Trustees (Jersey) Limited is the trustee of the 2004 Employee Benefit Trust (2004 Trust) and Ocorian Trustees (Jersey) Limited (formerly known as Bedell Trustees Limited) is the trustee of the 1995 Employees' Share Ownership Plan Trust (1995 Trust). The 2004 Trust is used in conjunction with the Group's employee share schemes and the 1995 Trust is used for the delivery of other employee share-based payments (such as upfront shares and fixed pay allowances). Group companies fund these trusts from time to time to enable the trustees to acquire shares to satisfy these arrangements.

Except as disclosed, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the company listed on The Stock Exchange of Hong Kong Limited during the period. Details of the shares purchased and held by the trusts are set out below.

	1995 Trust		2004 Trust		Total	
Number of shares	2017	2016	2017	2016	2017	2016
Shares purchased during the year	–	6,160,185	–	–	–	6,160,185
Market price of shares purchased ($million)	–	51	–	–	–	51
Shares held at the end of the year	3,769,011	6,104,154	18,004	78,313	3,787,015	6,182,467
Maximum number of shares held during the year					6,182,467	6,183,210

29. Non-controlling interests

Accounting policy

Non-controlling interests are measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

	$million
At 1 January 2016	321
Loss in equity attributable to non-controlling interests	(11)
Other profits attributable to non-controlling interests	56
Comprehensive income for the year	45
Distributions	(37)
Other decreases[1]	(8)
At 31 December 2016	321
Income in equity attributable to non-controlling interests	1
Other profits attributable to non-controlling interests	49
Comprehensive income for the year	50
Distributions	(51)
Other increases[2]	21
At 31 December 2017	341

1 Mainly due to completion of sale of businesses with non-controlling interest in Pakistan and issuance of shares to non-controlling interest in Angola
2 Mainly due to additional shares issued including the premium by Nepal $12 million and $9 million with respect to an acquisition during 2017

30. Retirement benefit obligations

Accounting policy

The Group operates pension and other post-retirement benefit plans around the world, which can be categorised into defined contribution plans and defined benefit plans.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a statutory or contractual basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid. For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets.

For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds of the same currency and term as the benefit payments.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The Group determines the net interest expense on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payments. Net interest expense, the cost of the accrual of new benefits, benefit enhancements (or reductions) and administration expenses met directly from plan assets are recognised in the income statement.

Significant accounting estimates and judgements

There are many factors that affect the measurement of retirement benefit obligations of the UK Fund and overseas plans. This measurement requires the use of assumptions, such as inflation, salary increases, pension increases and discount rates which are inherently uncertain; the sensitivity of the liabilities to changes in these assumptions is shown in the note below.

Retirement benefit obligations comprise:

	2017 $million	2016 $million
Defined benefit plans obligation	443	495
Defined contribution plans obligation	12	30
Net obligation	455	525

Retirement benefit charge comprises:

	2017 $million	2016 $million
Defined benefit plans	98	85
Defined contribution plans	259	231
Charge against profit (note 7)	357	316

The Group operates over 50 defined benefit plans across its geographies, many of which are closed to new entrants who now join defined contribution arrangements. The aim of all these plans is to give employees the opportunity to save appropriately for retirement in a way that is consistent with local regulations, taxation requirements and market conditions. The defined benefit plans expose the Group to currency risk, interest rate risk, investment risk and actuarial risks such as longevity risk.

The material holdings of government and corporate bonds shown in the asset table below partially hedge movements in the liabilities resulting from interest rate changes. Setting aside movements from other drivers such as currency fluctuation, the falls in discount rates in most geographies over 2017 have led to higher liabilities. These have been somewhat offset by rises in the value of bonds held, higher stock markets generally and changes to demographic assumptions reflecting an assumed lower future pace of mortality improvements in the UK. These movements are shown as actuarial losses versus gains respectively in the tables below. Higher contributions into a number of plans have also helped the net deficit reduce over the year.

The disclosures required under IAS 19 have been calculated by independent qualified actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2017.

UK Fund

The Standard Chartered Pension Fund (the 'UK Fund') is the Group's largest pension plan, representing 60 per cent of total pension liabilities, and provides pensions based on 1/60th of final salary per year of service, normally payable from age 60. The UK Fund is set up under a trust that is legally separate from the Bank (its formal sponsor) and, as

required by UK legislation, at least one-third of the trustee directors are nominated by members; the remainder are appointed by the Bank. The trustee directors have a fiduciary duty to members and are responsible for governing the UK Fund in accordance with its Trust Deed and Rules.

The financial position of the UK Fund is regularly assessed by an independent qualified actuary. The funding valuation as at 31 December 2017 is currently underway with results expected to be finalised over the course of 2018, as permitted by UK pension regulations. The most recent completed funding valuation was performed as at 31 December 2014 by A Zegleman, Fellow of the Institute and Faculty of Actuaries, of Willis Towers Watson, using the projected unit method and assumptions different from those below. To repair the $97 million (£72 million) past service deficit identified as at 31 December 2014, four annual cash payments of $17.0 million (£12.6 million) were agreed, starting in January 2016. The agreement allows that if the funding position improves more quickly than expected, the three payments from January 2017 could be reduced or eliminated. The actuarial assessment that applied to the January 2017 and 2018 payments did not allow for a reduction in either case, so the full £12.6 million payments were paid into the Fund on 16 January 2017 and 11 January 2018. In addition, an escrow account of $149 million (£110 million) exists to provide security for future contributions. Following the 31 December 2014 valuation, regular contributions to the UK Fund were set at 32 per cent of pensionable salary for all members.

With effect from 1 July 1998, the UK Fund was closed to new entrants and new employees are offered membership of a defined contribution plan. Over 90 per cent of the Fund's liabilities now relate to pensioners or ex-employees who have left the Group but have not yet retired. The discretionary pension increase awarded April 2017 was half what was assumed in the accounting liabilities, and this is reflected in the gain in the pension cost table below. As at 31 December 2017, the weighted-average duration of the UK Fund was 15 years (2016: 16 years).

The Group is not required to recognise any additional liability under IFRIC 14 or the 2015 exposure draft of proposed amendments to it, as the Bank has control of any pension surplus under the Trust Deed and Rules.

Overseas plans

The principal overseas defined benefit arrangements operated by the Group are in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the United States of America (US).

Key assumptions

The principal financial assumptions used at 31 December 2017 were:

	Funded plans			
	UK Fund[1]		Overseas Plans[2]	
	2017 %	2016 %	2017 %	2016 %
Price inflation	**2.1**	2.1	**1.0–5.0**	1.0–5.0
Salary increases	**2.1**	2.1	**2.1–7.0**	2.1–6.5
Pension increases	**2.1**	2.1	**1.6–3.2**	1.5–3.2
Discount rate	**2.5**	2.7	**1.0–7.2**	1.3–6.9

1 The assumptions for life expectancy for the UK Fund are that a male member currently aged 60 will live for 28 years (2016: 28 years) and a female member for 29 years (2016: 29 years) and a male member currently aged 40 will live for 30 years (2016: 30 years) and a female member for 30 years (2016: 31 years) after their 60th birthdays

2 The range of assumptions shown is for the main funded defined benefit overseas plans in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the US. These comprise over 85 per cent of the total liabilities of funded overseas plans

These assumptions are likely to change in the future and this will affect the value placed on the liabilities. For example, changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

- If the discount rate increased by 25 basis points the liability would reduce by approximately $65 million for the UK Fund and $30 million for the other plans
- If the rate of inflation and pension increases increased by 25 basis points the liability would increase by approximately $45 million for the UK Fund and $20 million for the other plans
- If the rate salaries increase compared with inflation increased by 25 basis points the liability would increase by $2 million for the UK Fund and approximately $15 million for the other plans
- If longevity expectations increased by one year the liability would increase by approximately $55 million for the UK Fund and $15 million for the other plans

Although this analysis does not take account of the full distribution of cash flows expected under the UK Fund, it does provide an approximation of the sensitivity to the main assumptions. While changes in other assumptions would also have an impact, the effect would not be as significant.

	Unfunded plans			
	US post-retirement medical[1]		Other[2]	
	2017 %	2016 %	2017 %	2016 %
Price inflation	2.5	2.5	1.9–5.0	2.0–5.0
Salary increases	N/A	4	2.1–7.0	2.1–6.5
Pension increases	N/A	N/A	0.0–2.1	0.0–2.1
Discount rate	3.8	4.4	2.3–7.2	2.7–8.4
Post-retirement medical rate	8% in 2017 reducing by 1% per annum to 5% in 2020	9% in 2016 reducing by 1% per annum to 5% in 2020	N/A	N/A

1 The US post-retirement medical plan is closed to new entrants and eligibility for benefits tightened. This is reflected in the pension cost table below
2 The range of assumptions shown is for the main unfunded plans in India, Korea, Thailand, UAE and the UK. They comprise around 85 per cent of the total liabilities of unfunded plans

Fund values:

The fair value of assets and present value of liabilities of the plans attributable to defined benefit members were:

	2017				2016			
	Funded plans		Unfunded plans		Funded plans		Unfunded plans	
At 31 December	UK Fund $million	Overseas plans $million	Post-retirement medical $million	Other $million	UK Fund $million	Overseas plans $million	Post-retirement medical $million	Other $million
Equities	180	354	N/A	N/A	191	291	N/A	N/A
Government bonds	752	191	N/A	N/A	642	153	N/A	N/A
Corporate bonds	140	87	N/A	N/A	169	81	N/A	N/A
Absolute Return Fund	177	–	N/A	N/A	148	–	N/A	N/A
Hedge funds[1]	190	2	N/A	N/A	187	–	N/A	N/A
Insurance linked funds[1]	38	–	N/A	N/A	29	–	N/A	N/A
Opportunistic credit[1]	60	–	N/A	N/A	61	–	N/A	N/A
Property	64	13	N/A	N/A	70	4	N/A	N/A
Derivatives	5	4	N/A	N/A	(16)	–	N/A	N/A
Cash and equivalents	91	195	N/A	N/A	52	160	N/A	N/A
Others[1]	10	39	N/A	N/A	8	30	N/A	N/A
Total fair value of assets[2]	1,707	885	N/A	N/A	1,541	719	N/A	N/A
Present value of liabilities	(1,827)	(996)	(18)	(194)	(1,657)	(878)	(22)	(198)
Net pension (liability)/asset	(120)	(111)	(18)	(194)	(116)	(159)	(22)	(198)

1 Unquoted assets
2 Self investment is monitored closely and is less than $2 million of Standard Chartered equities and bonds for 2017 (2016: $2 million). Self investment is only allowed where it is not practical to exclude it – for example through investment in index-tracking funds where the Group is a constituent of the relevant index

The pension cost for defined benefit plans was:

	Funded plans		Unfunded plans		
2017	UK Fund $million	Overseas plans $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	4	53	–	16	73
Past service cost and curtailments[1]	(6)	7	(4)	–	(3)
Settlement cost[2]	–	(1)	–	8	7
Interest income on pension plan assets	(43)	(23)	–	–	(66)
Interest on pension plan liabilities	46	28	1	12	87
Total charge/(credit) to profit before deduction of tax	1	64	(3)	36	98
Return on plan assets excluding interest income[3]	(30)	(83)	–	–	(113)
Losses/(gains) on liabilities	41	51	–	(11)	81
Total losses/(gains) recognised directly in statement of comprehensive income before tax	11	(32)	–	(11)	(32)
Deferred taxation	28	7	–	–	35
Total losses/(gains) after tax	39	(25)	–	(11)	3

1 The gain in the UK Fund is due to the lower 2017 discretionary pension increased awarded. Costs arising in funded overseas schemes arise primarily in India from the expected statutory increase in the gratuity payment ceiling, an early retirement severance plan and a discretionary increase to minimum pensions. The gain in the post-retirement medical plan arises due to the reduction in eligibility criteria in the US plan
2 The costs arise primarily from the settlement of benefits in Thailand
3 The actual return on the UK fund assets was $73 million and on overseas plan assets was $106 million

The pension cost for defined benefit plans was:

2016	Funded plans UK Fund $million	Funded plans Overseas plans $million	Unfunded plans Post-retirement medical $million	Unfunded plans Other $million	Total $million
Current service cost	5	52	1	17	75
Past service cost and curtailments	–	(7)	–	3	(4)
Gain on settlements[1]	–	(1)	–	–	(1)
Interest income on pension plan assets	(56)	(22)	–	–	(78)
Interest on pension plan liabilities	57	27	1	8	93
Total charge to profit before deduction of tax	6	49	2	28	85
Return on plan assets excluding interest income[2]	(139)	(18)	–	–	(157)
Losses/(gains) on liabilities	239	12	(4)	15	262
Total losses/(gains) recognised directly in statement of comprehensive income before tax	100	(6)	(4)	15	105
Deferred taxation	–	(2)	–	–	(2)
Total losses/(gains) after tax	100	(8)	(4)	15	103

1 These movements reflect a reduction in workforce in a number of geographies as result of the restructuring actions of the Group
2 The actual return on the UK Fund assets was $195 million and on overseas plan assets was $40 million

Movement in the defined benefit pension plans and post-retirement medical deficit during the year comprises:

	Funded plans		Unfunded plans		
	UK Fund $million	**Overseas plans $million**	**Post-retirement medical $million**	**Other $million**	**Total $million**
Deficit at 1 January 2017	**(116)**	**(159)**	**(22)**	**(198)**	**(495)**
Contributions	**19**	**92**	**1**	**31**	**143**
Current service cost	**(4)**	**(53)**	**–**	**(16)**	**(73)**
Past service cost and curtailments	**6**	**(7)**	**4**	**–**	**3**
Settlement costs and transfers impact	**–**	**1**	**–**	**(8)**	**(7)**
Net interest on the net defined benefit asset/liability	**(3)**	**(5)**	**(1)**	**(12)**	**(21)**
Actuarial (losses)/gains	**(11)**	**32**	**–**	**11**	**32**
Adjustment for Indonesia scheme[1]	**–**	**(4)**	**–**	**4**	**–**
Exchange rate adjustment	**(11)**	**(8)**	**–**	**(6)**	**(25)**
Deficit at 31 December 2017[2]	**(120)**	**(111)**	**(18)**	**(194)**	**(443)**

1 During 2017 the Indonesian plan (with liabilities of $8 million) was partially funded with a Company contribution of $4 million. The scheme has moved from the unfunded to funded category in the tables
2 The deficit total of $443 million is made up of plans in deficit of $483 million (2016: $513 million) net of plans in surplus with assets totalling $40 million (2016: $18 million)

	Funded plans		Unfunded plans		
	UK Fund $million	Overseas plans $million	Post-retirement medical $million	Other $million	Total $million
Deficit at 1 January 2016	(36)	(175)	(24)	(187)	(422)
Contributions	20	60	–	18	98
Current service cost	(5)	(52)	(1)	(17)	(75)
Past service cost and curtailments	–	7	–	(3)	4
Settlement costs and transfers impact	–	1	–	–	1
Net interest on the net defined benefit asset/liability	(1)	(5)	(1)	(8)	(15)
Actuarial (losses)/gains	(100)	6	4	(15)	(105)
Exchange rate adjustment	6	(1)	–	14	19
Deficit at 31 December 2016	(116)	(159)	(22)	(198)	(495)

The Group’s expected contribution to its defined benefit pension plans in 2018 is $91 million.

	2017			2016		
	Assets $million	Obligations $million	Total $million	Assets $million	Obligations $million	Total $million
At 1 January	2,260	(2,755)	(495)	2,409	(2,831)	(422)
Contributions[1]	144	(1)	143	99	(1)	98
Current service cost[2]	–	(73)	(73)	–	(75)	(75)
Past service cost and curtailments	–	3	3	–	4	4
Settlement costs	(14)	7	(7)	(13)	14	1
Interest cost on pension plan liabilities	–	(87)	(87)	–	(93)	(93)
Interest income on pension plan assets	66	–	66	78	–	78
Benefits paid out[2]	(152)	152	–	(175)	175	–
Actuarial (losses)/gains[3]	113	(81)	32	157	(262)	(105)
Exchange rate adjustment	175	(200)	(25)	(295)	314	19
At 31 December	2,592	(3,035)	(443)	2,260	(2,755)	(495)

1 Includes employee contributions of $1 million (2016: $1 million)
2 Includes administrative expenses paid out of plan assets of $1 million (2016: $1 million)
3 Actuarial loss on obligation comprises $81 million loss (2016: $284 million loss) from financial assumption changes, $30 million gain (2016: $8 million gain) from demographic assumption changes and $30 million loss (2016: $14 million gain) from experience

31. Share-based payments

Accounting policy

The Group operates equity-settled and cash-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For deferred share awards granted as part of an annual performance award, the expense is recognised over the period from the start of the performance period to the vesting date. For example, the expense
for awards granted in 2017 in respect of 2016 performance, which vest in 2018-2020, is recognised as an expense over the period from 1 January 2016 to the vesting dates in 2018-2020. For all other awards, the expense is recognised over the period from the date of grant to the vesting date.

