
Standard Chartered Bank
Reference Number ZC18
Directors' Report and Financial Statements
31 December 2014



Incorporated in England with limited liability by Royal Charter 1853
Principal Office: 1 Basinghall Avenue, London, EC2V 5DD, England

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Standard Chartered Bank

Strategic report

Principal activities

The activities of Standard Chartered Bank and its subsidiaries (together referred to as the Group) are banking and providing other financial services. The Group has operated for over 150 years in some of the world's most dynamic market and earns around 90 per cent its income and profits in Asia, Africa and the Middle East.

This geographic focus and commitment to developing deep relationships with clients and customers has driven the Group's growth in recent years. It is committed to building a sustainable business over the long term and upholding high standards of corporate governance, social responsibility, environmental protection and employee diversity.

The Group's business model

The Group's business model develops on the Group's strategy which banks people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East.

Our geographies

We operate in 71 markets with a focus on Asia, Africa and the Middle East.

Our Activities

We manage savings and cash and facilitate transactions whilst supplying funds for productive uses, facilitating trade and providing advice. We organise the Group around our key client segments – Corporate & institutional, Commercial & Private Banking and Retail.

Corporate & Institutional Clients

In this segment, we are focused on building ever deeper relationships with our clients, concentrating on our core commercial banking capabilities and putting even greater emphasis on our strengths as a network bank, providing seamless support to our Financial Institution and Global and Local Corporate Clients as they trade and invest across borders.

We have a very full agenda for this client segment, including deepening relationships, optimising return on capital and doing more with institutional investors. We are also working harder to leverage the relationships we have with these clients for the benefit of the Group as a whole: introducing owners and senior managers to our Private Banking offering and providing employee banking solutions through retail segment.

Commercial & Private Banking Clients

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

We are enormously excited about the potential for the Commercial Client segment. Mid-sized companies play a huge role in the economies in which we operate, and represent a significant portion of the total banking wallet. Our immediate priority is to bring together the teams, rationalising and standardising processes, such as credit and client due diligence. We are refining the product offering and delivery model and working together with the Corporate & Institutional segment to develop supply chain solutions that turn us from being a provider of finance to being a business partner that enhances supply chains, efficiency and resilience.

The reorganisation of our business sharpened the strategic profile of Private Banking, by more effectively linking with the Commercial Clients opportunity, and with greater support from product groups such as Financial Markets, Transaction Banking and Wealth Management. While relatively small in the scheme of the Group as a whole, Private Banking will become an increasingly important source of growth.

Retail Clients

We are transforming Retail Clients to be more relationship-driven, more selective, more efficient and more digital. In 2014, we began to execute the Retail Clients strategy at a much faster pace and reorganised the entire sales force around our three client groups – Business Clients, Priority Clients and Personal Clients. We also sharpened our focus on Priority and Business Clients. With our cross-border reach and products designed to meet their needs, we are extremely well positioned to do more with these two affluent client groups. This is a strategy that puts our clients at the centre of what we do and positions us for strong growth.

The Group helps companies do business by managing their cash, transactions and security holdings.

Standard Chartered Bank

Strategic report continued

We supply funds for productive uses, facilitate trade and provide advice across the following services:

- Our Lending and Portfolio Management segment facilitates growth of businesses by providing finance
- Our Transaction Banking – Trade business focuses on facilitating cross-border trade, by providing companies with finance and transactional services
- Our Financial Markets business helps clients to invest, manage risks and raise debt capital
- We support clients by providing strategic advice and solutions, including for mergers and acquisition and raising equity finance through our Corporate Finance business
- We make equity investments to supply business with capital they need to grow through our Principal Finance business

Under our 'Saadiq brand', we offer Islamic banking services in a number of our markets that helps people and business to make the choice to bank in accordance with their faith by giving them access to a wide range of Shariah – compliant banking products and services.

Authority

The strategic report up to page 21 has been issued:

By order of the Court

A handwritten signature in black ink, appearing to read 'Peter Sands', with a stylized, flowing script.

Peter Sands

Director

4 March 2015

Company Reference Number: ZC18

Standard Chartered Bank

Strategic report continued

Our business model

How we create value

Banks play a crucial role in economies by facilitating payments and converting short-term deposits into long-term financing. Through these activities we take on and manage risk. Read more about Standard Chartered's approach to risk on page 136 to 149.

As an international banking group focused on Asia, Africa and the Middle East, we serve a wide range of clients from individuals and small and mid-sized businesses to large companies and financial institutions, helping them to build, grow and protect their wealth. Read more about our business on page 19 to 21.

We have a clear strategy and in 2014 reorganised our business to help us to better support our clients and meet our aspirations.

We build deep relationships with our clients

- **Retail Clients** – individuals and small businesses
- **Private Banking Clients** – high net worth individuals
- **Commercial Clients** – mid-sized companies
- **Corporate and Institutional Clients** – global companies and financial institutions

Provide solutions that meet their evolving needs

- **Retail Products** – deposits, savings, mortgages, credit cards and personal loans, and other retail banking products
- **Wealth Management** – investment, portfolio management, and advice and planning services
- **Transaction Banking** – cash management, transactions, securities holdings and trade finance products
- **Corporate Finance** – financing, strategic advice, mergers and acquisitions, and equity and principal financing
- **Financial Markets** – investment, risk management and debt capital services

Through these activities, we generate income, profits and return on equity

- **Income** – net interest income, fee income and trading income
- **Profits** – income gained from providing our products and services minus expenses, impairment and taxes
- **Return on equity** – profit generated relative to the equity invested

We add value for our clients by using our distinctive strengths

- **Brand** – we have a 150-year history in some of the world's most dynamic markets and our Here for good brand promise captures what we stand for
- **Capital** – we are strongly capitalised and highly liquid, allowing us to support our clients for the long term
- **Local depth** – we draw upon a deep local knowledge and experience in the markets in which we operate
- **Network** – we collaborate to support clients across our clients segments, product groups and **geographies**
- **People** – our diverse and inclusive workforce is committed to the highest standards of conduct and integrity

We ensure that the value is sustainable by focusing on three key priorities

- **Being a responsible company** – managing our operations to deliver long-term value for our stakeholders
- **Contributing to sustainable economic growth** – ensuring that our core business of banking supports sustainable growth and job creation
- **Investing in communities** – working with local communities to promote social and economic development

And create long-term value for a broad range of stakeholders

- **Clients** – enabling individuals to grow and protect their wealth, and helping businesses to invest, trade and expand
- **Shareholders** – delivering long-term sustainable value for investors
- **Employees** – providing a great place to work
- **Society** – supporting growth and job creation, delivering financial innovation and helping to address the most pressing challenges facing the communities in which we work

Standard Chartered Bank

Strategic report continued

Risk management

Our risk profile remains in line with our strategy

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

Our risk profile is aligned to our business strategy and risk tolerance. It is consistent with our business model and the core business activities we undertake in the markets in which we operate. We have low exposure to asset classes and segments outside our core markets and target customer base. Our balance sheet is highly liquid and diversified across a wide range of products, industries, geographies and client segments, which serves to mitigate risk. We review and adjust our underwriting standards and limits in response to observed and anticipated changes in the external environment and the evolving expectations of our stakeholders.

This section provides a high level overview of our risk profile, risk management framework, risk tolerance statement and principal uncertainties.

Further details are set out in the Risk and Capital review section on pages 48 to 149

Risk profile

Highly diversified and short tenor portfolio

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

Strong capital and liquidity position

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

Robust risk governance structure and experienced senior team

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

Strategic report continued

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

The Group's loan impairment has increased by \$524 million, or 32 per cent, to \$2.1 billion. Over 40 per cent of the Group's loan impairment arises in the Retail Clients segment which has shown signs of stabilisation through 2014 and, while still elevated, is 5 per cent lower in the second half. Corporate & Institutional Clients and Commercial Clients loan impairment increased by \$558 million to \$1,203 million, compared to 2013. This represents 67 basis points (2013: 36 bps) of average customer loans and advances which are at an elevated level for 2014 in the context of a prolonged slow down in the Group's core markets of China and India, and in Commodities. Non-performing loans (net of individual impairment provisions) are higher by \$585 million. This increase is primarily in the Corporate & Institutional and Commercial Clients segments

Further details are set out in the Risk overview section on pages 58 to 52

Risk management framework

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

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

Roles and responsibilities

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

- First line of defence: all employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities. Business, function and geographic heads are accountable for risk management in their respective businesses and functions, and for countries where they have governance responsibilities
- Second line of defence: risk control owners, supported by their respective control functions, are responsible for ensuring that the Group's risk profile is contained within risk tolerance. The scope of each risk control owner's responsibilities is defined by a given type of risk and is not constrained by functional, business or geographic boundaries. The second line control functions must be independent of the businesses they control, to ensure that the necessary balance in risk/ return decisions is not compromised by short-term pressures to generate revenues. The major risk types are defined on the next page
- Third line of defence: the independent assurance provided by the Group Internal Audit function. Its role is defined and overseen by the Audit Committee

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

Risk tolerance and strategic alignment

The management of risk lies at the heart of our business. One of the main risks we incur arises from extending credit to clients through our trading and lending operations. Through our risk management framework we manage risks Group-wide, with the objective of maximising risk-adjusted returns while remaining within our risk tolerance. Our primary risk types are set out in the accompanying table, with an explanation of how they arise from our business. We recognise that a single transaction or activity may give rise to multiple types of risk exposure, and we use risk types to ensure comprehensive and consistent identification and control of risks, wherever they may arise.

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Strategic report continued

Risk type	How this arises from our business	Risk Tolerance Statement
Credit Potential for loss due to failure of counterparty to meet its obligations to pay the Group in accordance with agreed terms	Arises principally from lending, or from other financial commitments from clients or third parties. Lending and helping clients manage their financial risks is core to our banking services	The Group manages its credit and country cross-border exposures following the principle of diversification across products, geographies, client segments and industry sectors
Country cross-border Potential for loss due to the inability to obtain payment from clients or third parties on their contractual obligations, as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency	Arises from activities involving lending or transactions across borders or in a currency other than the currency in which the transaction is booked. Providing funds across borders and currencies facilitates trade and cross-border investment and is a core part of our service	
Market Potential for loss of earnings or economic value due to adverse changes in financial market rates or prices	Arises predominantly from providing clients access to financial markets, facilitation of which entails taking moderate market risk positions. Also arises in the non-trading book from the requirement to hold a large liquid assets buffer of high quality liquid debt securities, and from the translation of non-dollar denominated assets, liabilities and earnings	The Group should 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
Liquidity Potential that the Group does not have sufficient financial resources in the short term to meet its obligations as they fall due, or can access these financial resources only at excessive cost	We balance the needs of depositors who require ready access to their cash and savings, while providing longer-term loans to clients who need the financial stability to invest in longer-term projects such as housing or infrastructure	The Group should be able to meet its payment and collateral obligations under extreme but plausible liquidity stress scenarios without recourse to extraordinary central bank support
Operational Potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks	Operational risks are inherent in all our activities and our business. While these risks are actively managed, they cannot be entirely avoided	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
Reputational Potential for damage to the Group's franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the Group or its actions	Our reputation is a function of how we are perceived by our stakeholders, including clients, investors, regulators, employees and the societies in which we operate	The Group will protect its reputation to ensure that there is no material damage to the Group's franchise
Pension Potential for loss due to having to meet an actuarially-assessed shortfall in the Group's pension schemes	Arises from defined benefit pension schemes provided to the Group's employees in some markets. This is principally a legacy of pension commitments made to employees in previous years	
Capital Potential for actual or opportunity loss from sub-optimal allocation of capital or increase in cost of capital	We are committed to growth underpinned by the diversity of our business across clients and customers, products and geographies	Under stressed conditions, of a severity experienced on average once in 25 years, the Group's prudential capital ratios on a transitional basis should exceed minimum regulatory capital requirements, without recourse to external sources