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options at the date of grant, which excludes the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the income statement at the time of cancellation. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards are revalued at each balance sheet date and a liability recognised on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in the income statement until the awards are exercised. Where forfeitures occur prior to vesting that are attributable to factors other than a failure to satisfy market-based performance conditions, the cumulative charge incurred up to the date of forfeiture is credited to the income statement. The Company records the value of the equity-settled awards as a deemed investment in subsidiaries. Any revaluation related to cash-settled awards is recorded as an amount due from subsidiary undertakings.

The Group operates a number of share-based arrangements for its executive directors and employees. Details of the share-based payment charge are set out below.

	2017[1]			2016[1]		
	Cash $million	Equity $million	Total $million	Cash $million	Equity $million	Total $million
Deferred share awards	14	71	85	8	26	34
Other share awards	9	58	67	5	61	66
Total share-based payments	23	129	152	13	87	100

1 No forfeiture assumed

2011 Standard Chartered Share Plan (the '2011 Plan')

The 2011 Plan was approved by shareholders in May 2011 and is the Group's main share plan. Since approval, it has been used to deliver various types of share awards:

- Long Term Incentive Plan (LTIP) awards: granted with vesting subject to performance measures. Performance measures attached to awards granted previously include: total shareholder return (TSR); return on equity (RoE) with a common equity tier 1 (CET1) underpin; strategic measures; earnings per share (EPS) growth; and return on risk-weighted assets (RoRWA). Each measure is assessed independently over a three-year period. Awards granted from 2016 have an individual conduct gateway that results in the award lapsing if not met
- Deferred awards are used to deliver the deferred portion of variable remuneration, in line with both market practice and regulatory requirements. These awards vest in instalments on anniversaries of the award date specified at the time of grant. Deferred awards are not subject to any plan limit. This enables the Group to meet regulatory requirements relating to deferral levels, and is in line with market practice
- Restricted share awards, made outside of the annual performance process as replacement buy-out awards to new joiners who forfeit awards on leaving their previous employers, vest in instalments on the anniversaries of the award date specified at the time of grant. This enables the Group to meet regulatory requirements relating to buy-outs, and is in line with market practice. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance measures
- Underpin shares are subject to a combination of two performance measures: EPS growth and RoRWA. The weighting between the two elements is split equally, one-half of the award depending on each measure, assessed independently. These awards vest after three or five years. Underpin shares formed part of the variable remuneration awarded to executive directors and senior management in respect of 2014 performance

Under the 2011 Plan, no grant price is payable to receive an award. The remaining life of the 2011 Plan during which new awards can be made is four years.

Valuation – LTIP awards

The vesting of awards granted in both 2016 and 2017 is subject to the satisfaction of RoE (subject to a capital underpin) and relative TSR performance measures and achievement of a strategic scorecard. The fair value of the TSR component is calculated using the probability of meeting the measures over a three-year performance period, using a Monte Carlo simulation model. The number of shares expected to vest is evaluated at each reporting date, based on the expected performance against the RoE and strategic measures in the scorecard, to determine the accounting charge.

Dividend equivalents accrue on these awards during the vesting period, so no discount is applied.

	2017	2016		
Grant date	13 March	15 June	4 May	11 March
Share price at grant date (£)	**7.43**	5.05	5.08	4.68
Vesting period (years)	**3-7**	3	3, 3-7	3
Expected dividend yield (%)	**N/A**	N/A	N/A	N/A
Fair value (RoE) (£)	**2.48, 2.48**	1.68	1.69, 1.69	1.56
Fair value (TSR) (£)	**1.81, 1.38**	1.24	1.25, 1.12	1.15
Fair value (Strategic) (£)	**2.48, 2.48**	1.68	1.69, 1.69	1.56

Valuation – deferred shares and restricted shares

The fair value for all employees is based on 100 per cent of the face value of the shares at the date of grant as the share price will reflect expectations of all future dividends.

Deferred shares and underpin shares accrue dividend equivalent payments during the vesting period. The expected dividend yield assumption is based on a historical average over a period commensurate with this 'average' period until vesting, or over one year if the average period until vesting is less than one year.

Details of deferred, underpin and LTIP awards for executive directors can be found in the Annual report.

Deferred share awards

Grant date	2017 3 October	2017 15 June	2017 13 March	2016 30 November	2016 4 October	2016 15 June	2016 4 May	2016 11 March
Share price at grant date (£)	7.56	7.69	7.43	6.41	6.50	5.05	5.08	4.68

Vesting period	Fair value (£)	Fair value (£)	Fair value (£)	Fair value (£)	Fair value (£)	Fair value (£)	Fair value (£)	Fair value (£)
1-3 years	7.56	7.69	7.43	6.41	6.50	5.05	5.08	4.68
1-5 years	–	–	7.43	–	–	–	–	–
3-7 years	–	–	7.43	–	–	–	–	–

Other restricted share awards

Grant date	2017 29 November		2017 3 October		2017 15 June		2017 13 March	
Share price at grant date (£)	7.43		7.56		7.69		7.43	
Vesting Period	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
6 months	–	–	–	–	–	–	–	7.43
1 year	–	7.43	–	7.56	–	7.69	–	7.43
2 year	–	7.43	–	7.56	0.5	7.61	0.5	7.35
2-3 years	–	–	–	–	–	–	1.9	7.08
3 year	1.6	7.08	1.6	7.21	2.1	7.23	2.1	6.99
4 year	2.2	6.80	2.2	6.92	2.5	6.96	2.5	6.72
5 year	2.4	6.58	2.4	6.70	–	–	–	–
6 year	2.6	6.36	2.6	6.47	–	–	–	–

Grant date	2016 30 November		2016 4 October		2016 15 June		2016 4 May		2016 11 March	
Share price at grant date (£)	6.41		6.50		5.05		5.08		4.68	
Vesting Period	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)	Expected dividend yield (%)	Fair value (£)
1 year	–	6.41	–	6.50	–	–	–	–	–	–
2 year	2.4	6.11	2.4	6.20	–	–	–	–	–	–
2-3 years	2.5	6.03	2.5	6.11	3.6	4.62	3.6	4.65	3.5	4.30
3 year	3.0	5.87	3.0	5.95	–	–	3.4	4.60	–	–
2-4 years	–	–	–	–	–	–	3.8	4.65	–	–
1-4 years	–	–	–	–	–	–	–	–	3.5	4.30
4 year	–	–	3.1	5.76	–	–	3.4	4.44	–	–

2001 Performance Share Plan (2001 PSP) – now closed to new grants:
The Group's previous plan for delivering performance shares was the 2001 PSP and there remain outstanding vested awards. Under the 2001 PSP half the award was dependent upon TSR performance and the balance was subject to a target of defined EPS growth. Both measures used the same three-year period and were assessed independently.

2006 Restricted Share Scheme (2006 RSS)/2007 Supplementary Restricted Share Scheme (2007 SRSS):
The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS, both now replaced by the 2011 Plan. There remain outstanding vested awards under these plans. Awards were generally in the form of nil cost options and did not have any performance measures. Generally deferred restricted share awards vested equally over three years and for non-deferred awards half-vested two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

All Employee Sharesave Plans (comprised of the 2004 International Sharesave Plan, the 2004 UK Sharesave Plan and the 2013 Sharesave Plan):
Under the All Employee Sharesave Plans, employees may open a savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation (this is known as the 'option exercise price'). There are no performance measures attached to options granted under the All Employee Sharesave Plans and no grant price is payable to receive an option. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent

cash-based plan to its employees. The 2004 International Sharesave and the 2004 UK Sharesave plans are now closed and no further awards will be granted under these plans.

The 2013 Sharesave Plan was approved by Shareholders in May 2013 and all future Sharesave invitations are made under this plan. The remaining life of the 2013 Sharesave Plan is five years.

Valuation – Sharesave:
Options under the Sharesave plans are valued using a binomial option-pricing model. The same fair value is applied to all employees including executive directors. The fair value per option granted and the assumptions used in the calculation are as follows:

All Employee Sharesave Plan (Sharesave)

	2017	2016
Grant date	3 October	4 October
Share price at grant date (£)	7.71	6.50
Exercise price (£)	6.20	5.30
Vesting period (years)	3	3
Expected volatility (%)	34.9	34.2
Expected option life (years)	3.33	3.33
Risk-free rate (%)	0.47	0.13
Expected dividend yield (%)	1.87	3.04
Fair value (£)	2.32	1.71

The expected volatility is based on historical volatility over the last three years, or three years prior to grant. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The expected dividend yield is based on historical dividend for three years prior to grant.

Reconciliation of option movements for the year to 31 December 2017

	2011 Plan[1]						
	Performance shares	Deferred/restricted shares	PSP[1]	RSS[1]	SRSS[1]	Sharesave	Weighted average exercise price (£)
Outstanding as at 1 January	28,740,614	24,208,988	76,977	701,603	80,299	13,291,261	6.72
Granted[2,3]	2,347,184	12,066,323	–	–	–	3,097,250	6.20
Lapsed	(5,550,569)	(1,233,517)	(14,821)	(118,531)	(18,741)	(3,529,783)	8.67
Exercised	(59,861)	(11,730,573)	(44,934)	(397,129)	(60,309)	(40,494)	5.55
Outstanding as at 31 December	25,477,368	23,311,221	17,222	185,943	1,249	12,818,234	6.06
Exercisable as at 31 December	65,429	4,526,848	17,222	185,943	1,249	1,364,426	9.38
Range of exercise prices (£)[2]	–	–	–	–	–	5.30-9.38	–
Intrinsic value of vested but not exercised options ($ million)	0.1	3.6	0.0	0.2	0.0	0.0	–
Weighted average contractual remaining life (years)	8.29	8.09	1.13	0.19	0.19	2.05	–
Weighted average share price for options exercised during the period (£)	7.44	7.43	7.73	7.43	7.35	7.62	–

1 Employees do not contribute towards the cost of these awards
2 For Sharesave granted in 2017 the exercise price is £6.20 per share, which was the average of the closing prices over the five days to the invitation date of 4 September. The closing share price on 1 September 2017 was £7.7390
3 Performance shares comprise 2,347,184 (LTIP) granted on 13 March 2017. Deferred/restricted shares comprise 10,055,740 (RSA/DRSA) granted on 13 March 2017, 366,830 (RSA/DRSA) granted on 15 June 2017, 871,760 (RSA) granted on 03 October 2017 and 771,993 (RSA) granted on 29 November 2017

Reconciliation of option movements for the year to 31 December 2016

	2011 Plan[1]						
	Performance shares	Deferred/restricted shares	PSP[1]	RSS[1]	SRSS[1]	Sharesave	Weighted average exercise price (£)
Outstanding as at 1 January	9,658,733	23,108,554	103,768	1,150,866	140,110	15,341,808	7.87
Granted[2]	25,319,833[3]	8,457,559[4]	–	–	–	3,801,733	5.30
Lapsed	(6,074,460)	(1,585,856)	(14,007)	(121,803)	(348)	(5,851,915)	8.83
Exercised	(163,492)	(5,771,269)	(12,784)	(327,460)	(59,463)	(365)	5.67
Outstanding as at 31 December	28,740,614	24,208,988	76,977	701,603	80,299	13,291,261	6.72
Exercisable as at 31 December	145,928	5,745,431	76,977	701,603	80,299	1,484,146	10.98
Range of exercise prices (£)[2]	–	–	–	–	–	5.30-11.21	–
Intrinsic value of vested but not exercised options ($ million)	0.1	3.6	0.1	0.4	0.1	0.0	–
Weighted average contractual remaining life (years)	8.88	8.15	2.02	0.90	0.45	2.31	–
Weighted average share price for options exercised during the period (£)	4.89	5.21	6.23	5.49	6.02	5.85	–

1 Employees do not contribute towards the cost of these awards
2 For Sharesave granted in 2016 the exercise price is £5.30 per share, which was the average of the closing prices over the five days to the invitation date of 5 September. The closing share price on 2 September 2016 was £6.614
3 23,437,968 granted on 11 March 2016, 922 (notional dividend) granted on 19 March 2016, 1,810,435 granted on 4 May 2016, 70,508 granted on 15 June 2016
4 7,134,374 granted on 11 March 2016, 34,643 (notional dividend) granted on 11 March 2016, 52,514 (notional dividend) granted on 13 March 2016, 94,242 (notional dividend) granted on 19 March 2016, 600,413 granted on 4 May 2016, 21,991 granted on 15 June 2016, 187 (notional dividend) granted on 17 June 2016, 35 (notional dividend) granted on 18 June 2016, 14 (notional dividend) granted on 19 June 2016, 434,555 granted on 4 October 2016, and 84,591 granted on 30 November 2016

32. Investments in subsidiary undertakings, joint ventures and associates

Accounting policy

Subsidiaries

Subsidiaries are all entities, including structured entities, which the Group controls. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The assessment of power is based on the Group's practical ability to direct the relevant activities of the entity unilaterally for the Group's own benefit and is subject to reassessment if and when one or more of the elements of control change. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are deconsolidated from the date that control ceases, and where any interest in the subsidiary remains, this is remeasured to its fair value and the change in carrying amount is recognised in the income statement.

Associates and joint arrangements

Joint arrangements are where two or more parties either have rights to the assets, and obligations of the joint arrangement (joint operations), or have rights to the net assets of the joint arrangement (joint venture). The Group evaluates the contractual terms of joint arrangements to determine whether a joint arrangement is a joint operation or a joint venture. As at 31 December 2017, the Group did not have any contractual interest in joint operations.

An associate is an entity over which the Group has significant influence.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition (net of any accumulated impairment loss).

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. At each balance sheet date the Group assesses whether there is any objective evidence of impairment in the investment in associates and joint ventures. Such evidence includes a significant or prolonged decline in the fair value of the Group's investment in an associate or joint venture below its cost, among other factors.

Significant accounting estimates and judgements

The Group applies judgement in determining if it has control, joint control or significant influence over subsidiaries, joint ventures and associates respectively. These judgements are based upon identifying the relevant activities of counterparties, being those activities that significantly affect the entities' returns, and further making a decision on whether the Group has control over those entities, joint control, or has significant influence (being the power to participate in the financial and operating policy decisions but not control them.).

These judgements are at times determined by equity holdings, and the voting rights associated with those holdings. However, further considerations, including but not limited to board seats, advisory committee members and specialist knowledge of some decision-makers are also taken into account.

Impairment testing of investments in associates and joint arrangements is based on judgements, including the basis of assumptions and forecasts used for estimating the expected cash flows from the investments and in the calculations of the present values of those cash flows. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgement.

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill (see note 18 for details on goodwill recognised by the Group). If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the income statement.

Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, adjustments arising from their subsequent finalisation are not reflected in the income statement if; (i) they arise within 12 months of the acquisition date (or relate to acquisitions completed before 1 January 2014); and (ii) the adjustments arise from better information about conditions existing at the acquisition date (measurement period adjustments). Such adjustments are applied as at the date of acquisition and, if applicable, prior year amounts are restated. All changes that are not measurement period adjustments are reported in income other than changes in contingent consideration not classified as financial instruments, which are accounted for in accordance with the appropriate accounting policy, and changes in contingent consideration classified as equity, which is not remeasured.

Changes in ownership interest in a subsidiary, which do not result in a loss of control, are treated as transactions between equity holders and are reported in equity. Where a business combination is achieved in stages, the previously held equity interest is remeasured at the acquisition date fair value with the resulting gain or loss recognised in the income statement.

In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received prior to 1 January 2009, if any. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group accounts.

Investments in subsidiary undertakings	2017 $million	2016 $million
As at 1 January	33,853	28,381
Additions	1,000	5,500
Disposal	–	(28)
As at 31 December	34,853	33,853

At 31 December 2017, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital %
Standard Chartered Bank, England and Wales	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100
Standard Chartered Bank (China) Limited, China	China	100
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	100
Standard Chartered Bank Korea Limited, Korea	Korea	100
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100
Standard Chartered Private Equity Limited, Hong Kong	Hong Kong	100
Standard Chartered Bank Nigeria Limited, Nigeria	Nigeria	100
Standard Chartered Bank (Singapore) Limited, Singapore	Singapore	100
Standard Chartered Bank (Taiwan) Limited, Taiwan	Taiwan	100
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	98.99
Standard Chartered Bank (Thai) Public Company Limited, Thailand	Thailand	99.87
Standard Chartered Bank Kenya Limited, Kenya	Kenya	74.30

A complete list of subsidiary undertaking is included in note 40.