Our approach to managing each risk type is set out in the Risk management approach section on pages 136 to 149, and our risk profile disclosures are set out on pages 53 to 130

Strategic report continued

Principal uncertainties

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

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

Uncertainty	Description	Mitigants
Deteriorating macroeconomic conditions in footprint countries	Deteriorating macroeconomic conditions can have an impact on: our performance via their influence on personal expenditure and consumption patterns; demand for business products and services; the debt service burden of consumers and businesses; the general availability of credit for retail and corporate borrowers; and the availability of capital and liquidity funding for our business	- We balance risk and return, taking account of changing conditions - We monitor economic trends in our markets very closely and through the economic cycle continuously review the suitability of our risk policies and controls
Financial markets dislocation	Financial markets volatility or a sudden dislocation could affect our performance, through its impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios or the availability of capital or liquidity default by our corporate customers and financial institution counterparties	- We stress test our market risk exposures to highlight the potential impact of extreme market events on those exposures and to confirm that they are within authorised stress triggers. Stress scenarios are regularly updated to reflect changes in risk profile and economic events. Where necessary, overall reductions in market risk exposure - We assess carefully the performance of our financial institution counterparties, rate them internally according to their systemic importance and adjust our exposure accordingly - We maintain robust processes to assess the suitability and appropriateness of products and services we provide to our clients and customers
Geo-political events	We face a risk that geo-political tensions or conflict in our footprint could impact trade flows, our clients' ability to pay and our ability to manage capital across borders	We actively monitor the political situation in all of our principal markets and conduct regular stress tests of the impact of such events on our portfolios, which inform assessments of risk appetite and any need to take mitigating action
Regulatory changes	The nature and impact of future changes in economic policies, laws and regulations are not predictable and may run counter to our strategic interests. These changes could also affect the volatility and liquidity of financial markets, and more generally the way we conduct business and manage capital and liquidity	- We review key regulatory developments in order to anticipate changes and their potential impact on our performance - Both unilaterally and through our participation in industry groups, we respond to consultation papers and discussions initiated by regulators and governments. The focus of these activities is to develop the framework for a stable and sustainable financial sector and global economy

Strategic report continued

Uncertainty	Description	Mitigants
Regulatory compliance	- Although we seek to comply with all applicable laws and regulations, we are and may be subject to regulatory reviews and investigations by governmental and regulatory bodies, including in relation to US sanctions compliance and anti-money laundering controls. We cannot currently predict the nature or timing of the outcome of these matters. For sanctions compliance violations, there is a range of potential penalties which could ultimately include substantial monetary penalties, additional compliance and remediation requirements and/or additional business restrictions - Regulators and other agencies in certain markets are conducting investigations into a number of areas of regulatory compliance and market conduct, including sales and trading, involving a range of financial products, and submissions made to set various market interest rates and other financial benchmarks, such as foreign exchange. Further details of material settlements and ongoing investigations are set out on page 133	- We have established a Board-level Financial Crime Risk Committee and, since 2013 we have a Financial Crime Risk Mitigation Programme, which is a comprehensive, multi-year programme designed to review and enhance many aspects of our existing approach to money laundering prevention and to combating terrorism finance and the approach to sanctions compliance and the prevention of bribery and corruption - We are contributing to industry proposals to strengthen financial benchmarks processes in certain markets and continue to review our practices and processes in the light of the investigations, reviews and industry proposals - We are cooperating with all relevant ongoing reviews, requests for information and investigations. - In meeting regulatory expectations and demonstrating active risk management, the Group also takes steps to restrict or restructure or otherwise to mitigate higher risk business activities which could include divesting or closing businesses that exist beyond risk tolerances
Risk of fraud and other criminal acts	The banking industry has long been a target for third parties seeking to defraud, to disrupt legitimate economic activity or to facilitate other illegal activities. The Risk posed by such criminal activity is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology and the internet. The incidence of cyber crime is rising, becoming more globally coordinated, and is a challenge for all organisations	- We seek to be vigilant to the risk of internal and external crime in our management of people, processes, systems and in our dealings with customers and other stakeholders - We have a broad range of measures in place to monitor and mitigate this risk. Controls are embedded in our policies and procedures across a wide range of the Group's activities, such as origination, recruitment, and physical and information security - We have a broad set of techniques, tools and activities to detect and respond to cyber crime, in its many forms. We actively collaborate with our peers, regulators and other expert bodies as part of our response to this risk
Exchange rate movements	- Changes in exchange rates affect the value of our assets and liabilities denominated in foreign currencies, as well as the earnings reported by our non-US dollar denominated branches and subsidiaries - Sharp currency movements can also impact trade the wealth of clients, both of which could have an impact on our performance	- We actively monitor exchange rate movements and adjust our - Under certain circumstances, we may take the decision to hedge our foreign exchange exposures in order to protect our capital ratios from the effects of changes in exchange rates

Standard Chartered Bank

Strategic report continued

Governance overview

Exemplary governance supports our decisions and guides our behaviours

Our approach to governance

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

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

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

Business Environment

A year of transition

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

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

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

The outlook for 2015

We expect global growth to improve in 2015, rising to 3.3 per cent from 3 per cent in 2014. Fiscal austerity, which held growth back in developed countries during 2011-14, is set to be much less in 2015, removing a significant headwind to growth. Meanwhile, low oil prices, if sustained, will boost growth in all the major economies including the US, Europe, Japan, China and India. China is slowing but may still manage growth of around 7 per cent in 2015. India, having brought inflation and its current account deficit under control, could be a positive surprise in 2015. The euro area, held back in 2014 by geopolitical concerns, should improve moderately. We expect emerging Asia outside China to maintain solid growth, while the Middle East and Africa will slow, largely due to weaker commodity prices, including oil.

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

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

Strategic report continued

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

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

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

Asia

We expect a good, but not great, growth performance for the Asia region in 2015. After key elections in Indonesia and India in 2014, their governments now have room to implement reforms aimed at boosting potential growth and investment. The success of this reform push will determine the extent of the investment boost seen around the region. Foreign investors – both portfolio and foreign direct investment (FDI) – will discriminate between countries that do and do not deliver on reforms. China, India and Indonesia have the greatest potential to see major changes in the coming years, in our view. Japan's reform agenda is moving forward very slowly, with only aggressive monetary easing and Japanese yen (JPY) weakness having supported the recovery so far. Across most of the region, we expect monetary policy to be tightened modestly by the end of 2015. The exceptions are China, India and Vietnam, which are likely to remain biased towards looser policy.

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

China's recent shift towards broad-based monetary policy easing is a response to several factors, in our view: weak wage growth combined with reported job losses beyond the manufacturing sector; still-soft confidence in the small and medium-sized enterprise sector; and rising disinflationary pressure. While slower credit growth may cause short-term pain to the economy, it is helping to rein in the rise in debt/GDP ratios. Worries over local government debt should also ease further; its growth rate slowed to low single digits in 2014, from above 20 per cent in 2009-10, according to the National Audit Office. Also, the expansion of the so-called 'shadow banking' sector has slowed, reducing the risks in this area. We expect a gradual rise in China's non-performing loans in 2015 and beyond, but the authorities are expected to continue to monitor the financial system closely.

The rebalancing of China's economy away from investment towards consumption and services is a multi-year effort. We are awaiting key policies to boost labour mobility (reforming the hukou household registration system), lower the savings rate (bolstering the social security system), and reform the state-owned enterprises sector. The government's anti-corruption drive can be seen as a stepping stone towards the reform objective, though it has had the side-effect of reducing consumption. The slowdown in housing construction has further to go, but demand for housing has picked up, supported by the government's easing of restrictions on house-purchase and lower interest rates. Housing inventories are falling and we expect the market to normalise over the next one to two years.

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

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

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Strategic report continued

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

Sub-Saharan Africa (SSA)

Oil exporting countries in SSA will be impacted by lower oil prices in 2015, though their ability to withstand sustained price volatility varies widely. We expect Gabon to manage best given its greater fiscal flexibility and its ability to quickly cut spending – notably capital expenditure – which should limit downside risks. Angola follows, thanks to its comfortable savings as a percentage of GDP. Nigeria, with lower oil savings, is more exposed. Nigeria's larger GDP, low public debt ratios and greater capital-market depth arguably give it more room to increase borrowing than other SSA producers. But with foreign credit lines to Nigeria strongly correlated with oil price expectations, risks need to be managed carefully. Excessive foreign exchange market volatility poses some risk to the domestic banking system, which has increased its reliance on foreign borrowing in recent years. Nigeria will need to maintain tight monetary policy, even as it cuts fiscal expenditure, in order to accommodate lower oil prices.

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

Middle East and North Africa (MENA)

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

The growth outlook for the major oil exporters in 2015 is challenging. Fiscal policy is likely to be tightened unless oil prices rebound quickly, and this will affect non-hydrocarbon growth. Further, OPEC may agree output cuts later in 2015, which will reduce headline GDP growth. In the wider MENA region, reforms implemented in Jordan and Egypt are leading to an improved outlook for 2015. Both countries have made significant efforts to reform energy subsidies under tense domestic conditions; this is now paying off. Egypt has benefited from direct investments from the UAE and Saudi Arabia. We expect other MENA countries to benefit from similar investment flows in 2015 and beyond.

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

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

Conclusion

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

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Strategic report continued

People

Supporting the organisation through change

Becoming one bank

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

People

At the end of 2014, we had a total workforce of more than 90,000 employees across 71 markets, representing 133 nationalities. The Group registered a headcount increase of 3,500, largely as a result of bringing our direct sales force in-house and strengthening capability in the areas of legal and compliance, internal audit, as well as the operations in our Shared Services Centres to support the delivery of our financial, regulatory, risk and compliance commitments.

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

Employee engagement

Having conducted an annual group-wide Gallup employee engagement survey between 2001 and 2012, we decided to refresh our approach. In 2014, we launched a new bespoke employee engagement survey aligned to our organisational aspirations.

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

Over 85 per cent of employees across 68 countries completed the survey in 2014. The survey measures both the engagement of employees and the importance they attribute to various engagement factors: by looking at the gap between the two we are able to identify opportunities to improve the experience of our employees. The current overall gap, calculated on a five-point scale, is 0.36¹.

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

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

Conduct

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

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

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

Building organisational capability

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

Building our talent pipeline

Graduate recruitment and development is a fundamental and longstanding part of the Group's talent strategy. Each year, we attract more than 120,000 applications to over 700 graduate and internship opportunities.

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

Strategic report continued

Investing in leadership

Developing the next generation of business leaders is vital to our performance and remains a priority for the Group. We continue to invest in our employees at all levels to help them grow their careers. We have also reviewed our leadership development approach to equip our leaders for an increasingly complex operating environment. We have streamlined and aligned the content of our leadership programmes so that our leaders are equipped with a consistent skill set, knowledge and behaviour. To ensure we continue to build sufficient leadership capacity, we have doubled the number of leadership programmes that we run for middle management, and increased the frequency of other manager programmes.