The Group does not have any material non-controlling interests in any of its subsidiaries except the 25.7 per cent non-controlling interests amounting to $105 million (2016: $103 million) in Standard Chartered Bank Kenya Limited.

This contributes 3.4 per cent of the Group's Operating Profit and 0.4 per cent of the Group's assets.

While the Group's subsidiaries are subject to local statutory capital and liquidity requirements in relation to foreign exchange remittance, these restrictions arise in the normal course of business and do not significantly restrict the Group's ability to access or use assets and settle liabilities of the Group.

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory framework within which the banking subsidiaries operate. These frameworks require banking operations to keep certain levels of regulatory capital, liquid assets, exposure limits and comply with other required ratios. These restrictions are summarised below:

Regulatory and liquidity requirements

The Group's subsidiaries are required to maintain minimum capital, leverage ratios, liquidity and exposure ratios, which therefore restrict the ability of these subsidiaries to distribute cash or other assets to the parent company.

The subsidiaries are also required to maintain balances with central banks and other regulatory authorities in the countries in which they operate. At 31 December 2017, the total cash and balances with central bank was $59 billion (2016: $71 billion), of which $10 billion (2016: $9 billion) is restricted.

Statutory requirements

The Group's subsidiaries are subject to statutory requirements not to make distributions of capital and unrealised profits to the parent company, generally to maintain solvency. These requirements restrict the ability of subsidiaries to remit dividends to the Group. Certain subsidiaries are also subject to local exchange control regulations which provide for restrictions on exporting capital from the country other than through normal dividends.

Contractual requirements

The encumbered assets in the balance sheet of the Group's subsidiaries are not available for transfer around the Group. Encumbered assets are disclosed in Risk review and Capital review.

Share of profit/(loss) from investment in associates and joint ventures comprises:

	2017 $million	2016 $million
Profit/(loss) from investment in joint ventures	29	(215)
Profit from investment in associates	239	178
Total	268	(37)

Interests in joint ventures

	PT Bank Permata Tbk & others	
	2017 $million	2016 $million
As at 1 January	713	679
Exchange translation difference	(1)	13
Additions	44	238
Share of profit/(loss)	29	(215)
Share of available-for-sale and other reserves	(2)	(2)
As at 31 December	783	713

The Group's principal joint venture is PT Bank Permata Tbk (Permata). The Group has a 44.56 per cent (2016: 44.56 per cent) equity investment in Permata. The Group has determined that it has joint control of Permata through its shareholding, which is held alongside a third party that holds the same percentage. The Group has made the judgement that through these equity holdings, and in making decisions pertaining to Permata that both parties require each other's unanimous consent when making decisions over the relevant activities of Permata. Permata is based in Indonesia and provides financial services to the consumer and commercial banking clients. The Group's share of profit/(loss) of Permata amounts to $29 million (2016: $(215) million) and the Group's share of net assets was $775 million (2016: $705 million). On 16 February 2017, Permata announced plans for an IDR3 trillion (approximately $225 million) rights issue to drive growth. The Group invested an additional $44 million during 2017 as part of the rights issue. Permata is listed on the Indonesia Stock Exchange with a share price of IDR 625 as at 31 December 2017 resulting in a share capitalisation value of the Group's investment of $576 million.

The following table sets out the summarised financial statements of PT Bank Permata Tbk prior to the Group's share of joint ventures being applied:

	2017 $million	2016 $million
Current assets	5,626	6,484
Non-current assets	5,193	5,697
Current liabilities	(8,415)	(9,896)
Non-current liabilities	(924)	(963)
Net assets	1,480	1,322
Operating income	641	608
Of which:		
Interest income	837	1,083
Interest expense	(447)	(641)
Expenses	(334)	(329)
Impairment	(224)	(923)
Operating profit/(loss)	83	(644)
Taxation	(18)	161
Profit/(loss) after tax	65	(483)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	1,207	1,964
Other comprehensive loss for the year	(5)	(4)
Total comprehensive income/(loss) for the year	60	(487)

In December 2016, Permata established a portfolio of non-performing loans that were beyond its risk appetite which were to be liquidated. This resulted in an incremental impairment of $140 million, representing the difference between the carrying amount of the liquidation portfolio on a 'hold to collect' basis and the amount expected to be realised upon liquidation. This is consistent with the Group's restructuring actions. Accordingly, in 2016 the Group has recorded its $62 million share of this incremental impairment as restructuring and this was normalised from the underlying results of the Group. In 2017, a gain of $59 million has been recognised in restructuring as a result of recoveries on these non-performing loans.

Current assets primarily represent cash and short-term receivable balances. Non-current assets are primarily loans to customers. Current liabilities are primarily customer deposits based on contractual maturities, while non-current liabilities are longer-term payables such as subordinated debt.

Reconciliation of the net assets above to the carrying amount of the investments in PT Bank Permata Tbk recognised in the consolidated financial statements:

	2017 $million	2016 $million
Net assets of PT Bank Permata Tbk	1,480	1,322
Proportion of the Group's ownership interest in joint ventures	659	589
Notional goodwill	116	116
Carrying amount of the Group's interest in PT Bank Permata Tbk	775	705

The Group's interest in Permata was tested for impairment. The recoverable amount of the interest is measured based on its ViU, which is calculated using five-year cash flow projections and an estimated terminal value based on a perpetuity value after year five. The cash flow projections are based on forecasts approved by Permata's management up to 2020. The perpetuity terminal value amount is calculated using year five cash flows using long-term GDP growth rates. All cash flows are discounted using pre-tax discount rates which reflect market rates appropriate to the interest. At 31 December 2017, the recoverable amount of the interest in Permata exceeded its carrying amount, and no impairment provision was required.

Interests in associates

	China Bohai Bank		Other		Total	
	2017 $million	2016 $million	2017 $million	2016 $million	2017 $million	2016 $million
As at 1 January	1,182	1,099	34	159	1,216	1,258
Exchange translation differences	96	(75)	–	(1)	96	(76)
Share of profits	229	167	10	11	239	178
Disposals	–	–	37	–	37	–
Dividends received	–	–	(2)	(3)	(2)	(3)
Share of AFS and Other reserves	(18)	(9)	(39)	–	(57)	(9)
Others	–	–	(5)	(132)	(5)	(132)
As at 31 December	1,489	1,182	35	34	1,524	1,216

A complete list of the Group's interest in associates is included in note 40. The Group's principal associate is:

Associate	Nature of activities	Main areas of operation	Group interest in ordinary share capital %
China Bohai Bank	Banking operations	China	19.99

The Group's investment in China Bohai Bank is less than 20 per cent but it is considered to be an associate because of the significant influence the Group is able to exercise over the management and financial and operating policies. The Group applies the equity method of accounting for investments in associates. The reported financials up to November 2017 of this associate are within three months of the Group's reporting date.

The following table sets out the summarised financial statements of China Bohai Bank prior to the Group's share of the associates being applied:

	China Bohai Bank	
	30 Nov 2017 $million	30 Nov 2016 $million
Current assets	52,056	39,799
Non-current assets	104,479	86,568
Current liabilities	(82,293)	(71,453)
Non-current liabilities	(66,794)	(49,001)
Net assets	7,448	5,913
Operating income	3,854	3,221
Of which:		
Interest income	6,014	5,763
Interest expense	(3,452)	(3,432)
Expenses	(1,388)	(1,208)
Impairment	(1,056)	(994)
Operating profit	1,410	1,019
Taxation	(263)	(182)
Profit after tax	1,147	837
The above amounts of assets and liabilities include the following:		
Other comprehensive loss for the year	(91)	(43)
Total comprehensive income for the year	1,056	794

Non-current assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

During the year, there were no indicators of impairment for the Group's investment in China Bohai Bank.

33. Structured entities

Accounting policy

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Contractual arrangements determine the rights and therefore relevant activities of the structured entity. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their activities. Structured entities are consolidated when the substance of the relationship between the Group and the structured entity indicates the Group has power over the contractual relevant activities of the structured entity, is exposed to variable returns, and can use that power to affect the variable return exposure.

In determining whether to consolidate a structured entity to which assets have been transferred, the Group takes into account its ability to direct the relevant activities of the structured entity. These relevant activities are generally evidenced through a unilateral right to liquidate the structured entity, investment in a substantial proportion of the securities issued by the structured entity or where the Group holds specific subordinate securities that embody certain

controlling rights. The Group may further consider relevant activities embedded within contractual arrangements such as call options which give the practical ability to direct entity, special relationships between the structured entity and investors, and if a single investor has a large exposure to variable returns of the structured entity.

Significant accounting judgement
Significant judgement is required in determining control over structured entities. The purpose and design of the entity is considered, along with a determination of what the relevant activities are of the entity and who directs these. Further judgements are made around which investor is exposed to, and absorbs the variable returns of the structured entity. The Group will have to weigh up all of these facts to consider whether the Group, or another involved party, is acting as a principal in its own right or as an agent on behalf of others. Judgement is further required in the ongoing assessment of control over structured entities, specifically if market conditions have an effect on the variable return exposure of different investors.

The Group has involvement with both consolidated and unconsolidated structured entities, which may be established by the Group as a sponsor or by a third party.

Interests in consolidated structured entities: A structured entity is consolidated into the Group's financial statements where the Group controls the structured entity, as per the determination in the accounting policy above.

The following table presents the Group's interests in consolidated structured entities:

	2017 $million	2016 $million
Aircraft and ship leasing	**5,494**	5,623
Structured and Principal finance	**2,534**	2,809
Total	**8,028**	8,432[1]

1 The Group's disclosure of its interests in consolidated structured entities as at 31 December 2016 has increased by $1.3 billion (previously disclosed as $7.2 billion) following a review of the population. These interests have historically been included within the Group's results but not separately disclosed as relating to structured entities

Interests in unconsolidated structured entities: Unconsolidated structured entities are all structured entities that are not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities. An interest in a structured entity is contractual or non-contractual involvement which creates variability of the returns of the Group arising from the performance of the structured entity.

The table below presents the carrying amount of the assets and liabilities recognised in the financial statements relating to variable interests held in unconsolidated structured entities, the maximum exposure to loss relating to those interests and the total assets of the structured entities. Maximum exposure to loss is primarily limited to the carrying amount of the Group's on-balance sheet exposure to the structured entity. For derivatives, the maximum exposure to loss represents the on-balance sheet valuation and not the notional amount. For commitments and guarantees, the maximum exposure to loss is the notional amount of potential future losses.

	2017				2016			
	Principal finance funds $million	Structured finance $million	Asset-backed securities $million	Total $million	Principal finance funds $million	Structured finance $million	Asset-backed securities $million	Total $million
Group's interest – assets								
Financial assets held at fair value through profit or loss	**389**	**–**	**983**	**1,372**	515	–	526	1,041
Loans and advances to customers	**–**	**1,527**	**–**	**1,527**	–	1,202	–	1,202
Investment securities (available-for-sale)	**56**	**–**	**4,105**	**4,161**	54	–	4,906	4,960
Investment securities (loans and receivables)	**439**	**–**	**1,437**	**1,876**	624	–	1,489	2,113
Other assets	**19**	**–**	**–**	**19**	12	–	–	12
Total assets	**903**	**1,527**	**6,525**	**8,955**	1,205	1,202	6,921	9,328
Off balance sheet	**262**	**501**	**86**	**849**	422	327	107	856
Group's maximum exposure to loss	**1,165**	**2,028**	**6,611**	**9,804**	1,627	1,529	7,028	10,184[1]
Total assets of structured entities	**5,052**	**3,747**	**295,574**	**304,373**	4,967	5,185	316,177	326,329

1 The Group's disclosed interests in unconsolidated structured entities as at 31 December 2016 has increased by $2.1 billion (previously disclosed as $8.1 billion). These interests have historically been included within the Group's results, but not separately disclosed as relating to structured entities

The main types of activities for which the Group utilises unconsolidated structured entities cover synthetic credit default swaps for managed investment funds (including specialised Principal finance funds), portfolio management purposes, structured finance and asset backed securities. These are detailed as follows:

- **Principal finance fund:** The Group's exposure to Principal finance funds represents committed or invested capital in unleveraged investment funds, primarily investing in pan-Asian infrastructure, real estate and private equity
- **Structured finance:** Structured finance comprises interests in transactions that the Group or, more usually, a customer has structured, using one or more structured entities, which provide beneficial arrangements for

customers. The Group's exposure primarily represents the provision of funding to these structures as a financial intermediary, for which it receives a lender's return. The transactions largely relate to the provision of aircraft leasing and ship finance

- **Asset backed securities (ABS):** The Group also has investments in asset backed securities issued by third-party structured entities as set out in Risk Review and Capital review. For the purpose of market marking and at the discretion of ABS trading desk, the Group may hold an immaterial amount of debt securities ($1 million at year end) from structured entities originated by credit portfolio management. This is disclosed in the ABS column above
  - Portfolio management (Group-sponsored entities): For the purposes of portfolio management, the Group purchased credit protection via synthetic credit default swaps from note-issuing structured entities. The referenced assets remain on the Group's balance sheet as they are not assigned to these structured entities. The Group continues to own or hold all of the risks and returns relating to these assets. The credit protection obtained from the regulatory-compliant securitisation only serves to protect the Group against losses upon the occurrence of eligible credit events and the underlying assets are not de-recognised from the Group balance sheet. The Group does not hold any equity interests in the structured entities, but may hold an insignificant amount of the issued notes for market marking purposes. This is disclosed in the ABS section above. The proceeds of the notes' issuance are typically held as cash collateral in issuer's account operated by a trustee or invested in AAA-rated government-backed securities to collateralise the structured entities swap obligations to the Group, and to repay the principal to investors at maturity. The structured entities reimburse the Group on actual losses incurred, through the use of the cash collateral or realisation of the collateral security. Correspondingly, the structured entities write down the notes issued by an equal amount of the losses incurred, in reverse order of seniority. All funding is committed for the life of these vehicles and the Group has no indirect exposure in respect of the vehicles' liquidity position. The Group has reputational risk in respect of certain portfolio management vehicles and investment funds either because the Group is the arranger and lead manager or because the structured entities have Standard Chartered branding

During the year, the Group transferred assets of $24 million to a Group-sponsored structured entity.

34. Cash flow statement

Adjustment for non-cash items and other adjustments included within income statement

	Group		Company	
	2017 $million	2016 $million	2017 $million	2016 $million
Amortisation of discounts and premiums of investment securities	(292)	(265)	–	–
Interest expense on subordinated liabilities	748	835	563	604
Interest expense on senior debt securities in issue	465	367	381	238
Other non-cash items	541	9	63	65
Pension costs for defined benefit schemes	98	85	–	–
Share-based payment costs	152	100	–	–
Impairment losses on loans and advances and other credit risk provisions	1,362	2,791	–	–
Dividend income from subsidiaries	–	–	(392)	(204)
Other impairment	499	612	–	–
Loss on business classified as held for sale	–	44	–	–
Net gain on derecognition of investment in associate	(64)	–	–	–
(Profit)/loss from associates and joint ventures	(268)	37	–	–
Total	3,241	4,615	615	703

Change in operating assets

	Group		Company	
	2017 $million	2016 $million	2017 $million	2016 $million
Decrease/(increase) in derivative financial instruments	19,246	(2,692)	459	110
(Increase)/decrease in debt securities, treasury bills and equity shares held at fair value through profit or loss	(5,373)	718	–	–
Increase in loans and advances to banks and customers	(26,085)	(3,626)	–	–
Net increase in pre-payments and accrued income	(19)	(98)	–	–
Net increase in other assets	(1,394)	(2,588)	–	–
Total	(13,625)	(8,286)	459	110

Change in operating liabilities

	Group		Company	
	2017 $million	2016 $million	2017 $million	2016 $million
(Decrease)/increase in derivative financial instruments	(18,405)	4,110	(1,049)	103
Net increase/(decrease) in deposits from banks, customer accounts, debt securities in issue, Hong Kong notes in circulation and short positions	23,877	9,219	1,599	(240)
Increase/(decrease) in accruals and deferred income	68	(139)	(7)	18
Net increase/(decrease) in other liabilities	279	(110)	32	(500)
Total	5,819	13,080	575	(619)

Disclosures

	Group		Company	
	2017 $million	2016 $million	2017 $million	2016 $million
Subordinated debt (including accrued interest):				
Opening balance	19,913	22,295	14,821	13,951
Proceeds from the issue	–	1,250	–	1,250
Interest paid	(743)	(920)	(353)	(604)
Repayment	(2,984)	(2,666)	(1,249)	(105)
Foreign exchange movements	701	(861)	536	(350)
Fair value changes	11	(42)	93	56
Other	652	857	261	623
Closing balance	17,550	19,913	14,109	14,821
Senior debt (including accrued interest):				
Opening balance	19,800	21,445	17,265	17,432
Proceeds from the issue	2,292	5,453	1,501	4,385
Interest paid	(896)	(454)	(825)	(365)
Repayment	(4,162)	(6,470)	(3,237)	(3,941)
Foreign exchange movements	882	(614)	659	(543)
Fair value changes	26	(14)	21	(61)
Other	1,796	454	923	358
Closing balance	19,738	19,800	16,307	17,265

35. Cash and cash equivalents

Accounting policy

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, on demand and overnight balances with central banks (unless restricted) and balances with less than three months' maturity from the date of acquisition, including treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

The following balances with less than three months' maturity from the date of acquisition have been identified by the Group as being cash and cash equivalents.

	Group		Company	
	2017 $million	2016 $million	2017 $million	2016 $million
Cash and balances at central banks	58,864	70,706	–	–
Less: restricted balances	(9,761)	(8,648)	–	–
Treasury bills and other eligible bills	9,384	9,163	–	–
Loans and advances to banks	25,729	23,109	–	–
Trading securities	3,015	2,647	–	–
Amounts owed by and due to subsidiary undertakings	–	–	15,714	15,230
Total	87,231	96,977	15,714	15,230

Restricted balances comprise minimum balances required to be held at central banks.

36. Related party transactions

Directors and officers

Details of directors' remuneration and interests in shares are disclosed in the Directors' remuneration report. *IAS 24 Related party disclosures* requires the following additional information for key management compensation. Key management comprises non-executive directors, executive directors of Standard Chartered PLC, the court directors of Standard Chartered Bank and the persons discharging managerial responsibilities (PDMR) of Standard Chartered PLC.

	2017 $million	2016 $million
Salaries, allowances and benefits in kind	35	37
Share-based payments	29	34
Bonuses paid or receivable	11	5
	75	76

Transactions with directors and others

At 31 December 2017, the total amounts to be disclosed under the Companies Act 2006 (the Act) and the Listing Rules of the Hong Kong Stock Exchange Limited (HK Listing Rules) about loans to directors were as follows:

	2017		2016	
	Number	$million	Number	$million
Directors	1	–	2	–

The loan transaction provided to the directors of Standard Chartered PLC was a connected transaction under Chapter 14A of the HK Listing Rules. It was fully exempt as financial assistance under Rule 14A.87(1), as it was provided in our ordinary and usual course of business and on normal commercial terms.

As at 31 December 2017, Standard Chartered Bank had created a charge over $75 million (2016: $68 million) of cash assets in favour of the independent trustee of its employer-financed retirement benefit scheme.

Other than as disclosed in the Annual Report and Accounts, there were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the HK Listing Rules.

Company

The Company has received $848 million (2016: $751 million) of interest income from Standard Chartered Bank. The Company issues debt externally and lends proceeds to Group companies. At 31 December 2017, it had amounts due from Standard Chartered Bank of $12,580 million (2016: $11,625 million), derivative financial assets of $70 million (2016: $529 million) and of $492 million derivative financial liabilities (2016: $1,541 million) with Standard Chartered Bank, amounts due from Standard Chartered Holdings Limited of $80 million (2016: $80 million). At 31 December 2017, it had amounts due from Standard Chartered I H Limited of $298 million (2016: $1,054 million).

The Company has an agreement with Standard Chartered Bank that, in the event of Standard Chartered Bank defaulting on its debt coupon interest payments, where the terms of such debt requires it, the Company shall issue shares as settlement for non-payment of the coupon interest.

Associate and joint ventures

	2017			2016		
	China Bohai Bank $million	Clifford Capital $million	PT Bank Permata $million	China Bohai Bank $million	Clifford Capital $million	PT Bank Permata $million
Assets						
Loans and advances	–	50	95	–	40	90
Debt securities	–	27	–	–	27	–
Derivative assets	1	–	–	–	–	–
Total assets	1	77	95	–	67	90
Liabilities						
Deposits	219	–	29	7	–	29
Debt securities issued	15	–	–	14	–	–
Total liabilities	234	–	29	21	–	29
Loan commitments and other guarantees	–	–	–	–	10	–
Total net income	5	–	6	2	–	–

37. Post balance sheet events

A final dividend for 2017 of 11 cents per ordinary share was declared by the directors after 31 December 2017.

38. Auditor's remuneration

Auditor's remuneration is included within other general administration expenses. The amounts paid by the Group to their principal auditor, KPMG LLP and its associates (together KPMG), are set out below. All services are approved by the Group Audit Committee and are subject to controls to ensure the external auditor's independence is unaffected by the provision of other services.

	2017 $million	2016 $million
Audit fees for the Group statutory audit:		
Fees relating to the current year	9.4	5.6
Fees payable to KPMG for other services provided to the Group:		
Audit of Standard Chartered PLC subsidiaries, pursuant to legislation		
Fees relating to the current year	7.7	8.5
Total audit and audit-related fees	17.1	14.1
Audit-related	5.4	5.4
Other services pursuant to legislation	0.2	0.2
Tax services	0.4	0.4
Services relating to corporate finance transactions	0.4	0.7
All other services	0.4	0.6
Total fees payable	23.9	21.4

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG LLP for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered PLC. They exclude amounts payable for the audit of Standard Chartered PLC's subsidiaries and amounts payable to KPMG LLP's associates. These amounts have been included in fees payable to KPMG for other services provided to the Group
- Audit-related fees consist of fees such as those for services required by law or regulation to be provided by the auditor, reviews of interim financial information, reporting on regulatory returns, reporting to a regulator on client assets and extended work performed over financial information and controls
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings
- Tax services include services which are not prohibited by the European Directive on Statutory Audits of Annual and Consolidated Accounts and the Regulation on Statutory Audits of Public Interest Entities
- Services related to corporate finance transactions include fees payable to KPMG for issuing comfort letters
- All other services include other assurance and advisory services such as ad hoc accounting advice and extended work over controls

Expenses incurred during the provision of services and which have been reimbursed by the Group are included within auditor's remuneration.

39. Standard Chartered PLC (Company)

Classification and measurement of financial instruments

	2017			2016		
Financial assets	Derivatives held for hedging $million	Amortised cost $million	Total $million	Derivatives held for hedging $million	Amortised cost $million	Total $million
Derivatives	70	–	70	529	–	529
Debt securities	–	12,159	12,159	–	15,009	15,009
Amounts owed by subsidiary undertakings	–	15,714	15,714	–	15,230	15,230
Total	70	27,873	27,943	529	30,239	30,768

Derivatives held for hedging are held at fair value and are classified as Level 2 while the counterparty is Standard Chartered Bank.

Debt securities comprise corporate securities issued by Standard Chartered Bank and have a fair value equal to carrying value of $12,159 million (2016: $15,009 million).

In 2017 and 2016, amounts owed by subsidiary undertakings have a fair value equal to carrying value.

	2017			2016		
Financial liabilities	Derivatives held for hedging $million	Amortised cost $million	Total $million	Derivatives held for hedging $million	Amortised cost $million	Total $million
Derivatives	492	–	492	1,541	–	1,541
Debt securities in issue	–	16,169	16,169	–	17,132	17,132
Subordinated liabilities and other borrowed funds	–	13,882	13,882	–	14,582	14,582
Total	492	30,051	30,543	1,541	31,714	33,255

Derivatives held for hedging are held at fair value and are classified as Level 2 while the counterparty is Standard Chartered Bank.

The fair value of debt securities in issue is $16,169 million (2016: $17,132 million) and they have fair value equal to carrying value. The fair value of subordinated liabilities and other borrowed funds is $14,314 million (2016: $13,970 million).

Derivative financial instruments

Derivatives	2017 Notional principal amounts $million	2017 Assets $million	2017 Liabilities $million	2016 Notional principal amounts $million	2016 Assets $million	2016 Liabilities $million
Foreign exchange derivative contracts:						
Currency swaps	8,038	59	300	7,998	–	1,333
Interest rate derivative contracts:						
Swaps	11,980	11	192	17,918	529	208
Total	20,018	70	492	25,916	529	1,541

Credit risk

Maximum exposure to credit risk

	2017 $million	2016 $million
Derivative financial instruments	70	529
Debt securities	12,159	15,009
Amounts owed by subsidiary undertakings	15,714	15,230
Total	27,943	30,768

In 2017 and 2016, amounts owed by subsidiary undertakings were neither past due nor impaired; the Company had no individually impaired loans.

In 2017 and 2016, the Company had no impaired debt securities. The debt securities held by the Group are issued by Standard Chartered Bank, a wholly owned subsidiary undertaking with credit ratings of A+/A/A1.

Liquidity risk

The following table analyses the residual contractual maturity of the assets and liabilities of the Company on a discounted basis:

2017	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Derivative financial instruments	–	–	–	–	–	2	5	63	70
Investment securities	–	–	–	–	–	–	3,658	8,501	12,159
Amount owed by subsidiary undertakings	271	23	1,577	–	1,613	3,901	5,275	3,054	15,714
Investments in subsidiary undertakings	–	–	–	–	–	–	–	34,853	34,853
Other assets	–	–	–	–	–	–	–	3	3
Total assets	271	23	1,577	–	1,613	3,903	8,938	46,474	62,799
Liabilities									
Derivative financial instruments	–	–	2	–	–	19	283	188	492
Senior debt	–	–	1,326	–	1,499	3,826	4,671	4,847	16,169
Other liabilities	194	72	76	–	24	–	36	3	405
Subordinated liabilities and other borrowed funds	–	–	–	–	–	–	3,094	10,788	13,882
Total liabilities	194	72	1,404	–	1,523	3,845	8,084	15,826	30,948
Net liquidity gap	77	(49)	173	–	90	58	854	30,648	31,851

	2016								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Derivative financial instruments	–	–	–	16	–	1	17	495	529
Investment securities	–	–	–	1,250	1,600	–	1,698	10,461	15,009
Amount owed by subsidiary undertakings	249	98	992	1,500	20	2,873	8,725	773	15,230
Investments in subsidiary undertakings	–	–	–	–	–	–	–	33,853	33,853
Total assets	249	98	992	2,766	1,620	2,874	10,440	45,582	64,621
Liabilities									
Derivative financial instruments	–	–	–	–	240	1	323	977	1,541
Senior debt	–	–	842	1,500	795	2,899	7,858	3,238	17,132
Other liabilities	207	73	72	–	20	–	37	4	413
Subordinated liabilities and other borrowed funds	–	–	–	1,250	–	–	2,250	11,082	14,582
Total liabilities	207	73	914	2,750	1,055	2,900	10,468	15,301	33,668
Net liquidity gap	42	25	78	16	565	(26)	(28)	30,281	30,953

Financial liabilities on an undiscounted basis

	2017								
	One month or less $million	**Between one month and three months $million**	**Between three months and six months $million**	**Between six months and nine months $million**	**Between nine months and one year $million**	**Between one year and two years $million**	**Between two years and five years $million**	**More than five years and undated $million**	**Total $million**
Derivative financial instruments	**–**	**–**	**2**	**–**	**–**	**18**	**284**	**188**	**492**
Debt securities in issue	**6**	**10**	**51**	**66**	**1,592**	**4,151**	**5,192**	**5,854**	**16,922**
Subordinated liabilities and other borrowed funds	**12**	**30**	**33**	**210**	**106**	**617**	**4,774**	**15,982**	**21,764**
Other liabilities	**192**	**72**	**76**	**–**	**24**	**–**	**36**	**–**	**400**
Total liabilities	**210**	**112**	**162**	**276**	**1,722**	**4,786**	**10,286**	**22,024**	**39,578**

	2016								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Derivative financial instruments	–	–	–	–	185	2	773	581	1,541
Debt securities in issue	9	14	912	1,546	1,022	2,930	8,479	4,596	19,508
Subordinated liabilities and other borrowed funds	25	28	19	207	24	575	1,726	21,136	23,740
Other liabilities	207	73	72	–	20	–	37	–	409
Total liabilities	241	115	1,003	1,753	1,251	3,507	11,015	26,313	45,198

40. Related undertakings of the Group

As at 31 December 2017 the Group's interests in related undertakings is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of the Group. Note 32 details undertakings that have a significant contribution to the Group's net profit or net assets.

Subsidiary undertakings

Name and registered address	Country of Incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom			
BWA Dependents Limited	United Kingdom	£1.00 Ordinary shares	100
FinVentures UK Limited	United Kingdom	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
SC (Secretaries) Limited	United Kingdom	£1.00 Ordinary shares	100
SC Leaseco Limited	United Kingdom	$1.00 Ordinary shares	100
SC Overseas Investments Limited	United Kingdom	AUD1.00 Ordinary shares	100
		$1.00 Ordinary shares	100
SC Transport Leasing 1 LTD	United Kingdom	£1.00 Ordinary shares	100
SC Transport Leasing 2 Limited	United Kingdom	£1.00 Ordinary shares	100
SCMB Overseas Limited	United Kingdom	£0.10 Ordinary shares	100
St. Helens Nominees Limited[1]	United Kingdom	£1.00 Ordinary shares	100
Stanchart Nominees Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered (GCT) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Africa Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered APR Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Bank	United Kingdom	$0.01 Non-Cumulative Irredeemable Preference shares	100
		$5.00 Non-Cumulative Redeemable Preference shares	100
		$1.00 Ordinary shares	100
Standard Chartered Debt Trading Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Health Trustee (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Holdings Limited[1]	United Kingdom	$2.00 Ordinary shares	100
Standard Chartered I H Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Leasing (UK) 2 Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Leasing (UK) 3 Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Leasing (UK) Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Masterbrand Licensing Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered NEA Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Nominees Limited[1]	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Nominees (Private Clients UK) Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Overseas Holdings Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Securities (Africa) Holdings Limited	United Kingdom	$1.00 Ordinary shares	100
Standard Chartered Trustees (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered UK Holdings Limited	United Kingdom	£10.00 Ordinary shares	100
The SC Transport Leasing Partnership 1[2]	United Kingdom	Limited Partnership interest	100
The SC Transport Leasing Partnership 2[2]	United Kingdom	Limited Partnership interest	100
The SC Transport Leasing Partnership 3[2]	United Kingdom	Limited Partnership interest	100
The SC Transport Leasing Partnership 4[2]	United Kingdom	Limited Partnership interest	100
The BW Leasing Partnership 1 LP[2]	United Kingdom	Limited Partnership interest	99.9
The BW Leasing Partnership 2 LP[2]	United Kingdom	Limited Partnership interest	99.9
The BW Leasing Partnership 3 LP[2]	United Kingdom	Limited Partnership interest	99.9
The BW Leasing Partnership 4 LP[2]	United Kingdom	Limited Partnership interest	99.9
The BW Leasing Partnership 5 LP[2]	United Kingdom	Limited Partnership interest	99.9
The following company has the address of Rua Gamal Abdel Nasser, Edificio Tres Torres, Eixo Viario, Distrito Urbano da Ingombota, Municipio de Luanda, Provincia de Luanda, Angola			
Standard Chartered Bank Angola S.A.	Angola	AOK6,475.62 Ordinary shares	60
The following company has the address of Level 5, 345 George St, Sydney NSW 2000, Australia			
Standard Chartered Grindlays Pty Limited	Australia	AUD Ordinary shares	100
The following companies have the address of 5th Floor Standard House Bldg, The Mall, Queens Road, PO Box 496, Gaborone, Botswana			
Standard Chartered Bank Botswana Insurance Agency (Proprietary) Limited	Botswana	BWP1.00 Ordinary shares	100