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

Learning and development

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

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

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

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

This learning and development momentum will continue into 2015 when we will introduce SC Ready – a learning module that supports the alignment of our mid-level leaders to our culture leadership expectations, and risk management philosophy. In 2015, there are plans to hold 40 programmes globally, for over 1,000 mid-level leaders

Building our talent pipeline

Graduates apply from across the world, and our graduate programme is designed to offer each employee the opportunity to develop and apply their individual skills and strengths. Following the reorganisation in April 2014, we launched a new integrated graduate programme, replacing our previous Consumer Banking and Wholesale Banking programmes. We will build on this development programme in 2015 and offer additional career support and acceleration opportunities for this highly-valued group of junior employees.

Embedding diversity and inclusion

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

Our goal is to create an inclusive environment where everyone can realise their full potential in contributing to our business success, free from bias. By building on the advantage of our natural diversity and making inclusion an organisational strength, we can create a sustainable competitive advantage which contributes to delivering superior business results. In 2014, we:

- Celebrated International Day for People with Disabilities by holding a global webinar on the subject of disability in the workplace, encouraging senior leaders who have been affected by disability to share their stories
- Launched Project Employability to increase career opportunities for people with disabilities. Fourteen teams across eight countries reviewed 76 roles to remove barriers and create an inclusive environment for candidates with a self-disclosed disability
- Established a pilot disability internship programme in Singapore in conjunction with a local government agency
- Set up a forum for line managers who have team members with disabilities, developing their inclusive leadership capabilities and facilitating the growth of a supportive learning network of people managers
- Continued engagement with the communities in which we operate, such as conducting a workshop for students with disabilities in Ghana aimed at equipping them with job market skills

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

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

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Strategic report continued

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

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

Health, safety and wellness

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

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

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

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Strategic report continued

Sustainability

Promoting sustainable economic and social development

Sustainability and our business

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

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

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

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

Contributing to sustainable economic growth

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

In 2014, we provided \$289 billion in lending to our clients. This funding enables businesses to diversify or expand and gives individuals the opportunity to invest and provide stability for future generations. By doing all of this responsibly and efficiently, we can have a positive effect on sustainable development in our markets, contributing to economic growth in the long term and enabling communities, businesses and people to thrive.

Access to financial services

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

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

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

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

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

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

We share our expertise to help countries raise funding, deepen capital markets and attract investment. In 2014, we continued our role as sovereign ratings adviser to 10 governments, supporting their economic development goals through enhanced credit positioning, investor relations and capital-raising strategies. For example, in 2014, we arranged the UK Government's landmark RMB bond issuance and Vietnam's first bond issuance in the international capital market since 2010

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Strategic report continued

Stakeholder engagement

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

Environmental and social risk management

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

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

Being a responsible company

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

Governance

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

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

People and values

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

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

Financial crime prevention

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

Responsible selling and marketing

Supporting the needs of our clients and delivering a high quality client experience is a priority across the business. We focus on treating clients fairly and work closely with them to deliver appropriate and suitable products. In 2014, we moved towards an online sampling method to assess client satisfaction and understand their needs. We have robust global policies and procedures in place to make sure that complaints are identified and resolved quickly. To support our continual focus on conduct, in 2014 we exited our engagement of third party vendors as representatives of the Group for the sale of our retail products.¹

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Strategic report continued

Environment

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

Suppliers

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

Investing in communities

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

Community programmes

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

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

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

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

We provide emergency response and support reconstruction efforts across our markets. In 2014, we contributed more than \$700,000 to relief efforts focusing on flood recovery in several countries in Asia and the Ebola Virus Disease (EVD) in West Africa. To support the local and international EVD response, we are utilising our local banking network to open accounts for aid organisations and to process payments for health workers. We also joined together with other private sector companies and signed the UN Business Action Pledge on Ebola Elimination.

Employee volunteering

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

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Strategic report continued

Our Business

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

Aligning to deliver our strategy

In 2014, the external environment remained challenging for the industry as a whole, with a number of structural shifts, such as prudential and conduct regulation and changing trade patterns, as well as cyclical headwinds, such as low interest rates, low volatility and commodity price fluctuations. Our performance was impacted by this environment as well as a significant programme of restructuring actions, and income fell by 2 per cent to \$18.2 billion.

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

While our performance in 2014 was disappointing we regained momentum in the second half of the year. We are committed to taking further action to get back on a track of sustainable, profitable growth, and we continue to make progress in a number of areas.

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

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

Unlocking opportunities

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

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

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

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

Reshaping the business

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

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

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

We have made some tough decisions and trade-offs. We found that there were some good businesses that didn't fit with our broader portfolio, such as our Consumer Finance businesses in Hong Kong, China and Korea which we are in the process of exiting; our Retail Clients businesses in Germany and Lebanon which we have sold; and our third party sourcing channel for Retail Clients where we either discontinued or brought in-house¹, giving us greater oversight of training, ensuring that our Code of Conduct is adhered to, and that our standards around responsible selling and marketing are upheld. The overall impact on revenue from these actions is around \$450 million.

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

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

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Strategic report continued

Growing with people and companies

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

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

By simplifying our processes and ensuring that our systems are more efficient, we have freed up more time for our people to spend with clients, and this is yielding returns. Our focus on deepening relationships has resulted in the average number of products per client rising by 6 per cent to 6.3 and the average number of markets per client rising 8 per cent to 2.8. The percentage of clients generating 80 per cent of our income increased to 19.7 per cent, up from 17.7 per cent in 2013.

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

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

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

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

Retail Clients: Accounting for 35 per cent of income, the Retail Clients segment offers full retail banking services to over 10 million individual and business clients across 34 markets. Income rose by 2 per cent in 2014.

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

Building better technology is another key element of our Retail Client strategy and we continue to invest more in the digital and mobile channels that will deliver easy, convenient banking to our clients. We were pleased to be awarded the World's best Consumer internet Bank Award at the global Finance Awards for the fourth year running.

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

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

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

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

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

Income remains very well diversified across client type and region and against tough market conditions, our franchise remains strong, being voted Best Global Transaction Bank by The Banker

and number one Transaction Bank in Asia by our clients. We also remain well positioned as the leading foreign correspondent bank in China and Best Renminbi Bank (The Asset), capturing the opportunity presented by the offshore renminbi market.

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

Standard Chartered Bank

Strategic report continued

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

Retail Products: Retail Products is a key source of deposits for the Group and, with 60 per cent of Retail deposits coming from current account/savings accounts, it is critical for deepening long-standing client relationships. Income in Retail Products was down by 4 per cent due to de-risking actions, regulatory changes and adverse mortgage market conditions in certain markets. There is substantial opportunity to bank the growing affluent segments in key cities in our footprint.

Our footprint is a competitive differentiator and across the client segment and product groups we saw network income grow by 3 per cent in Corporate and Institutional Clients, contributing to 59 per cent of client income. Our largest originating regions are Europe, the Americas and South Asia. Collaborating and delivering more effectively on our network will remain a focus for us into 2015 and beyond.

2015 – a year of execution

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

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

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

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

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

Group Finance Director's review

Performance summary

	2014 \$million	2013 \$million	Better / (worse) %
Client income ¹	16,448	16,870	(3)
Other income	1,654	1,748	(5)
Operating income¹	18,102	18,618	(3)
Other operating expenses	(10,155)	(9,978)	(2)
Restructuring costs	(181)	(12)	nm
UK bank levy	(366)	(235)	(56)
Total operating expenses	(10,702)	(10,225)	(5)
Operating profit before impairment losses and taxation¹	7,400	8,393	(12)
Impairment losses on loans and advances and other credit risk provisions	(2,141)	(1,617)	(32)
Other impairment	(403)	(129)	nm
Profit from associates and joint ventures	249	226	10
Profit before taxation (excluding goodwill impairment, civil monetary penalty and own credit adjustment)	5,105	6,873	(26)
Own credit adjustment	100	106	(6)
Civil monetary penalty	(300)	-	100
Goodwill impairment	(758)	(1,000)	24
Profit before taxation	4,147	5,979	(31)
Common Equity Tier 1 on a transitional basis	10.5%	N/A	

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

Group performance

2014 performance was disappointing, impacted by a challenging market environment and by the significant programme of restructuring and repositioning actions taken during the year. Reported profit before tax was down 31 per cent to \$4,147 million compared to 2013.

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

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

The UK bank levy has risen a significant 56 per cent to \$366 million.

In August the Group reached a settlement with the US authorities of \$300 million.

And more recently, the Group carried out a detailed review of the outlook for its Korean business. Whilst we are

encouraged by the PDRS trends - and hence the opportunity to improve upon the businesses recent disappointing financial performance - it is nonetheless currently loss making and hence we are writing off the remaining goodwill of \$726 million - on top of the \$1 billion write-down last year. We have also impaired a further \$32 million of goodwill relating to the closure of the Group's cash equities business. These write-offs have no cash flow impact and do not affect Group capital ratios, as goodwill is already fully deducted for prudential purposes.

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

On this basis adjusted profit before tax for the year was \$5.1 billion, down 26 per cent.

The balance sheet remains in good shape. Our Basel III transitional Common Equity Tier 1 ratio of 10.5 per cent is flat in the second half and after absorbing 30 basis points of headwinds in the period including model changes and the further foreseeable dividend as well as having taken greater provisions on our commodities exposure.

Client segments income
Income and profit by client segment

	2014					
	Corporate & Institutional \$million	Commercial \$million	Private Banking \$million	Retail \$million	Corporate Item \$million	Total \$million
Operating income ¹	10,287	1,187	613	6,015	-	18,102
Profit before taxation ¹	4,067	219	147	1,038	(366)	5,471

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

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

	2013					
	Corporate & Institutional \$million	Commercial \$million	Private Banking \$million	Retail \$million	Corporate Item \$million	Total \$million
Operating income ¹	10,625	1,506	585	5,902	-	18,618
Profit before taxation ¹	5,211	639	170	1,088	(235)	7,108

¹ Excludes \$106 million relating to own credit adjustment

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

Notwithstanding decisions to de-risk the Group's portfolio in areas such as Retail unsecured, and commodity financing, we restricted the reduction in the top line to 3 per cent. The biggest reduction in our year on year income performance was in the Commercial Clients segment, where income fell by \$319 million. This was driven by current year Private Equity valuation reductions relative to realised gains in the previous year, weaker demand for Renminbi products in Financial Markets, as well as exiting a significant number of relationships whose risk and return equation no longer met our requirements.

Income from Corporate and Institutional clients was down 2 per cent, or \$338 million. Continued weakness in Financial Markets and management actions taken to optimise returns on the balance sheet, offset gains on the exit of a number of Private Equity investments. The business has shown early progress on the metrics set out in November last year with an improvement in the client market ratio from 2.6 to 2.8 and the client product ratio increasing from 5.9 to 6.3. Risk weighted assets increased by 10 per cent, primarily due to the impact of Basel III and policy methodology and model changes. Excluding this impact, Risk weighted assets were flat.

Income from Private Banking Clients was up 5 per cent driven by a strong performance in Greater China. We have exited a number of subscale businesses in the period and excluding the impact of these discontinued operations, income from Private Banking Clients was up 6 per cent, driven by net new money inflows of \$6 billion. The business has also increased the number of relationship managers during the year and added 1,300 new clients including early successes from the internal client referral program.

Retail Clients income of just over \$6 billion was up 2 per cent compared to 2013. Strong growth in income from the Priority segment, up 16 per cent, offset a decline in Personal and preferred segment income, which was down 5 per cent. This is consistent with our strategy to focus on more affluent segments and de-risk our unsecured portfolios, particularly in Korea. We continue to reshape our business in Korea and during the year have exited 60 branches and over 300 staff. Excluding Korea, Retail Clients income was up 4 per cent.

Product Income

	2014 \$million	2013 \$million	Better / (worse) %
Transaction Banking	3,817	3,900	(2)
Financial Markets ¹	3,415	3,844	(11)
Corporate Finance	2,364	2,512	(6)
Lending and Portfolio Management	1,030	1,062	(3)
Wealth Management	1,705	1,446	18
Retail Products	4,844	5,032	(4)
Asset and Liability Management	663	546	21
Principal Finance	264	276	(4)
Total Operating Income¹	18,102	18,618	(3)

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

Lending and Portfolio Management income fell 3 per cent reflecting lower average balances as we exited lower returning relationships.

Transaction Banking income of \$3.8 billion was down 2 per cent year on year. Trade Finance, which accounts for just over half of Transaction Banking income, was down 5 per cent. Margins have remained broadly stable though average assets were down 4 per cent in the second half, reflecting a slower trade environment and continued assertive management of low returning Risk Weighted Assets.

Cash Management and Custody, which accounts for the remaining Transaction Banking income, was up 1 per cent year on year. Margins were driven lower by the significant liquidity that persists across our key markets but this was offset by good growth in average balances and record clearing levels as we continue to win multi-country transaction banking mandates.

Income from Financial Markets was down \$429 million year on year. In Foreign Exchange, strong volume growth in Cash FX, up 47 per cent and FXO, up 89 per cent has been offset by ongoing spread compression. In Rates, low volatility and low interest rates continues to impact both volumes and spreads.

Corporate Finance income was down 6 per cent year on year as high levels of liquidity resulted in increased repayment levels.

Wealth Management income was up 18 per cent and is benefitting, in particular, from the Prudential Bancassurance partnership as well as an accelerating shift towards servicing High Net Worth individuals in the Retail clients segment.

Income from Retail Products was down 4 per cent or \$188 million year on year impacted predominantly by our continued de-risking of the unsecured portfolio. Within this, income from Credit Card and Personal Loans was down 7 per cent, or \$203 million year on year following a 14 per cent reduction in balances to \$20.5 billion. Income from mortgages was down \$55 million or 6 per cent as property market cooling measures muted volume growth in a number of markets.

Asset and Liability Management income was up 21 per cent to \$663 million and benefitted from more efficient deployment of surplus Renminbi customer deposits, the majority of which was recorded in the first half. Income of \$233 million is more reflective of the underlying performance during the second half of 2014.

Finally, Principal Finance income was down 4 per cent year on year. The gains on the exit of a number of Private Equity investments at positive multiples more than offset lower revaluations.

Group Finance Director's review continued

Expenses

	2014 \$million	2013 \$million	(Better) / worse \$million	(Better) / worse %
Staff costs (includes variable compensation)	6,672	6,567	105	2
Premises costs	900	877	23	3
General administrative expenses	1,985	1,801	184	10
Depreciation and amortisation	598	733	(135)	(18)
Other operating expenses	10,155	9,978	177	2
Staff numbers (average)	87,853	88,257	-	-

Other operating expenses of \$10.1 billion increased by 2 per cent. Within this, depreciation and amortisation benefited by \$121 million compared to 2013 due to change in the period over which certain technology assets are depreciated.

During the year we have faced further regulatory cost increases of \$169 million.

To offset these cost increases the Group has delivered cost efficiencies in 2014 of some \$200 million which are now doubling to over

\$400 million as our target 2015. We are working on a pipeline of further sustainable productivity improvements in 2016 and 2017.

Taken as a whole, and when coupled with the non-recurring elements of restructuring costs plus the run-rate saves of discontinued operations, these represent a significant programme of initiatives that will deliver sustainable cost saves of some \$1.8 billion over the next three years.

Impairment

	2014 \$million	2013 \$million	(Better) / worse \$million	(Better) / worse %
Corporate and Institutional Clients	991	488	503	103
Commercial Clients	212	157	55	35
Private Clients	-	8	(8)	(100)
Retail Clients	938	964	(26)	(3)
Impairment losses on loans and advances and other credit risk provisions	2,141	1,617	524	32
Other impairment	403	129	274	205
Gross non-performing loans as a % of closing advances	2%	2%		
Loan impairment / average loan book (bps)	72	56		
Collateral (\$million)	1,490	1,259		
Cover ratio	52%	54%		
Mortgage portfolio LTV	49.3%	49.9%		
Retail secured/unsecured ratio	81%	79%		
C&I and commercial maturity - within 1 year	65%	64%		

Group Finance Director's review continued

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

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

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

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

Commodities

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

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

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

A further, 32 per cent is either short term or Trade Finance related and less than one year in tenor - again highly resilient;

4 per cent is to fund structured Project or Corporate Finance with a very high degree of collateral;

This leaves 5 per cent of the portfolio potentially more vulnerable to prolonged weakness in commodity prices

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

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

Additionally, 98 per cent of our oil producer exposure is either to state owned enterprises or to low cost of extraction companies who have a breakeven price below the current market price. When reviewing this, we have conservatively allowed no slowdown in these companies' capital expenditure, no refinancing and no depletion of cash balances for a period of one year. We simply do not have exposures to higher cost of extraction parts of the industry like US Shale gas. The final point of context for our portfolio is that many of our markets actively benefit from lower commodity prices. Even markets like Ghana are net importers of Oil and markets like India are receiving a real boost from lower prices.

In conclusion, we have conducted a thorough review of our commodities exposure and the main areas of potential vulnerability lie in a very small proportion of our portfolio, which we have been actively managing.

Portfolio credit quality

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

The book is becoming increasingly diverse - No industry accounts for more than 16 per cent of Corporate loans and advances to customers and our top 20 exposures have reduced as a percentage of Common Equity Tier 1;

The book remains predominantly short dated with nearly two thirds of Corporate and Institutional and Commercial clients exposure less than one year;

We are holding increased levels of collateral, up 4 per cent with high levels of collateralisation for longer term and non-investment grade loans;

Over 40 per cent of the corporate portfolio is investment grade and this mix is improving;

While Early Alerts are not always the most accurate predictor of subsequent impairment, it is nonetheless encouraging that recent Early Alerts trends have been stable;

Delinquency rates in our retail book have started to improve following continued de-risking of the unsecured book and an improving PDRS trend in Korea;

CG 12 accounts are stable compared to the half year;

Whilst NPLs are up 10 per cent since the first half of 2014 the increase is related to accounts we have been actively managing for some time;

And finally, Market risk is predominantly client driven and remains low in absolute terms.

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

Summary Group Balance Sheet

	2014 \$million	2013 \$million	Increase / (decrease) \$million	Increase / (decrease) %
Total assets	723,763	673,678	50,085	7
Total equity	48,819	46,089	2,730	6
Loans and advances to customers	288,452	295,891	(7,439)	(3)
Deposits by banks	55,233	46,041	9,192	20
Customer deposits	414,189	390,971	23,218	6
Advances to deposits ratio	69.6%	75.7%		

The balance sheet is in good shape, diversified, well structured, and highly liquid with deposits up \$23 billion or 6 per cent in the second half. We already more than meet the minimum Basel III requirements for both the Net Stable Funding Ratio and the Liquidity Coverage Ratio.

Loans and advances to customers are down \$7 billion or 3 per cent in the second half of 2014, driven by continued de-risking of the retail unsecured portfolio, reducing exposure to the energy, mining and quarrying sectors, more

assertive management of low returning relationships, high levels of liquidity resulting in early repayments, and currency translation. On a constant currency basis Loans and advances to customers are flat.

As a result, our Advances to Deposits ratio is now below 70 per cent and our Liquid Asset Ratio is 32.4 per cent.

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

Capital

Capital ratios and risk-weighted assets

	2014 \$million	2013 \$million
Common Equity Tier 1 (CET 1) transitional	10.5%	10.9%
Common Equity Tier 1 (CET 1) full end point	10.7%	11.2%
Total Capital transitional	16.4%	17.0%
Leverage ratio end point	4.5%	4.7%
Total risk weighted assets transitional	341,648	331,296

The Group's transitional CET1 ratio of 10.3 per cent is flat in the second half of 2014 compared to the first half of the year. This is after absorbing a combined 30 basis point deduction for model, methodology and policy changes, and the foreseeable dividend, as well as other one-off items such as the settlement with US authorities and the impact of the increased UK bank levy. This is a clear demonstration of the Group's strong underlying organic equity generation. Furthermore, our end point CET1 ratio of 10.7 per cent is 200 basis points in this year above our known minimum requirement with capacity to absorb future add-ons such as the countercyclical buffer as it is phased in.

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

Clearly, we are in an environment where we need to manage capital requirements dynamically over time, balancing it with growth whilst delivering returns to shareholders.

Group Finance Director's review continued

Financial Priorities

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

These priorities replace the flexed financial framework set out in November 2013.

They set out our objective to organically strengthen the capital ratio in the short term and to drive profitable growth that will build sustainable returns over the medium term.

The regulatory environment continues to evolve, typically requiring the industry to hold increasing levels of capital. Against this backdrop, the Group will prioritise actions that organically enhance the CET1 ratio while acknowledging there will be an impact on RoE.

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

Summary

Whilst 2014 was challenging year, the staff around the bank and the management are determined to restore the Group's performance levels.

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

We are prioritising organic capital accretion through a series of planned assets disposals and business exits as well as continued management of low retuning relationships, we expect to release \$25-30 billion in RWA over the next two years.

To protect returns, we are increasing our scrutiny of costs and targeting \$1.8 billion of sustainable cost saves over the next three years.

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

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

A Halford
Group Finance Director
4 March 2015

Financial Review

Corporate and Institutional Clients

Corporate and Institutional (C&I) clients comprises Global Corporates, Local Corporates and Financial Institutions

Operating profit down 22 per cent impacted by de-risking activities, challenging market conditions and increased impairments:

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

Progress against strategic objectives

- Good progress on reshaping our business to address the challenges we face, in particular the derisking certain client portfolios which resulted in improved risk profile.

- Successful reallocation of resources to higher returning businesses, including an \$8.5 billion RWA reduction on target group of clients, delivering revenue and income return on risk weighted assets uplift.
- Continued strong cost management despite the impact of restructuring charges in the fourth quarter. C&I is on-track to deliver its target cost efficiencies in 2015.
- Record Investors segment performance with income up 18 per cent from growth in Europe and Greater China.
- Deeper and broader client penetration, with average number of products per client up 6 per cent to 6.3 and average number of markets per client up 8 per cent to 2.8. The percentage of clients generating 80 per cent of our income increased to 19.7 per cent, up from 17.7 per cent in 2013.

Financial performance

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

	2014	2013	Better / (worse)
	\$million	\$million	%
Transaction Banking	3,236	3,244	-
Financial Markets ¹	3,206	3,583	(11)
Corporate Finance	2,339	2,479	(6)
Lending and Portfolio Management	770	765	1
Asset and Liability Management	439	374	17
Principal Finance	297	180	65
Operating income¹	10,287	10,625	(3)
Operating expenses	(5,121)	(4,969)	(3)
Loan impairment	(991)	(488)	(103)
Other impairment	(307)	(113)	(172)
Profit from associates and joint ventures	199	156	28
Operating profit¹	4,067	5,211	(22)
Client income ¹	9,003	9,307	(3)
Customer loans and advances	157,849	160,782	(2)
Customer deposits	244,731	211,051	16

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

Financial Review continued

C&I delivered a resilient income performance in 2014 despite the challenging market conditions and the impact of management actions to reshape the business, in particular the derisking of certain client portfolios.