Standard Chartered Bank Botswana Investment Services (Pty) Limited	Botswana	BWP1.00 Ordinary shares	100
Standard Chartered Bank Botswana Limited	Botswana	BWP1.00 Ordinary shares	75.8
Standard Chartered Botswana Education Trust[3]	Botswana	Interest in trust	100
Standard Chartered Botswana Nominees (Proprietary) Limited	Botswana	BWP Ordinary shares	100
The following companies have the address of Avenida Brigadeiro Faria Lima, 3600 – 7th floor, Sao Paulo, Sao Paulo, 04538-132, Brazil			
Standard Chartered Bank (Brasil) S.A. – Banco de Investimento	Brazil	BRL Ordinary shares	100
Standard Chartered Participacoes E Assessoria Economica Ltda	Brazil	BRL0.51 Common shares	100
The following company has the address of 51-55 Jalan Sultan, Complex Jalan sultan, Bandar Seri Begawan, BS8811, Brunei Darussalam			
Standard Chartered Finance (Brunei) Bhd	Brunei Darussalam	BND1.00 Ordinary shares	100
The following company has the address of G01-02, Wisma Haji Mohd Taha Building, Jalan Gadong, BE4119, Brunei Darussalam			
Standard Chartered Securities (B) Sdn Bhd	Brunei Darussalam	BND1.00 Ordinary shares	100
The following company has the address of 1155, Boulevard de la Liberté, Douala, B.P. 1784, Cameroon			
Standard Chartered Bank Cameroon S.A	Cameroon	XAF10,000.00 shares	100
The following company has the address of 20 Adelaide Street, Suite 1105 , Toronto ON M5C 2T6 Canada			
Standard Chartered (Canada) Limited	Canada	CAD1.00 Ordinary shares	100
The following company has the address of Maples Finance Limited, PO Box 1093 GT, Queensgate House, Georgetown, Grand Cayman, Cayman Islands			
SCB Investment Holding Company Limited	Cayman Islands	$1,000.00 A Ordinary shares	100
The following company has the address of Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands			
Ocean Horizon Holdings South Ltd	Cayman Islands	$1.00 Ordinary shares	100
The following companies have the address of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road George Town, Grand Cayman KY1-9008, Cayman Islands			
Sirat Holdings Limited	Cayman Islands	$0.01 Ordinary shares	91
		$0.01 Preference shares	66.7
Standard Chartered Corporate Private Equity (Cayman) Limited	Cayman Islands	$1.00 Ordinary shares	100
Standard Chartered International Partners	Cayman Islands	$1.00 Ordinary shares	100
Standard Chartered Principal Finance (Cayman) Limited	Cayman Islands	$1.00 Ordinary shares	100
Standard Chartered Private Equity (Cayman) Limited	Cayman Islands	$1.00 Ordinary shares	100
The following company has the address of Mourant Ozannes Corporate Services (Cayman) Limited, Harbour Centre, 42 North Church Street, PO Box 1348, Grand Cayman KY1-1108, Cayman Islands			
Sunflower Cayman SPC[2]	Cayman Islands	$1.00 Management shares	100
The following companies have the address of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands			
Cerulean Investments LP	Cayman Islands	Limited Partnership interest	100
Standard Chartered Saadiq Mudarib Company Limited	Cayman Islands	$1.00 Ordinary shares	100
The following companies have the address of Unit 2 – 101, Building 3, Haifeng Logistics Park, No. 600 Luoyang Road, Tianjin, Dongjiang Free Trade Port Zone, China			
Pembroke Aircraft Leasing (Tianjin) Limited	China	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing Tianjin 1 Limited	China	CNY1.00 Ordinary shares	100
Pembroke Aircraft Leasing Tianjin 2 Limited	China	CNY1.00 Ordinary shares	100
The following company has the address of Standard Chartered Tower, 201 Century Avenue, Pudong, Shanghai, 200120, China			
Standard Chartered Bank (China) Limited	China	CNY Ordinary shares	100
The following company has the address of Unit 5, 12th Floor, Standard Chartered Tower, World Finance, No 1 East Third Ring Middle Road, Chaoyang District, Beijing, 100020, China			
Standard Chartered Corporate Advisory Co. Ltd	China	$1.00 Ordinary shares	100
The following company has the address of No. 188 Yeshen Rd, 11F, A-1161 RM, Pudong New District, Shanghai, 31201308, China			
Standard Chartered Trading (Shanghai) Limited	China	$15,000,000.00 Ordinary shares	100
The following company has the address of No. 35, Xinhuanbei Road, TEDA, Tianjin, 300457, China			
Standard Chartered Global Business Services Co. Limited	China	$ Ordinary shares	100
The following company has the address of Standard Chartered Bank Cote d'Ivoire, 23 Boulevard de la République, Abidjan 17, 17 B.P. 1141, Cote d'Ivoire			
Standard Chartered Bank Cote d' Ivoire SA	Cote d'Ivoire	XOF100,000.00 Ordinary shares	100
The following company has the address of Standard Chartered Bank France,			

32 Rue de Monceau,75008, Paris, France			
Pembroke Lease France SAS	France	€1.00 Ordinary shares	100
The following company has the address of 8 Ecowas Avenue, PMB 259 Banjul, The Gambia			
Standard Chartered Bank Gambia Limited	Gambia	GMD1.00 Ordinary shares	74.9
The following company has the address of Standard Chartered Bank Germany Branch, Franklinstraße 46-48, 60486, Frankfurt am Main, Germany			
Standard Chartered AG	Germany	€ Ordinary shares	100
The following companies have the address of Standard Chartered Bank Building, 6 John Evans Atta Mills High Street,P.O. Box 768, Accra,Ghana			
Standard Chartered Bank Ghana Limited	Ghana	GHS Ordinary shares	69.4
		GHS0.52 Preference shares	87.0
Standard Chartered Ghana Nominees Limited	Ghana	GHS Ordinary shares	100
The following companies have the address of Bordeaux Court Les Echelons, South Esplanade, St.Peter Port, Guernsey			
Birdsong Limited	Guernsey	£1.00 Ordinary shares	100
Nominees One Limited	Guernsey	£1.00 Ordinary shares	100
Nominees Two Limited	Guernsey	£1.00 Ordinary shares	100
Songbird Limited	Guernsey	£1.00 Ordinary shares	100
Standard Chartered Secretaries (Guernsey) Limited	Guernsey	£1.00 Ordinary shares	100
Standard Chartered Trust (Guernsey) Limited	Guernsey	£1.00 Ordinary shares	100
The following companies have the address of 1401 Hutchison House, 10 Harcourt Road, Hong Kong			
Double Wings Limited	Hong Kong	HKD1.00 Ordinary shares	100
Kozagi Limited	Hong Kong	HKD10.00 Ordinary shares	100
Majestic Legend Limited	Hong Kong	HKD1.00 Ordinary shares	100
Ori Private Limited	Hong Kong	$1.00 Ordinary shares	100
		$1.00 A Ordinary shares	90.8
Rivendell Private Limited	Hong Kong	$1.00 A Ordinary shares	84.8
Standard Chartered PF Real Estate (Hong Kong) Limited	Hong Kong	HKD10.00 Ordinary shares	100
The following company has the address of 15th Floor, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Hong Kong			
Horsford Nominees Limited	Hong Kong	HKD Ordinary shares	100
The following companies have the address of 25/F, Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong			
Marina Acacia Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Amaryllis Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Amethyst Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Ametrine Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Angelite Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Apollo Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Beryl Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Carnelian Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Emerald Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Flax Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Gloxinia Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Hazel Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Honor Shipping Limited	Hong Kong	HKD Ordinary shares	100
		$ Ordinary shares	100
Marina Ilex Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Iridot Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Kunzite Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Leasing Limited	Hong Kong	$ Ordinary shares	100
Marina Mimosa Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Moonstone Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Peridot Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Sapphire Shipping Limited	Hong Kong	$ Ordinary shares	100
Marina Splendor Shipping Limited	Hong Kong	HKD Ordinary shares	100
		$ Ordinary shares	100
Marina Tourmaline Shipping Limited	Hong Kong	$ Ordinary shares	100
Standard Chartered Leasing Group Limited	Hong Kong	$ Ordinary shares	100
Standard Chartered Trade Support (HK) Limited	Hong Kong	HKD Ordinary shares	100
The following company has the address of 13/F, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong			
S C Learning Limited	Hong Kong	HKD Ordinary shares	100

The following company has the address of 21/F, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong			
Standard Chartered Asia Limited	Hong Kong	HKD Deferred shares	100
		HKD Ordinary shares	100
The following companies have the address of 32nd Floor, 4-4A Des Voeux Road, Central, Hong Kong			
Standard Chartered Sherwood (HK) Limited	Hong Kong	HKD Ordinary shares	100
Standard Chartered Bank (Hong Kong) Limited	Hong Kong	HKD A Ordinary shares	100
		HKD B Ordinary shares	100
		$ Preference shares	100
The following company has the address of L5 The Forum, Exchange Square, 8 Connaught Place, Central, Hong Kong			
Standard Chartered Global Trading Investments Limited	Hong Kong	HKD Ordinary shares	100
The following companies have the address of 20/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong			
Standard Chartered Private Equity Limited	Hong Kong	HKD1.00 Ordinary shares	100
Standard Chartered Private Equity Managers (Hong Kong) Limited	Hong Kong	HKD Ordinary shares	100
The following company has the address of 15/F, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong			
Standard Chartered Securities (Hong Kong) Limited	Hong Kong	HKD Ordinary shares	100
The following company has the address of 17/F, Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong			
Standard Chartered Trust (Hong Kong) Limited	Hong Kong	HKD10.00 Ordinary shares	100
The following company has the address of Room 1305, 13/F, Shun Tak Center West Tower, 200 Connaught Road, Hong Kong			
Union Town Limited	Hong Kong	HKD1.00 Ordinary shares	100
The following company has the address of 1st Floor, Europe Building, No.1, Haddows Road, Nungambakkam, Chennai, 600 006, India			
Standard Chartered Global Business Services Private Limited	India	INR10.00 Equity shares	100
The following company has the address of 1st Floor, Crescenzo, Plot no. C-38 & 39, G-Block, Bandra (East), Mumbai, Maharashtra, 400 051, India			
St Helen's Nominees India Private Limited	India	INR10.00 Equity shares	100
The following company has the address of 90 M.G.Road, II Floor, FORT, Mumbai, MAHARASHTRA, 400 001, India			
Standard Chartered Finance Private Limited	India	INR10.00 Ordinary shares	98.7
The following company has the address of 6th Floor, Crescenzo, Plot No 38-39, G-Block, Bandra Kurla Complex, Bandra East, Mumbai, Maharashtra, 400051, India			
Standard Chartered Investments and Loans (India) Limited	India	INR10.00 Ordinary shares	100
The following company has the address of Floor no.7, Crescenzo Building, C-38-39, G"-Block, Bandra Kurla Complex, Bandra East, Mumbai, Maharashtra, 400051, India			
Standard Chartered Private Equity Advisory (India) Private Limited	India	INR1,000.00 Ordinary shares	100
The following company has the address of 2nd Floor, 23-25 M.G. Road, Fort, Mumbai, 400 001, India			
Standard Chartered Securities (India) Limited	India	INR10.00 Ordinary shares	100
The following company has the address of 6th Floor, Crescenzo, Plot No.C-38-39, G-Block, Bandra Kurla Complex, Bandra (East), , Mumbai, Maharashtra, 400051, India			
Standard Chartered (India) Modeling and Analytics Centre Private Limited	India	INR10.00 Ordinary shares	100
The following company has the address of Menara Standard Chartered, 3rd Floor, Jl. Prof. Dr. Satrio no. 164, Setiabudi, Jarkarta, Selatan, Indonesia			
PT Standard Chartered Sekuritas Indonesia	Indonesia	IDR100,000,000.00 Ordinary shares	99
The following company has the address of Menara Standard Chartered, 7th floor, Jl. Prof. Dr. Satrio no. 164, Jakarta, 12930, Indonesia			
PT. Price Solutions Indonesia	Indonesia	$100.00 Ordinary shares	100
The following companies have the address of 33-41 Lower Mount Street, Dublin 2, Ireland			
Inishbrophy Leasing Limited	Ireland	€1.00 Ordinary shares	100
Inishcannon Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishcorky Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishcrean Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishdawson Leasing Limited	Ireland	€1.00 Ordinary shares	100
Inisherkin Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishgort Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishlynch Leasing Limited	Ireland	€1.00 Ordinary shares	100
Inishoo Leasing Limited	Ireland	$1.00 Ordinary shares	100

Inishquirk Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishtubrid Leasing Limited	Ireland	$1.00 Ordinary shares	100
Nightjar Limited	Ireland	$1.00 Ordinary shares	100
Pembroke 7006 Leasing Limited	Ireland	€1.25 Ordinary shares	100
Pembroke Aircraft Leasing 1 Limited	Ireland	€1.00 Ordinary shares	100
Pembroke Aircraft Leasing 2 Limited	Ireland	€1.00 Ordinary shares	100
Pembroke Aircraft Leasing 3 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 4 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 5 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 6 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 7 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 8 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 9 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 10 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 11 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing 12 Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Aircraft Leasing Holdings Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Alpha Limited	Ireland	€1.00 Ordinary shares	100
Pembroke Capital Limited	Ireland	€1.25 Ordinary shares	100
		$1.00 Ordinary shares	100
Pembroke Capital Shannon Limited	Ireland	€1.25 Ordinary shares	100
Skua Limited	Ireland	$1.00 Ordinary shares	100
The following company has the address of First Names House, Victoria Road, Douglas, IM2 4DF, Isle of Man			
Pembroke Group Limited	Isle of Man	$0.01 Ordinary shares	100
The following companies have the address of 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE, Isle of Man			
Standard Chartered Assurance Limited	Isle of Man	$1.00 Ordinary shares	100
		$1.00 Redeemable Preference shares	100
Standard Chartered Insurance Limited	Isle of Man	$1.00 Ordinary shares	100
The following company has the address of 21/F, Sanno Park Tower, 2-11-1 Nagatacho, Chiyoda-ku, Tokyo, 100-6155, Japan			
Standard Chartered Securities (Japan) Limited	Japan	JPY50,000 Ordinary shares	100
The following company has the address of Lime Grove House, Green Street, St Helier, JE1 2ST, Jersey			
Ocean Horizon Holdings East Limited	Jersey	$1.00 Ordinary shares	100
The following company has the address of 4/F St Pauls Gate, 22-24 New Street, St Helier,Channel Islands, JE1 4TR, Jersey			
Ocean Horizon Holdings West Limited	Jersey	$1.00 Ordinary shares	100
The following company has the address of 15 Castle Street, St Helier, JE4 8PT, Jersey			
SCB Nominees (CI) Limited	Jersey	$1.00 Ordinary shares	100
The following company has the address of 13 Castle Street, St Helier, JE4 5UT, Jersey			
Standard Chartered Funding (Jersey) Limited[1]	Jersey	£1.00 Ordinary shares	100
The following companies have the address of Standard Chartered Chiromo, Number 48, Westlands Road, P. O. Box 30003 – 00100, Nairobi, Kenya			
Standard Chartered Investment Services Limited	Kenya	KES1.00 Ordinary shares	100
Standard Chartered Bank Kenya Limited	Kenya	KES5.00 Ordinary shares	74.3
		KES5.00 Preference shares	100
Standard Chartered Securities (Kenya) Limited	Kenya	KES10.00 Ordinary shares	100
Standard Chartered Financial Services Limited	Kenya	KES20.00 Ordinary shares	100
Standard Chartered Insurance Agency Limited	Kenya	KES100.00 Ordinary shares	100
Standard Chartered Kenya Nominees Limited	Kenya	KES20.00 Ordinary shares	100
The following company has the address of M6-2701, West 27Fl, Suha-dong, 26, Eulji-ro 5-gil, Jung-gu, Seoul, Korea, Republic of			
Resolution Alliance Korea Ltd	Korea, Republic of	KRW5,000.00 Ordinary shares	100
The following company has the address of 47 Jongno, Jongno-gu, Seoul, 110-702, Korea, Republic of			
Standard Chartered Bank Korea Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	100
The following companies have the address of 17th Floor, 100, Gongpyeong-dong, Jongno-gu, Seoul, Korea, Republic of			
Standard Chartered Private Equity Korea II	Korea, Republic of	KRW1,000,000.00 Ordinary shares	100
Standard Chartered Private Equity Managers Korea Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	100