Operating income fell 3 per cent compared with 2013. Client income, constituting over 88 per cent of operating income, declined 3 per cent, or \$304 million, to \$9,003 million. Excluding the impact of derisking, client income rose 1 per cent and operating income was flat.

Income from Financial Institution clients rose 9 per cent, driven by a record performance from our Investors segment. Local Corporates income fell 3 per cent compared to 2013 impacted by derisking actions. Excluding the impact of derisking, income was resilient, up 2 per cent, led by growth in our aircraft leasing business. Global Corporates income fell 4 per cent reflecting lower syndicated loan volumes and a reduced contribution from leveraged finance.

Own account income fell 3 per cent as higher ALM and Principal Finance income was more than offset by lower Financial Markets income.

Income from Transaction Banking was broadly flat reflecting lower global volumes in trade finance. Despite intense competition, we maintained margins, while market share rose slightly. Income from Cash Management & Custody rose 4 per cent with increased fee income reflecting record US dollar clearing volumes and strong growth in our Securities Services business.

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

Corporate Finance income fell 6 per cent, with strong growth in M&A advisory fees offset by increased levels of repayments.

Principal Finance income rose around 65 per cent compared to 2013 primarily as a result of increased levels of realised gains on investment exits. ALM income rose 17 per cent, driven by robust accrual income.

Operating expenses were up \$152 million, or 3 per cent, to \$5,121 million driven by increased regulatory and compliance costs and restructuring charges in the fourth quarter of 2014. This was partially offset by a reduction in variable compensation costs.

Loan impairment increased by \$503 million, or 103 per cent, to \$991 million driven by specific impairments in Greater China and ASEAN, largely in respect of lending secured by Commodities. We are actively managing our commodity credit exposure and a detailed breakdown of our portfolio is on pages 49 to 51.

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

Operating profit fell by \$1,144 million, or 22 per cent, to \$4,067 million.

Balance sheet

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

Risk weighted assets (RWA) increased by 10 per cent primarily due to the impact of Basel 3 and policy, methodology and model changes. Excluding this impact, RWAs were flat with actions to manage RWA's offsetting asset growth and the impact of credit migration. Operating profit return on RWA declined from 2.4 per cent to 1.7 per cent.

Customer deposits increased 16 per cent compared to 2013 largely reflecting increased term deposits and higher Cash Management balances with an improved CASA ratio.

Financial Review continued

Commercial Clients

The Commercial client segment was established in 2014 and serves medium-sized businesses who are managed by relationship managers.

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

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

Progress against strategic objectives

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

Financial performance

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

	2014	2013	Better (worse)
	\$million	\$million	%
Transaction Banking	562	638	(12)
Financial Markets	209	261	(20)
Corporate Finance	25	33	(24)
Lending and Portfolio Management	260	297	(12)
Wealth Management	122	140	(13)
Retail Products	10	5	100
Asset and Liability Management	32	36	(11)
Principal Finance	(33)	96	(134)
Operating income	1,187	1,506	(21)
Operating expenses	(743)	(734)	(1)
Loan impairment	(212)	(157)	(35)
Other impairment	(35)	(13)	nm
Profit from associates and joint ventures	22	37	(41)
Operating profit	219	639	(66)
Client income	1,128	1,321	(15)
Customer loans and advances	14,651	17,802	(18)
Customer deposits	22,787	33,705	(32)

Financial Review continued

Operating income fell 21 per cent compared to 2013 and client income fell 15 per cent. Financial Markets income fell 20 per cent as the RMB band widening actions in the first half of 2014 reduced client demand for hedging, disrupting the flow of FX revenues in the Greater China.

Income from both Transaction Banking and Lending declined 12 per cent impacted by CDD remediation, de-risking and client exits as well by the weaker market-wide trade volumes.

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

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

Loan impairment increased by \$55 million to \$212 million, driven by a small number of exposures in Hong Kong and China. Other

impairment rose \$22 million due to the impairment of an associate investment.

Operating profit fell by \$420 million, or 66 per cent, to \$219 million.

Balance sheet

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

Risk-weighted assets fell 4 per cent as the impact of client exits during the year more than offset policy, methodology and model changes. Despite this fall, the return on risk weighted assets declined from 2.5 per cent to 0.9 per cent primarily due to lower income performance.

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

Financial Review continued

Private Banking Clients

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

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

Progress against strategic objectives

- In 2014, we set a new strategy for Private Banking, taking a number of actions to align the business to Standard Chartered's corporate client base and markets.

- We exited peripheral Private Banking businesses, focussing the business on the international wealth centres of Hong Kong, Singapore and London. We increased the number of relationship managers despite exiting our Geneva business.
- We added 1,300 clients in 2014. We now have a internal referral pilot scheme in place aimed at capturing client opportunities across the Private Banking, Commercial and C&I segments.
- We deepened client relationships and saw improved investment product penetration up from 46 per cent to 51 per cent of AUM. This will continue to be a focus in 2015.
- In 2014, we defined and started to execute on a three-year technology and operations programme to upgrade client experience and improve front office productivity.

Financial performance

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

	2014	2013	Better / (worse)
	\$million	\$million	%
Transaction Banking	1	3	(67)
Wealth Management	407	377	8
Retail Product	189	196	(4)
Asset and Liability Management	16	9	78
Operating income	613	585	5
Operating expenses	(450)	(409)	(10)
Loan impairment	-	(8)	100
Other impairment	(16)	-	(100)
Profit from associates and joint ventures	-	2	(100)
Operating profit	147	170	(14)
Client income	586	566	4
Customer loans and advances	18,030	17,159	5
Customer deposits	29,621	32,212	(8)

Operating income and client income rose 5 per cent and 4 per cent respectively compared to 2013 or 6 per cent excluding the impact of business exits in Korea (2013) and Geneva (2014).

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

Expenses were up \$41 million, or 10 per cent, compared to 2013 primarily due to costs related to the exit of the Geneva business. Excluding these costs, expenses rose 3 per cent.

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

Operating profit fell by \$23 million or 14 per cent, impacted by business exits and the other impairment charge.

Balance sheet

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

Risk-weighted assets have increased by 31 per cent compared to 2013 primarily due to policy, methodology and model changes and growth in Wealth Management lending. Operating profit return on risk weighted assets fell to 2.3 per cent from 3.0 per cent.

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

Financial Review continued

Retail Clients

Retail Clients serves Priority, Personal and Business Clients.

Operating Profit fell by 5 per cent with 2 per cent growth in income offset by higher expenses:

- Retail Products income fell 4 per cent as a result of continued de-risking of the unsecured lending portfolio.
- Income from Wealth Management rose 27 per cent benefitting from the renewal of a multi-country distribution agreement with Prudential.
- Expenses were up 4 per cent driven by restructuring charges.

Progress against strategic

- In 2014, Retail Clients reconfirmed its strategy of focusing on affluent clients.

- The shift to the affluent segment accelerated, with the share of revenue from Priority and Business Clients increasing to 40 per cent in 2014 from 37 per cent in 2013.
- A significant repositioning and restructuring programme was initiated to improve expense efficiency and the business is on-track to deliver its target efficiency saves in 2015.
- Continued progress on derisking the unsecured lending portfolio.
- Retail Clients distribution teams were reoriented to align with the segments to drive higher productivity.
- Strengthening of conduct continued to be a key focus. During 2014, Retail Clients exited its third-party sales force to improve controls.

Financial performance

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

	2014	2013	Better/ (worse)
	\$million	\$million	%
Transaction Banking	18	15	20
Wealth Management	1,176	929	27
Retail Products	4,645	4,831	(4)
Assets and Liability Management	176	127	39
Operating income	6,015	5,902	2
Operating expenses	(4,022)	(3,878)	(4)
Loan impairment	(938)	(964)	3
Other impairment	(45)	(3)	nm
Profit from associates and joint ventures	28	31	(10)
Operating profit	1,038	1,088	(5)
Client income	5,731	5,676	1
Customer loans and advances	97,922	100,148	(2)
Customer deposits	117,050	114,003	3

Operating income rose 2 per cent to \$6,015 million with client income up 1 per cent compared to 2013. Income growth during the year was impacted by continued de-risking of the unsecured lending portfolio in select markets. This was more than offset by strong growth in Wealth Management income.

Wealth Management income grew 27 per cent with strong growth from bancassurance products, benefitting from the renewal of a multi-country distribution agreement with prudential in the current year. Non-bancassurance revenue rose 9 per cent, with AuM up 11 per cent. CCPL income declined 7 per cent, or \$203 million, driven by regulatory changes, rate caps and continued de-risking of the personal lending portfolio which impacted Korea and Thailand in particular. Income from Mortgages and Auto also declined mainly due to property cooling measures in Hong Kong and Singapore and the continued run-off of the auto financing book. Income from Deposits increased with strong growth in CASA volumes and the exit of higher cost Time Deposits.

Expenses were up 4 per cent to \$4,022 million driven by restructuring costs.

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

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

Operating profit fell by \$50 million, or 5 per cent, to \$1,038 million.

Balance Sheet

Loans and advances to customers fell by 2 per cent with the unsecured lending portfolio down \$3.3 billion compared to 2013 from continued de-risking of the personal lending portfolio, regulatory changes and currency translation impact. This decline was partly offset by the growth of mortgages in Korea and Hong Kong.

Risk-weighted assets fell by 5 per cent reflecting the de-risking actions. Operating profit return on risk weighted assets was flat at 1.6 per cent.

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

Standard Chartered Bank

Financial Review continued

Operating income by product and segment

Income by product and client segment is set out below:

	2014				
	Total \$million	Corporate & Institutional \$million	Commercial \$million	Private Banking \$million	Retail \$million
Transaction Banking	3,817	3,236	562	1	18
Trade	1,963	1,641	303	1	18
Cash Management and Custody	1,854	1,595	259	-	-
Financial Markets	3,415	3,206	209	-	-
Foreign Exchange	1,327	1,171	156	-	-
Rates	752	724	28	-	-
Commodities and Equities	497	484	13	-	-
Capital Markets	439	436	3	-	-
Credit and Other ¹	400	391	9	-	-
Corporate Finance	2,364	2,339	25	-	-
Lending and Portfolio Management	1,030	770	260	-	-
Wealth Management	1,705	-	122	407	1,176
Retail Products	4,844	-	10	189	4,645
Cards, Personal Loans and Unsecured Lending	2,577	-	-	-	2,577
Deposits	1,224	-	10	132	1,082
Mortgage and Auto	939	-	-	56	883
Other Retail Products	104	-	-	1	103
Asset and Liability Management	663	439	32	16	176
Principal Finance	264	297	(33)	-	-
Total Operating income¹	18,102	10,287	1,187	613	6,015

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

	2013				
	Total \$million	Corporate & Institutional \$million	Commercial \$million	Private Banking \$million	Retail \$million
Transaction Banking	3,900	3,244	638	3	15
Trade	2,063	1,710	335	3	15
Cash Management and Custody	1,837	1,534	303	-	-
Financial Markets	3,844	3,583	261	-	-
Foreign Exchange	1,409	1,192	217	-	-
Rates	914	897	17	-	-
Commodities and Equities	505	490	15	-	-
Capital Markets	556	551	5	-	-
Credit and Other ¹	460	453	7	-	-
Corporate Finance	2,512	2,479	33	-	-
Lending and Portfolio Management	1,062	765	297	-	-
Wealth Management	1,446	-	140	377	929
Retail Products	5,032	-	5	196	4,831
Cards, Personal Loans and Unsecured Lending	2,780	-	-	-	2,780
Deposits	1,190	-	5	140	1,045
Mortgage and Auto	994	-	-	54	940
Other Retail Products	68	-	-	2	66
Asset and Liability Management	546	374	36	9	127
Principal Finance	276	180	96	-	-
Total Operating income¹	18,618	10,625	1,506	585	5,902

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

Financial Review continued

Transaction Banking: Income fell 2 per cent with Trade income down 5 per cent and Cash Management and Custody income flat compared to 2013. Trade balance sheet volumes were lower as a result of management actions and the continuing slow trade environment which saw overall market volumes decline. This was in part offset by a marginal increase in Trade NIM. Cash volumes were up year on year driven by record clearing levels, supporting fee growth. Custody income benefitted from the continued roll-out of our global platform and to a lesser extent the acquisition of a custodial business in South Africa in the second half of 2013.

Financial Markets: Income decreased 11 per cent compared to 2013 driven by low market volatility leading clients to reduce hedging activity and also from the impact of RMB band widening in the first quarter of the year.

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

FX income fell 6 per cent year on year due to lower spreads reflecting low levels of volatility across our markets although pockets of volatility returned in the second half of the year. Volumes remained strong, however, and Cash FX notional increased by 47 per cent compared to 2013. Income from FX options was adversely impacted by the RMB band widening which reduced client demand for hedging.

Capital Markets income fell 21 per cent impacted by margin compression, lower fees and negative mark-to market movements and syndicated loans.

Corporate Finance: Income fell 6 per cent with significant market challenges and high liquidity resulting in increased repayment levels. This was partially offset by a significant rise

in M&A advisory fees and increased origination activity in our financing businesses.

Lending and Portfolio Management: Income fell 3 per cent reflecting lower average balances as we exited lower returning relationships.

Wealth Management: Income growth of 18 per cent driven by strong growth in bancassurance income, which benefitted from the renewal of a strategic multi-year bancassurance partnership in the second half of the year. AuM also grew strongly primarily in Hong Kong and Singapore due to a stronger value proposition and favourable market conditions in the first half of the year. This was partly offset by lower income from structured products which was impacted by low levels of volatility.

Retail Products: Income fell 4 per cent compared to 2013 due to de-risking actions, regulatory changes and adverse mortgage market conditions in certain markets. De-risking actions included the exit of personal loans originations in riskier segments in Korea and Thailand and the replacement of third-party sales channels with internal staff. Mortgage transactions were lower due to property cooling measures by the government in Hong Kong and Singapore. Deposits income increased 3 per cent as we replaced higher cost Time Deposits with higher margin CASA products.

Asset and Liability Management: Income rose 21 per cent reflecting improved accrual income which more than offset lower income from securities sales.

Principal Finance income was down 4 per cent benefitting from increased levels of realised gains from investment exits, partially offset by lower mark to market valuations. The majority of the realisations in 2014 benefits the Corporate & institutional client segment compared to the Commercial client segment in 2013.

Performance by geography

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

	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Operating income ¹	5,447	1,462	1,863	3,713	1,846	1,834	863	1,074	18,102
Operating profit/(loss) ^{1, 2}	2,092	(129)	810	901	770	673	169	(181)	5,105

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

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

	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Operating income ¹	5,186	1,634	2,031	4,001	1,857	1,746	854	1,309	18,618
Operating profit/(loss) ^{1, 2}	2,307	(12)	885	1,603	850	611	305	324	6,873

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

² Excludes \$1 billion relating to goodwill impairment charge on Korea business in North East Asia

Standard Chartered Bank

Financial Review continued

Greater China

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

	2014	2013	Better / (worse)
	\$million	\$million	%
Client income ¹	5,029	4,846	4
Other income	418	340	23
Operating income¹	5,447	5,186	5
Operating expenses	(2,921)	(2,784)	(5)
Loan impairment	(469)	(242)	(94)
Other impairment ²	(142)	1	nm
Profit from associates and joint ventures	177	146	21
Operating profit	2,092	2,307	(9)
Net interest margin (%)	1.7	1.8	
Customer loans and advances ³	89,646	89,846	-
Customer deposits ³	151,644	145,282	4

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

² Excludes \$32 million goodwill impairment in 2014

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

Income in Greater China was up \$261 million, or 5 per cent, to \$5,447 million.

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

There was strong growth in Assets under Management, driving Wealth Management income up compared to 2013. Income from retail deposits also grew strongly, benefitting from improved spreads as well as good growth in balances. This was partly offset by a decline in CCPL income as we derisked the portfolio.

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

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

Commercial banking products income rose moderately with steady growth in corporate lending income as volumes increased.

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

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

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

As a result of higher impairment charges, operating profit fell \$215 million, or 9 per cent, to \$2,092 million.

Balance sheet

Customer loans and advances were flat compared to 2013. Growth in Retail balances was offset by lower lending to Commercial clients as we derisked the portfolio.

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

North East Asia

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

	2014	2013	Better / (worse)
	\$million	\$million	%
Client income ¹	1,323	1,462	(10)
Other income	139	172	(19)
Operating income¹	1,462	1,634	(11)
Operating expenses	(1,186)	(1,190)	-
Loan impairment	(394)	(427)	8
Other impairment ²	(11)	(29)	62
Operating loss	(129)	(12)	nm
Net interest margin (%)	2.0	2.1	
Customer loans and advances ³	29,582	30,618	(3)
Customer deposits ³	32,616	34,059	(4)

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

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

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

Income was down \$172 million, or 11 per cent, to \$1,462 million. Korea represents over 94 per cent of income within this region.

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

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

Expenses were broadly flat at \$1,186 million. We have continued to progress an aggressive campaign of cost reduction, with two Special Retirement Plan ('SRP') exercises in Korea helping to drive headcount down to its lowest level since 2010 for a cost of \$52 million. In addition a further 50 retail branches were closed in Korea during the year reducing the network footprint from 343 to 293.

Loan impairment fell by \$33 million, or 8 per cent. In RC loan impairment related to the Personal Debt Rehabilitation Scheme ('PDRS') filings fell reflecting the impact of the maintenance of tightened credit underwriting criteria. In December 2014 the adverse impact of PDRS filings on the franchise were at their lowest level since December 2012 and reflect a sustained improvement.

The operating loss in the region increased by \$117 million compared to 2013 to a loss of \$129 million. However, there was a marked improvement in the second half of the year as the operating loss improved by \$103 million to a loss of \$13 million compared to the first half. This reflects stronger second half income driven by increased Private Equity realisations and the fact that restructuring charges were predominantly phased into the first half of the year.

Balance sheet

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

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

Financial Review continued

South Asia

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

	2014	2013	Better / (worse)
	\$million	\$million	%
Client income	1,725	1,770	(3)
Other income	138	261	(47)
Operating income	1,863	2,031	(8)
Operating expenses	(797)	(826)	4
Loan impairment	(183)	(215)	15
Other impairment	(73)	(105)	30
Operating profit	810	885	(8)
Net interest margin (%)	3.9	3.9	
Customer loans and advances ¹	22,859	25,608	(11)
Customer deposits ¹	15,533	16,128	(4)

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

Income fell \$168 million, or 8 per cent, to \$1,863 million. On a constant currency basis, income fell 6 per cent. Around 78 per cent of the income in this region is from India, which continues to focus on partnering with global corporate to leverage the Group's network.

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

Operating expenses across the region fell \$29 million, or 4 per cent, to \$797 million, as we continued to manage costs tightly.

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

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

Operating profit fell \$75 million to \$810 million.

Balance sheet

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

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

Financial Review continued

ASEAN

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

	2014	2013	Better / (worse)
	\$million	\$million	%
Client income ¹	3,482	3,646	(4)
Other income	231	355	(35)
Operating income¹	3,713	4,001	(7)
Operating expenses	(2,090)	(2,082)	-
Loan impairment	(698)	(396)	(76)
Other impairment	(86)	2	nm
Profit from associates and joint ventures	62	78	(21)
Operating profit	901	1,603	(44)
Net interest margin (%)	1.8	1.8	
Customer loans and advances ²	78,541	82,852	(5)
Customer deposits ²	94,208	95,908	(2)

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

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

Operating income was down \$288 million, or 7 per cent, to \$3,713 million.

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

Operating expenses were flat at \$2,090 million, reflecting enhanced productivity and tight management of discretionary costs.

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

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

As a result, ASEAN delivered an operating profit of \$901 million, down 44 per cent compared to 2013.

Balance sheet

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

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

Middle East, North Africa and Pakistan (MENAP)

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

	2014	2013	Better / (worse)
	\$million	\$million	%
Client income	1,621	1,666	(3)
Other income	225	191	18
Operating income	1,846	1,857	(1)
Operating expenses	(986)	(960)	(3)
Loan impairment	(89)	(47)	(89)
Other impairment	(1)	-	(100)
Operating profit	770	850	(9)
Net interest margin (%)	2.8	2.9	
Customer loans and advances ¹	22,775	23,535	(3)
Customer deposits ¹	22,447	22,520	-

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

Income fell \$11 million, or 1 per cent, to \$1,846 million. Client income fell 3 per cent across the region primarily due to high levels of liquidity, the absence of market volatility and the resurgence of competition from regional banks. Strong performances in our markets across the region have largely offset a softer performance in the UAE.

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

rates partly offset by higher income from de-risking activities in ALM.

Operating expenses in the region were \$26 million, or 3 per cent, higher at \$986 million predominantly driven by incremental costs from our newly launched Iraq operations and restructuring provisions.

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

Operating profit was down \$80 million, or 9 per cent, to \$770 million.

Balance sheet

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

Africa

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

	2014	2013	Better/ (worse)
	\$million	\$million	%
Client income	1,539	1,560	(1)
Other income	295	186	59
Operating income	1,834	1,746	5
Operating expenses	(995)	(865)	(15)
Loan impairment	(175)	(270)	35
Other impairment	(1)	-	(100)
Profit from associates and joint ventures	10	-	100
Operating profit	673	611	10
Net interest margin (%)	4.8	5.6	
Customer loans and advances ¹	13,103	13,122	-
Customer deposits ¹	11,224	11,686	(4)

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

Africa income grew 5 per cent to \$1,834 million, with client income falling 1 per cent. There was significant currency depreciation against the US dollar across a number of markets during the year and on a constant currency basis, income rose 15 per cent and client income was up 8 per cent.

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

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

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

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

Operating profit rose 10 per cent compared to 2013 to \$673 million. On a constant currency basis, operating profit grew 20 per cent.

Balance sheet

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

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

Financial Review continued

Americas

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

	2014	2013	Better / (worse)
	\$million	\$million	%
Client income	802	799	-
Other income	61	55	11
Operating income	863	854	1
Operating expenses¹	(672)	(538)	(25)
Loan impairment	(21)	(11)	(91)
Other impairment	(1)	-	
Operating profit	169	305	(45)
Net interest margin (%)	0.6	0.7	
Customer loans and advances ²	10,952	10,429	5
Customer deposits ²	34,019	15,406	121

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

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

Income was resilient at \$863 million, up 1 percent on 2013, with increased client activity and higher volumes in Trade and Cash Management and across FX products. Transaction Banking revenues were flat year on year as a strong increase in client business volumes was more than offset by lower margins due to excess liquidity and decreased spreads on cash liabilities due to lower USD interest rates. Lending income rose as a result of increased volumes and financing fees earned from clients. Corporate Finance income also increased as margins improved and pipeline deals executed.