The following company has the address of 2F, 47 Jongno, Jongno-gu,

Seoul, 110-702, Korea, Republic of			
Standard Chartered Securities Korea Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	100
The following company has the address of Atrium Building, Maarad Street, 3rd Floor, P.O.Box: 11-4081 Riad El Solh, Beirut, Beirut Central District, Lebanon			
Standard Chartered Metropolitan Holdings SAL	Lebanon	$10.00 Ordinary A shares	100
The following companies have the address of Level 16, Menara Standard Chartered, 30, Jalan Sultan Ismail, 50250, Kuala Lumpur, Malaysia			
Amphissa Corporation Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Cartaban (Malaya) Nominees Sdn Berhad	Malaysia	RM10.00 Ordinary shares	100
Cartaban Nominees (Asing) Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Cartaban Nominees (Tempatan) Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Golden Maestro Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Popular Ambience Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
Price Solutions Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
SCBMB Trustee Berhad	Malaysia	RM10.00 Ordinary shares	100
Standard Chartered Bank Malaysia Berhad	Malaysia	RM0.10 Irredeemable Cumulative Preference shares	100
		RM1.00 Ordinary shares	100
Standard Chartered Saadiq Berhad	Malaysia	RM1.00 Ordinary shares	100
The following companies have the address of Brumby Centre, Lot 42, Jalan Muhibbah, 87000, Labuan F.T., Malaysia			
Marina Morganite Shipping Limited	Malaysia	$ Ordinary shares	100
Marina Moss Shipping Limited	Malaysia	$1.00 Ordinary shares	100
Marina Tanzanite Shipping Limited	Malaysia	$ Ordinary shares	100
Pembroke Leasing (Labuan) 2 Berhad	Malaysia	$1.00 Ordinary shares	100
Pembroke Leasing (Labuan) 3 Berhad	Malaysia	$1.00 Ordinary shares	100
Pembroke Leasing (Labuan) Pte Limited	Malaysia	$1.00 Ordinary shares	100
The following company has the address of 12th Floor, Menara KH, Jalan Sultan Ismail, 50250 Kuala Lumpur, Wilayah Persekutuan, Malaysia			
Resolution Alliance Sdn Bhd[2]	Malaysia	RM1.00 Ordinary shares	91
The following company has the address of Level 7, Wisma Standard Chartered, Jalan Teknologi 8, Taman Teknologi Malaysia, 57000, Bukit Jalil, Kuala Lumpur, Wilayah Persekutuan, Malaysia			
Standard Chartered Global Business Services Sdn Bhd	Malaysia	RM1.00 Ordinary shares	100
The following companies have the address of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, MH96960, Marshall Islands			
Marina Alysse Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Amandier Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Ambroisee Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Angelica Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Aquamarine Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Aventurine Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Buxus Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Celsie Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Citrine Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Dahlia Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Dittany Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Dorado Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Lilac Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Lolite Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Obsidian Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Pissenlet Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Poseidon Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Protea Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Quartz Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Remora Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Turquoise Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Zeus Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Marina Zircon Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
The following company has the address of 6th Floor, Standard Chartered Tower, 19, Bank Street, Cybercity, Ebene, 72201, Mauritius			
Standard Chartered Bank (Mauritius) Limited	Mauritius	$10.00 Ordinary shares	100
The following companies have the address of c/o Abax Corporate Services Ltd, 6th Floor, Tower A, 1 CYBERCITY, Ebene, Mauritius			
Standard Chartered Financial Holdings	Mauritius	$1.00 Ordinary shares	100

Standard Chartered Private Equity (Mauritius) II Limited	Mauritius	$1.00 Ordinary shares	100
Standard Chartered Private Equity (Mauritius) Limited	Mauritius	$1.00 Ordinary shares	100
		$ Redeemable Preference shares	100
Standard Chartered Private Equity (Mauritius) III Limited	Mauritius	$1.00 Ordinary shares	100
The following company has the address of 5th Floor, Ebene Esplanade, 24 Bank Street, Cybercity, Ebene, Mauritius			
Subcontinental Equities Limited	Mauritius	$1.00 Ordinary shares	100
The following company has the address of Standard Chartered Bank Nepal Limited, Madan Bhandari Marg, Ward No.34, Kathmandu Metropolitan City, Kathmandu District, Bagmati Zone, Kathmandu, Nepal			
Standard Chartered Bank Nepal Limited	Nepal	NPR100.00 Ordinary shares	70.2
The following companies have the address of Hoogoorddreef 15, 1101 BA, Amsterdam, Netherlands			
Pembroke B717 Holdings B.V.	Netherlands	€1.00 Ordinary shares	100
Pembroke Holland B.V.	Netherlands	€450.00 Ordinary shares	100
The following companies have the address of 1 Basinghall Avenue, London, EC2V 5DD, United Kingdom			
Smart Application Investment B.V.	Netherlands	€45.00 Ordinary shares	100
Standard Chartered Holdings (Africa) B.V.	Netherlands	€4.50 Ordinary shares	100
Standard Chartered Holdings (Asia Pacific) B.V.	Netherlands	€4.50 Ordinary shares	100
Standard Chartered Holdings (International) B.V.	Netherlands	€4.50 Ordinary A shares	100
		€4.50 Ordinary B shares	100
		€4.50 Ordinary C shares	100
		€4.50 Ordinary D shares	100
		€4.50 Ordinary E shares	100
		€4.50 Ordinary F shares	100
		€4.50 Ordinary G shares	100
Standard Chartered MB Holdings B.V.	Netherlands	€4.50 Ordinary shares	100
The following companies have the address of 142 Ahmadu Bello Way, Victoria Island, Lagos, Nigeria			
Cherroots Nigeria Limited	Nigeria	NGN1.00 Ordinary shares	100
Standard Chartered Bank Nigeria Limited	Nigeria	NGN1.00 Irredeemable Non Cumulative Preference shares	100
		NGN1.00 Ordinary shares	100
		NGN1.00 Redeemable Preference shares	100
Standard Chartered Capital & Advisory Nigeria Limited	Nigeria	NGN1.00 Ordinary shares	100
Standard Chartered Nominees (Nigeria) Limited	Nigeria	NGN1.00 Ordinary shares	100
The following company has the address of 3rd Floor Main SCB Building, I.I Chundrigar Road, Karachi, Sindh, 74000, Pakistan			
Price Solution Pakistan (Private) Limited[1]	Pakistan	PKR10.00 Ordinary shares	100
The following company has the address of P.O. Box No. 5556I.I. Chundrigar Road, Karachi, 74000, Pakistan			
Standard Chartered Bank (Pakistan) Limited	Pakistan	PKR10.00 Ordinary shares	99
The following company has the address of Offshore Chambers, PO Box 217, Apia, Western Samoa			
Standard Chartered Nominees (Western Samoa) Limited	Samoa	$1.00 Ordinary shares	100
The following company has the address of Al Faisaliah Office Tower Floor No 7 (T07D), King Fahad Highway, Olaya District, Riyadh P.O box 295522, Riyadh, 11351, Saudi Arabia			
Standard Chartered Capital (Saudi Arabia)	Saudi Arabia	SAR10.00 Ordinary shares	100
The following company has the address of 9 & 11, Lightfoot Boston Street, Freetown, Sierra Leone			
Standard Chartered Bank Sierra Leone Limited	Sierra Leone	SLL1.00 Ordinary shares	80.7
The following company has the address of 8 Marina Boulevard, #23-01 Marina Bay Financial Centre, 018981, Singapore			
Greenman Pte. Ltd.	Singapore	SGD1.00 Class A Preferred shares	100
		SGD1.00 Class B Preferred shares	100
		SGD1.00 Ordinary shares	100
The following companies have the address of 8 Marina Boulevard, Level 26, Marina Bay Financial Centre, Tower 1, 018981, Singapore			
Marina Aquata Shipping Pte. Ltd.	Singapore	$ Ordinary shares	100
Marina Aruana Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
		$ Ordinary shares	100
Marina Aster Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Cobia Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100

		$ Ordinary shares	100
Marina Daffodil Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Fatmarini Shipping Pte. Ltd.	Singapore	$ Ordinary shares	100
Marina Frabandari Shipping Pte. Ltd.	Singapore	$ Ordinary shares	100
Marina Freesia Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Gerbera Shipping Pte. Ltd.	Singapore	$ Ordinary shares	100
Marina Mars Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Mercury Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
Marina Opah Shipping Pte. Ltd.	Singapore	SGD Ordinary shares	100
		$ Ordinary shares	100
Marina Partawati Shipping Pte. Ltd.	Singapore	$ Ordinary shares	100
Marina Poise Shipping Pte. Ltd.	Singapore	$ Ordinary shares	100
The following companies have the address of 231A Pandan Loop, 128419, Singapore			
Phoon Huat Pte. Ltd.	Singapore	SGD1.00 Ordinary shares	70
Redman Pte. Ltd.	Singapore	SGD1.00 Ordinary shares	70
The following company has the address of 7 Changi Business Park Crescent, #03-00 Standard Chartered @ Changi, 486028, Singapore			
Raffles Nominees (Pte.) Limited	Singapore	SGD Ordinary shares	100
The following company has the address of 8 Marina Boulevard, Marina Bay Financial Centre Tower 1, Level 23, 018981, Singapore			
SCM Real Estate (Singapore) Private Limited	Singapore	SGD1.00 Ordinary shares	100
The following companies have the address of 8 Marina Boulevard, #27-01 Marina Bay Financial Centre Tower 1, 018981, Singapore			
SCTS Capital Pte. Ltd	Singapore	SGD Ordinary shares	100
SCTS Management Pte. Ltd.	Singapore	SGD Ordinary shares	100
Standard Chartered (2000) Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Bank (Singapore) Limited	Singapore	SGD Ordinary shares	100
		SGD Preference shares	100
Standard Chartered Trust (Singapore) Limited	Singapore	SGD Ordinary shares	100
Standard Chartered Holdings (Singapore) Private Limited	Singapore	SGD Ordinary shares	100
The following company has the address of Abogado Pte Ltd, No. 8 Marina Boulevard, #05-02 MBFC Tower 1, 018981, Singapore			
Standard Chartered IL&FS Management (Singapore) Pte. Limited	Singapore	$1.00 Ordinary shares	50
The following company has the address of 9 Battery Road, #15-01 Straits Trading Building, 049910, Singapore			
Standard Chartered Nominees (Singapore) Pte Ltd	Singapore	SGD1.00 Ordinary shares	100
The following company has the address of Marina Bay Financial Centre (Tower 1), 8 Marina Boulevard, #05-02, 018981, Singapore			
Standard Chartered PF Managers Pte. Limited	Singapore	$1.00 Ordinary shares	100
The following companies have the address of Marina Bay Financial Centre (Tower 1), 8 Marina Boulevard, Level 23, 018981, Singapore			
Standard Chartered Private Equity (Singapore) Pte. Ltd	Singapore	$ Ordinary shares	100
		$ Redeemable Preference shares	100
Standard Chartered Private Equity Managers (Singapore) Pte. Ltd	Singapore	$ Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) I Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) II Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) III Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) IV Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) V Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) VI Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) VII Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment (Singapore) VIII Private Limited	Singapore	SGD1.00 Ordinary shares	100
Standard Chartered Real Estate Investment Holdings (Singapore) Private Limited	Singapore	SGD1.00 Ordinary shares	100
The following companies have the address of 5th Floor, 4 Sandown Valley Crescent, Sandton, Gauteng, 2196, South Africa			
CMB Nominees Proprietary Limited	South Africa	ZAR1.00 Ordinary shares	100
Standard Chartered Nominees South Africa Proprietary Limited (RF)	South Africa	ZAR Ordinary shares	100
The following company has the address of 1, 2, 4, 7, 9, 10F, No. 168/170 &, 8F, 12F, no.168, Tun Hwa N. Rd., Songshan Dist., Taipei, 105, Taiwan			
Standard Chartered Bank (Taiwan) Limited	Taiwan	TWD10.00 Ordinary shares	100
The following companies have the address of 1st Floor, International House, Shaaban Robert Street / Garden Avenue, PO Box 9011, Dar Es Salaam, Tanzania, United Republic of			

Standard Chartered Bank Tanzania Limited	Tanzania, United Republic of	TZS1,000.00 Ordinary shares	100
		TZS1,000.00 Preference shares	100
Standard Chartered Tanzania Nominees Limited	Tanzania, United Republic of	TZS1,000.00 Ordinary shares	100
The following company has the address of 90 North Sathorn Road, Silom, Bangrak Bangkok , 10500, Thailand			
Standard Chartered Bank (Thai) Public Company Limited	Thailand	THB10.00 Ordinary shares	99.9
The following company has the address of Buyukdere Cad. Yapi Kredi Plaza C Blok, Kat 15, Levent, Istanbul, 34330, Turkey			
Standard Chartered Yatirim Bankasi Turk Anonim Sirketi	Turkey	TRL0.10 Ordinary shares	100
The following company has the address of Standard Chartered Bank, Bldg5 Speke Road, PO Box 7111, Kampala, Uganda			
Standard Chartered Bank Uganda Limited	Uganda	UGS1,000.00 Ordinary shares	100
The following company has the address of 625 2nd Street, #102, San Francisco CA 94107, United States			
SC Studios, LLC	United States	Membership Interest	100
The following company has the address of Standard Chartered Bank, 37F, 1095 Avenue of the Americas, New York, 10036, United States			
Standard Chartered Bank International (Americas) Limited	United States	$1.00 Ordinary shares	100
The following companies have the address of Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, United States			
Standard Chartered Holdings Inc.	United States	$100.00 Common shares	100
StanChart Securities International LLC	United States	Membership Interest	100
Standard Chartered Capital Management (Jersey), LLC	United States	Membership Interest	100
Standard Chartered Securities (North America) LLC	United States	Membership Interest	100
Standard Chartered International (USA) LLC	United States	Membership Interest	100
The following company has the address of 50 Fremont Street, San Francisco CA 94105, United States			
Standard Chartered Overseas Investment, Inc.	United States	$10.00 Ordinary shares	100
The following company has the address of 1013 Centre Road, Wilmington, Delaware, USA			
Standard Chartered Trade Services Corporation	United States	$0.01 Common shares	100
The following company has the address of Room 1810-1815, Level 18, Building 72, Keangnam Hanoi Landmark Tower, Pham Hung Road, Cau Giay New Urban Area, Me Tri Ward, Nam Tu Liem District, Hanoi10000, Vietnam			
Standard Chartered Bank (Vietnam) Limited	Vietnam	VND Charter Capital shares	100
The following companies have the address of P.O.Box 438, Palm Grove House, Road Town, Tortola, Virgin Islands, British			
California Rose Limited	Virgin Islands, British	$1.00 Ordinary shares	90.5
Earnest Range Limited	Virgin Islands, British	$1.00 Ordinary shares	90.5
The following companies have the address of Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, Virgin Islands, British			
Sky Favour Investments Limited	Virgin Islands, British	$1.00 Ordinary shares	100
Sky Harmony Holdings Limited	Virgin Islands, British	$1.00 Ordinary shares	100
The following companies have the address of Standard Chartered House, Cairo Road, Lusaka, PO BOX 32238, Zambia			
Standard Chartered Bank Zambia Plc	Zambia	ZMW0.25 Ordinary shares	90
Standard Chartered Zambia Securities Services Nominees Limited	Zambia	ZMK1.00 Ordinary shares	100
The following companies have the address of Africa Unitry Square Building, 68 Nelson Mandela Avenue, Harare, Zimbabwe			
Standard Chartered Asset Management Limited	Zimbabwe	$0.001 Ordinary shares	100
Standard Chartered Bank Zimbabwe Limited	Zimbabwe	$1.00 Ordinary shares	100
Standard Chartered Nominees Zimbabwe (Private) Limited	Zimbabwe	$2.00 Ordinary shares	100

1 Directly held by parent company of the Group
2. The Group has determined that these undertakings are excluded from being consolidated into the Group's accounts, and do not meet the definition of a Subsidiary under IFRS. See notes 32 and 33 for the consolidation policy and disclosure of the undertaking
3. No share capital by virtue of being a trust

Associates

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of Bohai Bank Building, No.218 Hai He Dong Lu, Hedong District, Tianjin, China, 300012, China			
China Bohai Bank Co. Ltd	China	CNY Ordinary shares	19.9
The following company has the address of C/o CIM Corporate Services Ltd, Les Cascades, Edith Cavell Street, Port Louis, Mauritius			
FAI Limited	Mauritius	$1.00 Ordinary shares	25
The following company has the address of Victoria House, State House Avenue, Victoria, MAHE, Seychelles			
Seychelles International Mercantile Banking Corporation Limited	Seychelles	SCR1,000.00 Ordinary shares	22
The following company has the address of Marina Bay Financial Centre, 17-03, MBFC Tower 3, 12 Marina Boulevard, 018981, Singapore			
Clifford Capital Pte. Ltd	Singapore	$1.00 Ordinary shares	9.9