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

Operating expenses were up \$134 million, or 25 per cent, higher at \$672 million primarily driven by increase of regulatory compliance costs. Staff costs also increased due to restructuring initiatives.

Operating profit fell \$136 million, or 45 per cent, to \$169 million.

Balance sheet

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

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

Standard Chartered Bank

Financial Review continued

Europe

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

	2014	2013	Better / (worse)
	\$million	\$million	%
Client income ¹	927	1,121	(17)
Other Income	147	188	(22)
Operating income¹	1,074	1,309	(18)
Operating expenses	(1,055)	(980)	(8)
Loan impairment	(112)	(9)	nm
Other impairment	(88)	2	nm
Profit from associates and joint ventures	-	2	(100)
Operating (loss)/profit	(181)	324	nm
Net interest margin (%)	0.8	0.9	
Customer loans and advances ²	20,994	19,881	6
Customer deposits ²	52,498	49,982	5

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

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

Income was down \$235 million, or 18 per cent to \$1,074 million

Client income declined \$194 million, or 17 per cent to \$927 million, largely as a result of derisking actions. Transaction Banking income was up on strong growth from Trade Loans to FI clients. Financial Markets income increased as FX volumes grew strongly on the roll-out of an e-commerce electronic trading platform, and debt capital markets income increased on rising bond markets. Income from other Financial Market products declined as low levels of market volatility reduced client hedging requirements and investment opportunities. Corporate Finance income was down reflecting net repayments, increased competition and margin compression. In the Advisory business, the volume of deals was broadly flat year on year, but average fees declined. Income from Wealth Management and Retail products provided to Private Banking clients was down due to lower advisory fees and real estate lending in a challenging investment and market trading environment.

Own Account income declined 22 per cent primarily due to low FX volatility, falling commodity prices and the impact of higher holdings of liquid assets.

Operating expenses rose \$75 million, or 8 per cent, to \$1,055 million driven by an increase in the UK bank levy of \$131

million, to \$366 million and costs incurred in restructuring our presence in Europe through exiting the Private Banking operations in Geneva, selling the Retail Business in Germany and closing the offices in Russia and Austria.

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

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

Operating profit fell by \$505 million to a loss of \$181 million.

Balance sheet

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

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

Standard Chartered Bank

Financial Review continued

Group summary consolidated balance sheet

	2014 \$million	2013 \$million	Increase / (Decrease) \$million	Increase / (Decrease) %
Assets				
Cash and balances at central banks	97,282	54,534	42,748	78
Loans and advances to banks ¹	87,495	86,168	1,327	2
Loans and advances to customers ¹	288,452	295,891	(7,439)	(3)
Investment securities ¹	128,814	123,781	5,033	4
Derivative financial instruments	66,317	62,161	4,156	7
Other assets	55,403	51,143	4,260	8
Total assets	723,763	673,678	50,085	7
Liabilities				
Deposits by banks ¹	55,233	44,427	10,806	24
Customer accounts ¹	414,189	390,971	23,218	6
Debt securities in issue ¹	62,150	52,762	9,388	18
Derivative financial instruments	64,184	62,289	1,895	3
Subordinated liabilities and other borrowed funds	21,362	22,147	(785)	(4)
Other liabilities ¹	57,826	54,993	2,833	5
Total liabilities	674,944	627,589	47,355	8
Equity	48,819	46,089	2,730	6
Total liabilities and shareholders' funds	723,763	673,678	50,085	7

¹ Includes balances held at fair value through profit or loss

Standard Chartered Bank

Financial Review continued

Balance sheet

The Group's balance sheet remains resilient and well diversified. We continue to be highly liquid and primarily deposit funded, with an advances to deposits ratio of 69.6 per cent, down from the previous year-end position of 75.7 per cent. We continue to be a net lender into the interbank market, particularly in Hong Kong, Singapore and within the Americas and Europe regions. The Group's funding structure remains conservative, with limited levels of refinancing over the next few years.

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

The profile of our balance sheet remains stable, with over 70 per cent of our financial assets held at amortised cost, and 60 per cent of total assets have a residual maturity of less than one year. The Group continues to have low exposure to problem asset classes.

Cash and balances at central banks

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

Loans and advances to banks and customers

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

Loans to C&I and Commercial clients remain well diversified by geography and client segment. During 2014 we continued to reshape the portfolio, derisking and exiting low returning clients which contributed to the reduction in loan balances compared to 2014. This was primarily concentrated in the ASEAN region where lending fell \$3.1 billion, and across the 'Energy', 'Mining and Quarrying' and 'Transport, Telecoms and Utilities' sectors.

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

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

Investment securities

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

Derivatives

Customer appetite for derivative transactions has reduced reflecting low levels of volatility in the market which has reduced client hedging needs. Notional values increased since the last year end reflecting a higher volume of short-dated transactions with Financial Institutions as a result of lower levels of volatility. Unrealised positive mark-to-market positions were \$4 billion higher at \$66 billion. Our risk positions continue to be largely balanced, resulting in a corresponding increase in negative mark to market positions. Of the \$64 billion mark to market positions, \$43 billion was available for offset due to master netting agreements.

Deposits

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

Debt securities in issue, subordinated liabilities and other borrowed funds

Subordinated liabilities decreased \$0.8 billion due to redemptions of subordinated debt partly offset with new issuance.

Equity

Total shareholders' equity was \$2.7 billion higher at \$48.8 billion reflecting profit accretion of \$2.6 billion for the year which was offset by dividend payments of \$1.6 billion and the negative impact of foreign currency translation of \$1 billion.

Risk and Capital review

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

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

Risk overview

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

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

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

Net Non-performing loans (NPLs) are higher by \$585 million compared to 2013. This increase is primarily in the C&I and CC segments and is driven by a small number exposures in metals and mining sector.

Prices of certain commodities (notably coal, iron ore and oil) have dropped significantly in 2014. This has not highlighted any additional material vulnerability over and above that was identified through the Group's stress testing program in 2013. However, the risks have heightened on the relatively small parts of our portfolio that we had identified as vulnerable in previous stress

tests and this has manifested itself in the increased loan impairment referred to above. The Group has continued to successfully take risk mitigation actions with respect to these vulnerabilities throughout 2014. Portfolio trends in the second half of 2014 were stable over the first half of 2014 (see portfolio indicators on page 49).

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

An overview of our C&I and CC segments are presented together as these segments have similar risk characteristics.

The C&I and CC section covers the following:

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

The Retail Clients section covers the following:

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

Risk and Capital review continued

Corporate and Institutional Clients and Commercial Clients

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

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

Geographic analysis presented in this section is based on country of credit responsibility. This differs from the financial booking location, in that all global exposures to a client group are reported in the primary country of the parent entity. This represents a more complete view of credit risk exposure to client groups from a particular country and is aligned to our credit risk management approach. This differs from the geographic analysis in the Risk Profile section (see page 57), in which loans and advances are reported based on the financial booking location.

Portfolio indicators

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

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

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

C&I and CC portfolio	31.12.14	30.06.14	31.12.13	30.06.13
	\$billion	\$billion	\$billion	\$billion
Per cent of net exposure to customers that is Investment grade	42%	40%	40%	38%
Per cent of L&A to Customers that is Investment grade	38%	38%	35%	39%
Early Alert (net exposure)	9.2	9.0	11.3	12.9
Credit Grade 12	4.7	5.3	2.0	1.7
Past Due but not impaired	2.2	3.4	3.8	1.4
Performing Other renegotiated/forborne loans	4.9	5.6	5.3	4.8
Gross NPLs	6.6	6.2	5.5	4.7

Commodities

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

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

Commodities Credit Portfolio	31.12.14	30.06.14	31.12.13	30.06.13
	\$billion	\$billion	\$billion	\$billion
Commodity Producers	24.3	28.1	30.1	30.4
Commodity Traders	30.6	32.6	31.7	27.3
Net exposure	54.9	60.7	61.8	57.7
Tenor <1 year	74%	76%	75%	75%

Overall the quality of the commodities portfolio remains good as 60 per cent of the exposures are attributable either to Investment Grade clients or to Global Majors or Large State Owned Enterprises (SOEs). A further 32 per cent are short term in nature and hence give us the flexibility to respond promptly to events and rebalance or reduce our exposure to clients or vulnerable sub-sectors where necessary. A further 4 per cent are tightly structured secured project and Corporate Finance exposures.

The Commodity Producers and Commodity Traders credit portfolios are further analysed below:

Commodity Producers credit portfolio: 63 per cent of the net exposure of \$24.3 billion was attributable to clients

Risk and Capital review continued

that were either rated investment grade or are Global Majors or Large SOEs. Of the remaining portfolio, 21 per cent is short term trade related and 9 per cent is tightly structured and secured project and corporate finance exposure. The Group holds \$3.9 billion of collateral and third party guarantees against the exposures attributable to non Global Majors and non Large SOE clients.

Energy, primarily Oil and Gas, constitutes 54 per cent of the Commodity Producers credit portfolio (see Oil and Gas producers section). The exposure to metals that have had significant price falls is very small – Copper producers is 0.5 per cent and Iron ore is 0.3 per cent of C&I and CC net exposure respectively. 73 per cent of these exposures are to clients that are either investment grade rated or are low cost producers that are part of diversified groups.

Commodity Producers Credit Portfolio

	31.12.14	30.06.14	31.12.13	30.06.13
Net exposure (\$ billion)	24.3	28.1	30.1	30.4
Investment Grade / Global Majors / Large SOEs	63%	66%	61%	66%
Rest of the portfolio with Tenor < 1 year	21%	20%	24%	22%

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

Commodity Traders Credit Portfolio

	31.12.14	30.06.14	31.12.13	30.06.13
Net exposures (\$ billion)	30.6	32.6	31.7	27.3
Investment Grade / Global Majors / Large SOEs	58%	58%	57%	53%
Rest of the portfolio with Tenor < 1 year	40%	39%	40%	43%

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

24 per cent of the owned inventory portfolio is stored in warehouses in China. The Group has now inspected all warehouses other than those that were locked down by the authorities in China in response to the fraud, and no

new issues have emerged. In some cases we have transferred commodities to more secure warehouses. 74 per cent of the value of our SIP inventory is either in exchange controlled locations, such as London Metals Exchange warehouses, or in low risk jurisdictions like US, Western Europe, Singapore and Hong Kong.

Oil and Gas and related exposures

As at 31 December 2014 the Group's net exposure to Oil and Gas and related sectors was \$28.6 billion. This comprises of Oil and Gas Producers (45 per cent), Refineries (22 per cent), Supporting Activities (28 per cent) and other corporate clients with oil and gas related hedges (5 per cent).

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

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

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

The Shipping Finance portfolio consisted of Tankers (\$1.6 billion), Offshore Support Vessels (\$0.7 billion), Rigs and Drill Ships (\$1.2 billion) and Floating Production Storage and Offloading (\$0.7 billion). The net exposures to these sub-sectors are either to investment grade clients or backed by strong balance sheet or corporate guarantees. The exposures have high levels of collateralisation in the form of new/young vessels. 70 per cent of the exposures to oil field equipment manufacturers and service providers are investment grade.

Corporate clients with oil related hedges: The Group's counterparty credit risk exposure to corporate clients with oil related hedges has increased to \$1.5 billion from \$0.4 billion as oil prices have dropped over the last six months. Approximately 70 per cent of that increase is accounted for by six investment grade clients. All clients have continued to meet their trade settlement and collateral obligations as per the Credit Support Annexes (CSAs) to the International Swaps and Derivatives Association (ISDA).