Joint ventures

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of WTC II Building, Jalan Jenderal Sudirman Kav29-31, Jakarta, 12920' Indonesia			
PT Bank Permata Tbk	Indonesia	IDR125.00 B shares	44.6
The following companies have the address of 33-41 Lower Mount Street, Dublin 2, Ireland			
Canas Leasing Limited	Ireland	$1 Ordinary shares	50
Elviria Leasing Limited	Ireland	$1 Ordinary shares	33.3
The following company has the address of 100/36 Sathorn Nakorn Tower, Fl 21 North Sathorn Road, Silom Sub-District, Bangrak District, Bangkok, 10500, Thailand			
Resolution Alliance Limited	Thailand	THB10.00 Ordinary shares	49

Significant investment holdings and other related undertakings

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of 65A Basinghall Street, London, EC2V 5DZ, United Kingdom			
Cyber Defence Alliance Limited	United Kingdom	Membership interest	25
The following company has the address of Walker House, 87 Mary Street, George Town, KY1-9005, Cayman Islands			
Asia Trading Holdings Limited	Cayman Islands	$0.01 Ordinary shares	50
The following company has the address of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands			
		$0.01 A Ordinary shares	5.3
ATSC Cayman Holdco Limited	Cayman Islands	$0.01 B Ordinary shares	100
The following companies have the address of Harbour Centre #42 North Church Street, PO Box 1348, Grand Cayman, KY1-1108 Cayman Islands			
Standard Chartered IL&FS Asia Infrastructure (Cayman) Limited	Cayman Islands	$0.01 Ordinary shares	50
Standard Chartered IL&FS Asia Infrastructure Growth Fund Company Limited	Cayman Islands	$1.00 Ordinary shares	50
Standard Chartered IL&FS Asia Infrastructure Growth Fund, L.P.	Cayman Islands	Partnership interest	38.6
The following companies have the address of 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands			
Greathorse Chemical Limited	Cayman Islands	$1.00 Ordinary shares	33.0
Hygienic Group	Cayman Islands	$0.01 Redeemable Exchangeable Preferred shares	29.3
The following company has the address of PO Box 31493, George Town, Grand Cayman, KY1-1206, Cayman Islands			
Chayora Holdings Limited	Cayman Islands	$0.01 Series B Preferred Shares	100
The following company has the address of Unit 4, 14F Ke Chuang Building, No. 16 Buzheng Lane, Haishu District, Ningbo, China			
Ningbo Xingxin Real Estate Development Co.,Ltd	China	CNY1.00 Registered Capital	60
The following company has the address of 3, Floor 1, No.1, Shiner Wuxingcaiyuan, West Er Huan Rd, Xi Shan District, Kunming, Yunnan Province, PRC, China			
Yunnan Golden Shiner Property Development Co., Ltd.	China	CNY1.00 Ordinary shares	50
The following company has the address of Room 1A-1, No.88 Xianxia Road,			

Changning District, Shanghai, China			
Shanghai Siyanli Industrial Co., Ltd.	China	CNY1.00 Ordinary shares	39
The following company has the address of Nerine House, St George's Place, St Peter Port, GY1 3ZG, Guernsey			
Stonehage Fleming Family and Partners Ltd	Guernsey	£1.00 Class B shares	9.8
		£1.00 Class DC shares	20.2
The following company has the address of 15/F, 1 Duddell Street, Central, Hong Kong			
Fast Great Investment Limited	Hong Kong	HKD1.00 Ordinary shares	28
The following company has the address of Suite 1401, 14 Floor, World Commerce Centre, Harbour City, 7-11 Canton Road, Tsim Sha Tsui, Hong Kong			
Standard Latitude Consultancy (HK) Limited	Hong Kong	$5,000 Ordinary shares	20
The following company has the address of 3i Infotech Limited, Tower 5, 3rd to 6th Floors, International Infotech Park, Vashi, Navi Mumbai, 400 703, India			
3i Infotech Limited	India	INR5.00 Cumulative Redeemable Preference shares	27.3
		INR10.00 Ordinary shares	11.1
The following company has the address of 70, Nagindas Master Road, Fort, Mumbai, 400023, India			
Joyville Shapoorji Housing Private Limited	India	INR10.00 Common Equity shares	25.8
The following company has the address of 5th Floor, Mahindra Towers, Worli, Mumbai, 400018, India			
Mahindra Homes Private Limited	India	INR100.00 Compulsorily Convertible Debentures Series A shares	100
		INR10.00 Compulsorily Convertible Preference Shares	100
		INR10.00 Ordinary-A shares	25
		INR10.00 Ordinary-B shares	100
The following company has the address of 1221 A, Devika Tower, 12th Floor, 6 Nehru Place, New Delhi 110019, New Delhi, 110019, India.			
Mikado Realtors Private Limited	India	INR10.00 Ordinary shares	26
The following company has the address of Elphinstone Building, 2nd Floor,10 Veer Nariman Road, Fort, Mumbai -400001, Maharashtra, India			
TRIL IT4 Private Limited	India	INR10.00 Ordinary shares	26
The following company has the address of 4thFloor, 274, Chitalia House, Dr. Cawasji Hormusji Road, Dhobi Talao, Mumbai City, Maharashtra, India 400 002, Mumbai, 400 002, India			
Industrial Minerals and Chemical Co. Pvt. Ltd	India	INR100.00 Ordinary shares	26
The following company has the address of No. 1, Kanagam Village, 10th Floor IITM Research Park, , Taramani, Chennai – 600113, Tamil Nadu, India			
IFMR Capital Finance Private Limited (IFMRC)	India	INR20.00 Compulsorily Convertible Preference shares	40.7
		INR10.00 Equity shares	4.6
The following company has the address of Graha Paramita, 3rd Floor, Jalan Denpasar, Raya Block D-2, Kav. 8, Kuningan, Jakarta, 12940, Indonesia			
PT Travira Air	Indonesia	IDR1,000,000.00 Ordinary shares	30
The following company has the address of Trio Building, 8th Floor, Jl, Kebon Sirih Raya Kav, 63, Jakarta 10340, Indonesia			
PT Trikomsel Oke Tbk	Indonesia	IDR50.00 Series B shares	29.2
The following companies have the address of 4th Floor, St Pauls Gate, 22-24 New Street, St Helier, Jersey JE1 4TR, Jersey			
Standard Jazeera Limited	Jersey	$100.00 Ordinary shares	20
Standard Topaz Limited	Jersey	$1,000.00 Ordinary shares	20.1
The following company has the address of 146-8 Chusa-ro Sinam-myeon, Yesan-gun Chungnam, Korea, Republic of			
Daiyang Metal Company Ltd	Korea, Republic of	KRW 500 Common shares	23.1
		KRW 500 Convertible Preference shares	100
The following company has the address of 6th Floor D Tower, 17, Jong-no 3 Gil, Jongno-Gu, Seoul, Korea, Republic of			
Fountain Valley PFV Limited	Korea, Republic of	KRW5,000.00 Ordinary shares	47.3
The following company has the address of 17th Floor, 100, Gongpyeong-dong, Jongno-gu, Seoul, Korea, Republic of			
SCPEK IV	Korea, Republic of	Limited Partnership Interest	41.4
The following company has the address of 17F (Gongpyung-dong), 47, Jongno, Jongno-gu, Seoul, Korea, Republic of			
Standard Chartered Private Equity Korea III	Korea, Republic of	KRW1,000,000.00 Ordinary shares	31

The following company has the address of 14th Fl Sewoo Bldg, 115 Yeouigongwon-ro, Yeongdeungpo-gu, Seoul 07241, 07241, Korea, Republic of			
Lotus PFV Co. Ltd	Korea, Republic of	KRW5,000.00 Ordinary shares	50
The following company has the address of Lot 6.05, Level 6, KPMG Tower, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor, Malaysia			
House Network SDN BHD	Malaysia	RM1.00 Ordinary shares	25
The following company has the address of Area 5, Iperin Gate, Optic Industrial Estate, Agbara, Ogun State, Nigeria			
GZ Industries Limited	Nigeria	NGN1.00 Ordinary shares	11.2
		$1.00 Redeemable Preference shares	75.1
The following company has the address of 168 Robinson Road, #33-01 Capital Tower, 068912, Singapore			
Standard Chartered IL&FS Asia Infrastructure Growth Fund Company Pte. Limited	Singapore	$1.00 Ordinary shares	100
		$0.01 Redeemable Preference shares	83.6
The following company has the address of 1 Venture Avenue, #07-07 Big Box, 608521, Singapore			
Omni Centre Pte. Ltd.	Singapore	$ Redeemable Convertible Preference shares	100
The following company has the address of 180B Bencoolen Street, #11-00 The Bencoolen, 189648, Singapore			
Crystal Jade Group Holdings Pte Ltd	Singapore	$1.00 Ordinary shares	42.6
The following company has the address of Blk 10, Kaki Bukit Avenue 1, #07-05 Kaki Bukitr Industrial Estate, 417492, Singapore			
MMI Technoventures Pte Ltd	Singapore	SGD Ordinary shares	50
		SGD 0.01 Redeemable Preference shares	50
The following company has the address of 80 Raffles Place, #32-01, UOB Plaza 1, 048624, Singapore			
THSC Investments Pte. Ltd.	Singapore	SGD0.50 Ordinary Shares	33.3
The following company has the address of 80 Robinson Road, #02-00, 068898, Singapore			
Maxpower Group Pte Ltd	Singapore	Redeemable Preference shares	100
The following company has the address of 81 Ubi Avenue 4, #03-11 UB One, 408830, Singapore			
Polaris Limited	Singapore	SGD Ordinary shares	25.8
The following company has the address of EADB Building, Plot 4 Nile Avenue, PO Box 7128, Kampala, Uganda			
East African Development Bank	Uganda	$13,500.00 Class B shares	24.5
The following company has the address of 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States			
Paxata, Inc.	United States	$0.0001 Series C2 Preferred Stock	40.7
The following company has the address of Floor 7, Samco Building, No. 326 Vo Van Kiet, Co Giang Ward, District 1, Ho Chi Minh City, Vietnam			
New Lifestyle Service Corporation	Vietnam	VND Dividend Preference shares	100
		VND Redeemable Preference shares	100
The following company has the address of Floor M, Petroland Building, 12 Tan Trao, Tan Phu Ward, District 7, Ho Chi Minh City			
Online Mobile Services Joint Stock Company	Vietnam	Class A1 Redeemable Preference shares	100
		Class A1 Dividend Preference shares	100
The following company has the address of PO Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI, Virgin Islands, British			
Ecoplast Technologies Inc	Virgin Islands, British	$0.0001 Class C Preferred shares	100

In liquidation

Subsidiary undertakings

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following companies have the address of Deloitte LLP, Hill House, 1 Little New Street, London, EC4A 3TR, United Kingdom			
Chartered Financial Holdings Limited	United Kingdom	£5.00 Ordinary shares	100
		£1.00 Preference shares	100
Standard Chartered Capital Markets Limited	United Kingdom	£1.00 Ordinary shares	100
		$1.00 Ordinary shares	100
Standard Chartered (CT) Limited	United Kingdom	£1.00 Ordinary shares	100

Standard Chartered Corporate Finance (Canada) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Corporate Finance (Eurasia) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Equitor Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Financial Investments Limited	United Kingdom	£1.00 Ordinary A Shares	100
Standard Chartered Portfolio Trading (UK) Limited	United Kingdom	£1.00 Ordinary shares	100
Standard Chartered Receivables (UK) Limited	United Kingdom	$1.00 Ordinary shares	100
Compass Estates Limited	United Kingdom	£1.00 Ordinary shares	100
The following company has the address of 648-07 room, Building 2, Shanghai Zhangjiang High-tech Park, 351 Guo shoujing road, Shanghai, 201203, China			
SCL Consulting (Shanghai) Co. Ltd	China	$ Ordinary shares	100
The following company has the address of Cra 7 Nro 71-52 TA if 702, Bogata, Colombia			
Sociedad Fiduciaria Extebandes S.A.	Colombia	COP1.00 Ordinary shares	100
The following companies have the address of Schottegatweg Oost, 44, Curacao, Netherlands Antilles			
American Express International Finance Corp.N.V.	Curaçao	$1,000.00 Ordinary shares	100
Ricanex Participations N.V.	Curaçao	$1,000.00 Ordinary shares	100
The following company has the address of 8/F Eurotrade Centre, 21-23 Des Voeux Road Central, Hong Kong			
GE Capital (Hong Kong) Limited	Hong Kong	HKD10.00 Ordinary shares	100
The following company has the address of 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong			
Leopard Hong Kong Limited	Hong Kong	$ Ordinary shares	100
The following company has the address of Standard Chartered@Chiromo, Number 48, Westlands Road, P. O. Box 30003 – 00100, Nairobi, Kenya			
Standard Chartered Management Services Limited	Kenya	KES20.00 Ordinary shares	100
The following company has the address of 26 Boulevard royal, 2449, Luxembourg			
Standard Chartered Financial Services (Luxembourg) S.A.	Luxembourg	€25.00 Ordinary shares	100
The following company has the address of A Martins & Associados Advogados - Sociedade Unipessoal Lda, Av. Vladimir Lenine, 174, 4º andar, Edifício Millennium Park, Caixa Postal 796, Maputo, Mozambique			
Standard Chartered Bank Mozambique, S.A.	Mozambique	$1.00 Ordinary shares	100
The following company has the address of 380 Canaval y Moreyra, Lima 27, Peru			
Banco Standard Chartered en Liquidacion	Peru	$75.133 Ordinary shares	100
The following companies have the address of 8 Marina Boulevard, #27-01 Marina Bay Financial Centre Tower 1, 018981, Singapore			
Standard Chartered Investments (Singapore) Private Limited	Singapore	$ Ordinary shares	100
Prime Financial Holdings Limited	Singapore	SGD Ordinary shares	100
		$ Ordinary shares	100
The following company has the address of 10 Collyer Quay, #10-01, Ocean Financial Centre, 049315, Singapore			
Standard Chartered Securities (Singapore) Pte. Limited	Singapore	SGD Ordinary shares	100
The following company has the address of Quai du General Guisan 38, 8022, Zurich, Switzerland			
Standard Chartered Bank (Switzerland) S.A.	Switzerland	CHF1,000.00 Ordinary shares	100
		CHF100.00 Participation Capital shares	100
The following company has the address of 6th Floor, Hewlett Packard Building, 337 Fu Hsing North Road, Taipei, Taiwan			
Kwang Hua Mocatta Ltd. (Taiwan)	Taiwan	TWD1,000.00 Ordinary shares	100
The following company has the address of 100/3, Sathorn Nakorn Tower, 3rd Floor, North Sathorn Road, Silom, Bangrak, Bangkok, 10500, Thailand			
Thai Exclusive Leasing Company Limited	Thailand	THB10.00 Ordinary shares	100
Standard Chartered (Thailand) Company Limited	Thailand	THB10.00 Ordinary shares	100
The following company has the address of Luis Alberto de Herrera 1248, Torre II, Piso 11, Esc. 1111, Uruguay			
Standard Chartered Uruguay Representacion S.A.	Uruguay	UYU1.00 Ordinary shares	100

Associates

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
The following company has the address of Quadrant House, 4 Thomas More Square, London, E1W 1YW, United Kingdom			
MCashback Limited	United Kingdom	£0.01 Ordinary shares	31.7

Liquidated/dissolved/sold

Subsidiary undertakings

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
Marina Jessamine Shipping Limited	Marshall Islands	$1.00 Ordinary shares	100
Inishmullen Leasing Limited	Ireland	$1.00 Ordinary shares	100
Inishroe Leasing Limited	Ireland	$1.00 Ordinary shares	100
Pembroke Funding BV	Netherlands	€100.00 Ordinary shares	100
Pembroke Thai Aircraft II B.V.	Netherlands	€100.00 Ordinary shares	100
SC2 Investments (Singapore) Private Limited	Singapore	SGD Ordinary shares	100
Standard Chartered (1996) Limited	Singapore	SGD Ordinary shares	100
Price Solutions Singapore Pte. Ltd.	Singapore	SGD Ordinary shares	100
New Group Investments Limited	Virgin Islands, British	$1.00 Ordinary shares	100

Significant investment holdings and other related undertakings

Name	Country of incorporation	Description of shares	Proportion of shares held (%)
Kamoso Distribution (Proprietary) Limited (previously named Spark Capital (Proprietary) Limited)	Botswana	BWP Ordinary shares	49.9
Abacus Eight Limited	Cayman Islands	A Shares	24.5
Abacus Nine Limited	Cayman Islands	A Shares	24.5
Abacus Seven Limited	Cayman Islands	A Shares	24.5
Abacus Ten Limited	Cayman Islands	A Shares	31.2
Etonkids Educational Group Limited	Cayman Islands	$0.001 Series A Preferred Shares	100
		$0.001 Series A-1 Preferred Shares	100
BCC Launchpad, L.P.	Cayman Islands	Partnership Interest	49
Shui Li Realty (Shanghai) Limited	China	Registered Capital	45
Inox India Limited	India	Compulsorily Convertible Preference Shares	100
		Equity Shares	4.6
Guangdong Aiyingdao Children Departmental Store Co. Ltd	China	CNY1.00 Common shares	20.2
Jin Li Realty (Shanghai) Co., Ltd.	China	Registered Capital	48.6
Smoothie King Holdings, Inc.	Korea, Republic of	KRW5,000.00 Ordinary shares	20.3
		KRW5,000.00 Redeemable Convertible Preference shares	58

41. IFRS 9 Financial Instruments

We estimate that the changes in measurement arising on the initial adoption of IFRS 9 results in a decrease in shareholders' equity of approximately $1.1 billion, net of tax, at 1 January 2018 (Company: approximately $7 million). This will result in an increase in the Group's loan impairment provisions from $5.7 billion under IAS 39 to approximately $6.7 billion ($0.2 billion of which is held in other liabilities against undrawn commitments and financial guarantees) and an estimated gain of $35 million from changes in the classification and measurement of assets and liabilities under IFRS 9. The impact on regulatory capital is set out in the Risk review and Capital review.

The Group continues to refine its expected credit loss models and embed its operational processes which may change the actual impact on adoption.

The estimated impact of the remeasurement and reclassifications and the impact of the changes to the recognition and measurement of credit impairment loss allowances, net of the related tax impacts, is set out by category of reserve in the table below.

	Share capital and share premium account $million	Capital and merger reserves $million	Own credit adjustment reserve $million	Available-for-sale reserve $million	Fair value through OCI reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company shareholders' equity $million	Other equity instruments $million	Non-controlling interests $million	Total $million
As at 31 December 2017	7,097	17,129	54	83	–	(45)	(4,454)	26,641	46,505	4,961	341	51,807
Net impact of:	–	–	–	(83)	(82)	–	–	200	35	–	–	35
IFRS 9 reclassifications	–	–	–	(83)	(86)	–	–	169	–	–	–	–
IFRS 9 re-measurements	–	–	–	–	4	–	–	31	35	–	–	35
Expected credit loss, net	–	–	–	–	65	–	–	(1,296)	(1,231)	–	(8)	(1,239)
Tax impact	–	–	–	–	(6)	–	–	182	176	–	–	176
Impact of IFRS 9 on share of joint ventures and associates, net of tax	–	–	–	–	(1)	–	–	(51)	(52)	–	–	(52)
Estimated IFRS 9 transition adjustments	–	–	–	(83)	(24)	–	–	(965)	(1,072)	–	(8)	(1,080)
As at 1 January 2018	7,097	17,129	54	–	(24)	(45)	(4,454)	25,676	45,433	4,961	333	50,727

The Group will publish an IFRS 9 transition report prior to the issuance of the first quarter 2018 Interim Management Statement. This transition report will be unaudited and provide more extensive disclosures to explain the opening IFRS 9 adjustments and to provide a bridge from IAS 39 to IFRS 9. In particular it will include further details in respect of:

- Quantitative information to reconcile impairment provisions, key risk metrics and the classification and measurement of financial instruments under IAS 39 to those under IFRS 9
- The effect of IFRS 9 on significant accounting policies, credit risk policies and practices and related governance processes
- Explanation of the inputs, assumptions and estimation techniques used in determining expected credit losses and the key judgements made in applying IFRS 9
- Qualitative information regarding volatility and areas of measurement uncertainty
- Supplementary quantitative information on credit risk and classification and measurement of financial instruments in IFRS 9 terms, including stage distribution and an analysis of credit quality and expected credit loss allowances coverage by stage and segment for the loan portfolio

Classification and measurement of financial instruments

IAS 39

There are four asset classifications under IAS 39: fair value through profit or loss (FVTPL), incorporating trading and instruments designated at FVTPL; loans and receivables; held to maturity; and available-for-sale. The classification of assets into these categories was determined based on a mix of management intent and product characteristics. Only the available-for-sale category has no restrictions on classification.

In respect of hybrid financial assets, the embedded derivative component may be separated and measured at fair value, unless closely related to the host contract. If this is not possible, the entire instrument must be designated at FVTPL.

Other instruments may be designated at FVTPL if they are managed on a fair value basis, or where the designation would eliminate or significantly reduce an accounting mismatch.

IFRS 9

There are three measurement classifications under IFRS 9: amortised cost, fair value through profit or loss (FVTPL) and, for financial assets, fair value through other comprehensive income (FVOCI). The existing IAS 39 financial asset categories are removed.

Financial assets are classified into these categories based on the business model within which they are held, and their contractual cash flow characteristics.

The business model reflects how groups of financial assets are managed to achieve a particular business objective. Financial assets can only be held at amortised cost if the instruments are held in order to collect the contractual cash

flows ('hold to collect'), and where those contractual cash flows are solely payments of principal and interest (SPPI). Principal represents the fair value of the instrument at the time of initial recognition.

Interest in this context represents compensation for the time value of money and associated credit risks together with compensation for other risks and costs consistent with a basic lending arrangement and a profit margin. This requires an assessment at initial recognition of the contractual terms to determine whether it contains a term that could change the timing or amount of cash flows in a way that is inconsistent with the SPPI criteria.

Assets may be sold out of 'hold to collect' portfolios where there is an increase in credit risk. Disposals for other reasons are permitted but such sales should be insignificant in value or infrequent in nature.

Financial asset debt instruments where the business model objectives are achieved by collecting the contractual cash flows and by selling the assets ('hold to collect and sell') and that have SPPI cash flows are held at FVOCI, with unrealised gains or losses deferred in reserves until the asset is derecognised. In certain circumstances, non-trading equity instruments can be irrevocably designated as FVOCI but both unrealised and realised gains or losses are recognised in reserves and no amounts other than dividends received are recognised in the income statement.

All other financial assets will mandatorily be held at FVTPL.

Financial assets may be designated at FVTPL only if doing so eliminates or reduces an accounting mismatch.

There has been no change to the requirements in respect of the classification and measurement of financial liabilities. The Group adopted the changes related to the presentation of fair value changes on own credit in its 2016 financial statements.

The derecognition requirements have also been carried forward unchanged from IAS 39.

Where the contractual terms of financial assets are modified, and that modification does not result in derecognition, a modification gain or loss is recognised in the income statement and the gross carrying amount of the asset adjusted accordingly.

Transition impact

The Group has assessed the business models that it operates across the Group. In its assessment, the Group considered the objectives of the business model, how performance is measured and how staff are remunerated amongst other factors.

Where the objective of a business is to manage financial assets on a fair value basis, the instruments within that business model are measured at FVTPL. This includes the Group's trading portfolios.

Most of the Group's loans to banks and customers are held within a 'hold to collect' business model.

Investment debt securities held with Treasury Markets are held within a 'hold to collect and sell' portfolio. The majority of the remaining investment debt securities are held within a 'hold to collect' business model.

For 'hold to collect' portfolios, the level of sales and the reason for those sales is also monitored to ensure they are consistent with the characteristics of a 'hold to collect' business model.

Instruments that do not meet the SPPI criteria are measured at FVTPL regardless of the business model in which they are held. Other than hybrid financial assets, this primarily arises from prepayment clauses. While prepayment clauses are common across the Group's loan portfolio, prepayment penalties are not considered to meet the SPPI criteria if the prepayment penalty received by the bank is not considered to be reasonable compensation from an IFRS 9 perspective for early termination of the contract. This has impacted a small number of products in Retail Banking and a small number of contracts within the Corporate Finance/Corporate Lending portfolios.

Non-trading equity investments are measured at FVTPL except for a small portfolio of strategic equity investments which are irrevocably designated at FVOCI.

Assets designated at FVTPL under IAS 39 that are not as a result of an accounting mismatch have been de-designated and mandatorily classified as FVTPL either because they are managed on a fair value basis or cash flows are maximised through sale or part of a broader trading business or are hybrid financial assets. There is no impact on the measurement of these instruments. The Group has also elected on initial implementation of IFRS 9 to designate certain financial assets and financial liabilities at FVTPL in order to reduce or eliminate accounting mismatches:

- Loans and advances to customers, to reduce the impact of associated credit derivatives; and
- Sales and repurchase liabilities, where the related financial assets are now required to be accounted for at FVTPL

Impact

The estimated impact on retained earnings and reserves as a result of reclassification and re-measurement of financial assets and liabilities is approximately $35 million.

The amounts previously reported as part of the available-for-sale reserve have been reclassified either to the fair value through OCI reserve or to retained earnings.

Impairment of financial assets not held at FVTPL

IAS 39

For debt instruments held at amortised cost or available-for-sale, specific loss allowances are only recognised where there is objective evidence of impairment as a result of one or more loss events occurring after the initial recognition of the instrument. This includes losses arising from credit related modifications to the contractual terms (such as forbearance).

For debt instruments held at amortised cost, where losses are known, by experience, to have been incurred but have not been separately identified, a portfolio impairment provision (PIP) is recognised. The calculation of PIP is based on regulatory expected loss models, after adjustments made to align the calculation with IFRS, together with adjustments to take into account factors not adequately covered in the underlying models.

A PIP is not, however, recognised for available-for-sale instruments. Impairment loss allowances are also not recognised for loan commitments and financial guarantees.

Where there is objective evidence of impairment for available-for-sale debt instruments, the entire unrealised loss held in reserves is transferred to the income statement and recognised as impairment.

For equity shares classified as available-for-sale, a significant or prolonged decline in the fair value below its cost is considered, among other factors, in assessing objective evidence of impairment. On impairment, the entire unrealised loss held in reserves is transferred to the income statement and recognised as impairment.

See note 8 for further details on the IAS 39 accounting policy.

IFRS 9

A summary of the Group's approach to determining ECL is set out within note 40 to the 2016 Annual Report and Accounts. The Group primarily uses sophisticated models that utilise the probability of default (PD), loss given default (LGD) and exposure at default (EAD) metrics, discounted using the effective interest rate. For lower value, less complex portfolios in Retail Banking, the Group uses roll rate or loss rate models.

Expected credit losses are recognised for all financial debt instruments, loan commitments and financial guarantees that are classified as 'hold to collect'/'hold to collect and sell' and have cash flows that are solely payments of principal and interest. Expected credit losses are not recognised for equity instruments designated at FVOCI.

An ECL allowance is recognised at the time of initial recognition for all financial instruments that are in the scope of ECL in respect of default events that may occur over the next 12 months (so-called 'stage 1 assets' with allowances equivalent to 12-months expected credit losses). ECL continues to be determined on this basis until there is either a significant increase in credit risk (SICR) or the asset becomes credit impaired.

If a financial asset (or portfolio of financial assets) experiences an SICR since initial recognition, an ECL allowance is recognised for default events that may occur over the lifetime of the asset (so-called 'stage 2 assets' with loss allowances equivalent to lifetime expected credit losses). SICR is assessed in the context of an increase in the risk of a default occurring over the remaining life of the financial instrument when compared with that expected at the time of initial recognition for the same period. It is not assessed in the context of an increase in the expected credit loss.

The Group uses a number of qualitative and quantitative measures in assessing SICR. Quantitative measures relate to the relative and absolute changes in the lifetime PD compared with those expected at initial recognition. Qualitative factors include placement of loans on non-purely precautionary early alert, classification as higher risk (CG 12) or where principal and/or interest payments are 30 days or more past due.

An asset is only considered credit impaired, and lifetime expected credit losses recognised, if there is observed objective evidence of impairment. These factors are similar to the indicators of objective evidence of impairment under IAS 39. This includes, amongst other factors, assets in default, experiencing significant financial difficulty or subject to forbearance actions credit-impaired (so-called 'stage 3 assets').

The definition of default is aligned to the regulatory definition within CRR Article 178 and considered to occur when an asset is 90 days or more past due on contractual payments of principal and/or interest or is considered unlikely to pay without realisation of any collateral held.

To the extent that assets are credit-impaired at the point of initial recognition, they are classified as purchased or originated credit-impaired. An expected credit loss allowance is not recognised at initial recognition. Any changes in lifetime expected losses after initial recognition are charged or credited to the income statement through 'Impairment'.

The measurement of expected credit losses across all stages is required to reflect an unbiased and probability weighted amount that is determined by evaluating a range of reasonably possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. The Group uses a Monte Carlo approach to simulate a set of 50 scenarios around the Group's central forecast to incorporate the potential non-linearity.

The period considered when measuring expected credit loss is the shorter of the expected life and the contractual term of the financial asset.

The expected life may be impacted by prepayments and the maximum contractual term by extension options. For certain revolving portfolios, including credit cards, the expected life is assessed over the period that the Group is exposed to credit risk (which is based on the length of time it takes for credit facilities to be withdrawn) rather than the contractual term.

For stage 3 financial assets, the determination of lifetime expected credit losses will be similar to the IAS 39 approach; for example, loan loss allowances within Corporate & Institutional Banking will be based on the present value of estimated future cash flows for individual clients. The estimated cash flows will, however, be based on a probability range of scenarios. Where the cash flows include realisable collateral, the values used will incorporate forward-looking information.

Where the contractual terms of a financial asset have been modified due to financial difficulties (forbearance, for example) and the asset has not been derecognised, a modification loss is recognised as part of 'Impairment' in the income statement. The loss represents the difference between the present value of the cash flows before and after the modification, discounted at the original effective interest rate. Unlike IAS 39, however, no loss allowance is recorded in the balance sheet, as the modification loss is offset against the gross carrying amount of the asset. Modifications for other reasons are accounted for in a similar way, except the modification gain or loss will be reported as part of income.

For assets measured at amortised cost, the balance sheet amount reflects the gross asset less the allowance for ECL.

For debt instruments held at FVOCI, the balance sheet amount reflects the instrument's fair value, with the expected credit loss allowance held as a separate reserve within other comprehensive income.

ECL allowances on off-balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise they will be reported against the drawn component.

Impact

The estimated initial adoption of the ECL approach would reduce retained earnings and reserves by approximately $1.2 billion.

Approximately $1 billion of this estimate related to loans and advances to banks and customers and approximately $0.2 billion to undrawn commitments and financial guarantees (which have been recognised in other liabilities) and $65 million has been recognised in respect of debt securities, which has been offset through a credit to the FVOCI reserve.

The portfolios and products most impacted by the increase in loan loss allowances are Corporate Finance and Lending portfolios, due to the relatively longer maturity profile, and unsecured products in Retail Banking.

Tax

Tax of $176 million has been credited to reserves as a result of transition to IFRS 9. Of this, deferred tax of $142 million has been credited to retained earnings, and is provided on additional deductible temporary differences that have arisen from loss provisions due to initial adoption of the ECL approach.

42. Dealings in Standard Chartered PLC listed securities

This is also disclosed as part of Note 28 Share capital, other equity and reserves

Except as disclosed, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the company listed on The Stock Exchange of Hong Kong Limited during the period. Details of the shares purchased and held by the trusts are set out below.

	1995 Trust		2004 Trust		Total	
Number of shares	2017	2016	2017	2016	2017	2016
Shares purchased during the year	-	6,160,185	-	-	-	6,160,185
Market price of shares purchased ($million)	-	51	-	-	-	51
Shares held at the end of the year	3,769,011	6,104,154	18,004	78,313	3,787,015	6,182,467
Maximum number of shares held during the year					6,182,467	6,183,210

43. Corporate governance

The directors confirm that Standard Chartered PLC (the Company) has complied with all of the provisions set out in the UK Corporate Governance Code 2014 during the year ended 31 December 2017. 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. 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 and that the directors of the Company have complied with the required standards of the adopted code of conduct. The directors also confirm that the announcement of these results has been reviewed by the Company's Audit Committee.

SHAREHOLDER 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.

By Order of the Board
Elizabeth Lloyd, CBE
Group Company Secretary

Hong Kong, 27 February 2018

As at the date of this announcement, the Board of Directors of Standard Chartered PLC comprises:

Chairman:
José María Viñals Iñiguez

Executive Directors:
William Thomas Winters and Andrew Nigel Halford

Independent Non-Executive Directors:
Om Prakash Bhatt; Dr Louis Chi-Yan Cheung; David Philbrick Conner; Dr Byron Elmer Grote; Dr Han Seung-soo, KBE; Christine Mary Hodgson (Senior Independent Director); Gay Huey Evans, OBE; Naguib Kheraj (Deputy Chairman); Dr Ngozi Okonjo-Iweala and Jasmine Mary Whitbread