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Risk and Capital review continued

China

The Group's total net exposure to China is \$71 billion, down 10 per cent from 2013, of which \$24 billion is financially booked in China and \$47 billion in other locations. Of the total net exposure of \$71 billion, \$50 billion is loans and advances to customer and banks. 56 per cent of the total net exposure is attributable to Financial Institutions and 14 per cent is to the Central Government.

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

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

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

The following section presents details of the China Commodity portfolio for which the Group has been proactive in managing its exposures. We reduced exposures for the clients that are sub investment grade and are non Global Majors or non Large SOEs. Further, we have performed stress tests on our Commercial Real Estate portfolio and Non-SOEs portfolio and initiated actions to exit some clients in the process.

China commodities credit portfolio

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

China Commodities Credit Portfolio	31.12.14	30.06.14	31.12.13	30.06.13
	\$billion	\$billion	\$billion	\$billion
Commodity Producers	4.1	5.1	4.9	6.0
Commodity Traders	5.3	6.6	6.1	4.8
Net exposure	9.4	11.7	11.0	10.8
Tenor <1 year	94%	96%	89%	93%

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

China Commodity Producers Portfolio	31.12.14	30.06.14	31.12.13	30.06.13
Net exposure (\$billion)	4.1	5.1	4.9	6.0
Investment Grade / Global Majors / Large SOEs	79%	70%	66%	68%
Rest of the portfolio with Tenor < 1 year	20%	28%	28%	26%

China Commodity Traders credit portfolio: 43 per cent of the net exposure of \$5.3 billion was to clients that are either investment grade or to Global Majors and to Large SOEs. 93 per cent of the remainder had a tenor of less than one year. This sub investment portfolio is collateralized with cash \$1.3 billion and third party guarantees \$0.5 billion.

China Commodity Traders Credit Portfolio	31.12.14	30.06.14	31.12.13	30.06.13
Net exposure (\$billion)	5.3	6.6	6.1	4.8
Investment Grade / Global Majors / Large SOEs	43%	51%	49%	41%
Rest of the portfolio with Tenor < 1 year	53%	48%	48%	55%

India

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

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

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Risk and Capital review continued

Europe

We have \$10 million of direct sovereign exposure (as defined by the European Banking Authority (EBA)) to Greece, Ireland, Italy, Portugal or Spain. Our net exposure in these countries was less than \$1.2 billion as at 31 December 2014 and was primarily to banks and related to trade finance and financial markets transactions. Our total net exposure to Greece was \$6 million and we continue to monitor and respond to the recent developments around the potential Greek exit from the eurozone. Additionally we estimate minimal direct impact of the quantitative easing in the eurozone.

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

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

Retail Clients

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

Retail Clients loan impairment is stable at 94bps of average loans and advances (2013: 95bps) in spite of continued high levels of bankruptcy filings under the government's PDRS in Korea. The portfolio indicators such as 30 days and 90 days past due flow rates are broadly stable.

Mortgage portfolio and rising interest rates in key markets

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

Unsecured portfolio

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

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

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

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

Korea Personal Debt Rehabilitation Scheme

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

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Risk and Capital review continued

Risk Profile

The balance sheet and income statement information presented within the “Risk Profile” is based on the booking location of the instrument and not the location of its customer. Accordingly, where income statement information is presented by geographic region, the accounts will differ to the Financial Review which is based on its customer location. The “Client segment by geographic region” table on pages 57 and 58 provides a split of loans and advances to customers and banks by both booking and customer location.

Credit portfolio

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

- Overall exposure to credit risk, for on-balance sheet and off-balance sheet financial instruments, before and after taking into account credit risk mitigation (pages 54 and 55)
- Loan portfolio overview, which provides analysis of the loan portfolio by client segment, by geographic region, by industry and retail product, and by loan maturity (pages 56 to 66)
- Credit risk mitigation, which provides analysis of collateral held by client segment and collateral type, and details of loan to value ratios and other forms of credit risk mitigation
- Credit quality, which provides an analysis of the loan portfolio by credit grade (pages 74 to 77)
- Problem credit management and provisioning, which provides an analysis of non-performing loans, impaired loans, renegotiated and forborne loans (pages 87 to 96 and page 78 for renegotiated and forborne loans)
- Selected portfolios, which provides further detail on debt securities and treasury bills, asset backed securities, selected European exposures (pages 97 to 104)

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 section on pages 136 to 149.

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

Restatement of prior year

In January 2014, the Group announced a change to its organisation structure effective 1 April 2014. To aid historic comparisons the Group's results restate segmental information for 31 December 2013 under the new client segments and global product groups, and the geographic regions. During the year, industry classifications for Corporate & Institutional Client and Commercial client were aligned to internal classification, resulting in re-presentation for 2013. In addition, all the geographic disclosures from the pages 57 to 93 are presented on a booking location basis. Certain geographic balances in 2013, which were presented on a customer location basis have been re-presented accordingly.

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 at 31 December 2014, before and after taking into account any collateral held or other credit risk mitigation. For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk generally represents the contractual notional amounts.

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

The Group's gross maximum exposure to credit risk has increased by \$44.1 billion when compared to 2013 mainly due to additional cash and balances held at central banks. Loans and advances to banks and customers has decreased by \$6.1 billion reflecting portfolio management actions to reduce exposures in key markets and sectors that are experiencing a prolonged slow down. This has been offset by the growth in Financing, non-Bank and broking sector. Further details of the loan portfolio are set out on pages 56 to 96. Contingent liabilities mainly arising from trade finance exposures decreased by \$4.5 billion also reflect the slowdown in key markets in our footprint.

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

Standard Chartered Bank

Risk and Capital review continued

Maximum exposure to credit risk

Group	2014				2013			
	Maximum exposure to credit risk (gross)	Credit risk management			Maximum exposure to credit risk (gross)	Credit risk management		
		Collateral	Master netting agreements	Maximum exposure to credit risk (net)		Collateral	Master netting agreements	Maximum exposure to credit risk (net)
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
On balance sheet								
Cash and balances at central banks	97,282	-	-	97,282	54,534	-	-	54,534
Total Loans and advances to banks and customers ¹								
As per balance sheet	368,433				374,285			
Included within fair value through profit and loss	7,514				7,774			
	375,947	158,820	-	217,127	382,059	152,926	-	229,133
Investment securities ²								
As per balance sheet	103,923	-	-	103,923	102,379	-	-	102,379
Included within fair value through profit and loss	24,891	-	-	24,891	21,402	-	-	21,402
Less: Equity securities	(7,366)	-	-	(7,366)	(6,454)	-	-	(6,454)
	121,448	-	-	121,448	117,327	-	-	117,327
Derivative financial instruments ³	66,317	7,005	43,735	15,577	62,161	5,147	46,242	10,772
Assets Held for sale	3,112	-	-	3,112	1,538	-	-	1,538
Other assets	10,329	-	-	10,329	8,234	-	-	8,234
Total balance sheet	674,435	165,825	43,735	464,875	625,853	158,073	46,242	421,538
Off balance sheet								
Contingent liabilities	42,532	-	-	42,532	46,938	-	-	46,938
Undrawn irrevocable standby facilities, credit lines and other commitments to lend ⁴	65,080	-	-	65,080	65,313	-	-	65,313
Documentary credits and short term trade-related transactions	7,911	-	-	7,911	7,408	-	-	7,408
Forward asset purchases and forward deposits	78	-	-	78	459	-	-	459
Total off- balance sheet	115,601	-	-	115,601	120,118	-	-	120,118
Total	790,036	165,825	43,735	580,476	745,971	158,073	46,242	541,656

¹ An analysis of credit quality is set out on page pages 72 to 86. Further details of collateral held by client segment and held for past due and individually impaired loans are set on page 68

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

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

⁴ Excludes unconditionally cancellable facilities

Standard Chartered Bank

Risk and Capital review continued

Maximum exposure to credit risk continued

Company	2014				2013			
	Credit risk management			Maximum exposure to credit risk (net)	Credit risk management			Maximum exposure to credit risk (net)
	Maximum exposure to credit risk (gross)	Collateral	Master netting agreements		Maximum exposure to credit risk (gross)	Collateral	Master netting agreements	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
On balance sheet								
Cash and balances at central banks	82,728	-	-	82,728	41,272	-	-	41,272
Total Loans and advances to banks and customers ¹								
As per balance sheet	175,331				179,736			
Included within fair value through profit and loss	7,184				7,189			
	182,515	51,073	-	131,442	186,925	53,710	-	133,215
Investment securities ²								
As per balance sheet	48,993	-	-	48,993	43,875	-	-	43,875
Included within fair value through profit and loss	15,323	-	-	15,323	11,411	-	-	11,411
Less: Equity securities	(4,898)	-	-	(4,898)	(3,387)	-	-	(3,387)
	59,418	-	-	59,418	51,899	-	-	51,899
Derivative financial instruments ³	63,465	6,618	43,452	13,395	60,146	4,773	42,393	12,980
Other assets	6,927	-	-	6,927	5,798	-	-	5,798
Total balance sheet	395,053	57,691	43,452	293,910	346,040	58,483	42,393	245,164
Off balance sheet								
Contingent liabilities	31,034	-	-	31,034	34,657	-	-	34,657
Undrawn irrevocable standby facilities, credit lines and other commitments to lend ⁴	35,641	-	-	35,641	33,017	-	-	33,017
Documentary credits and short term trade-related transactions	5,253	-	-	5,253	4,767	-	-	4,767
Forward asset purchases and forward deposits	1	-	-	1	3	-	-	3
Total off- balance sheet	71,929	-	-	71,929	72,444	-	-	72,444
Total	466,982	57,691	43,452	365,839	418,481	58,483	42,393	317,608

¹ An analysis of credit quality is set out on page 72 to 86. Further details of collateral held by client segment and held for past due and individually impaired loans are set on page 68

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

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

⁴ Excludes unconditionally cancellable facilities

Loan portfolio - Group

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

The loan portfolio summarised by segment and by credit quality (neither past due nor impaired; past due; and impaired) on pages 74 to pages 77. The Group manages its loan portfolio between those assets that are performing in line with their contractual terms (whether original or renegotiated) and those that are non-performing. Corporate & Institutional Clients (C&I) and Commercial Clients (CC) exposures are typically managed on an individual basis and consequently credit grade migration is a key component of credit risk management. In Retail, where loans are typically managed on a portfolio basis, delinquency trends are monitored consistently as part of risk management. In both businesses, credit risk is mitigated to some degree through collateral, further details of which are set out on page 69.

This section covers a summary of the Group's loan portfolio broadly analysed by business and geography, along with an analysis of the maturity profile, credit quality and provisioning of the loan book.

Geographic and Client segmental analysis

Loans and advances to customers (net of individual impairment and portfolio impairment provisions) decreased by \$7.4 billion since December 2013. This reduction was primarily within the CC segment \$3.2 billion and the C&I segment \$2.9 billion as a result of portfolio management actions in key markets and sectors experiencing a prolonged slow down. The growth in this period was largely in financing, insurance and business services.

The growth in loans to banks of \$1.3 billion since December 2013 was primarily across ASEAN (\$5.6 billion) and Greater China (\$0.9 billion) offset by a reduction in Europe of \$3.8 billion. This is mostly due to liquidity management activity of the Group. Given the nature of the book, it is predominantly short term and the maturity profile remains consistent period on period.

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

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

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

Standard Chartered Bank

Risk and Capital review continued

Loan portfolio continued

Client segment by geographic region

Group	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Corporate and Institutional	37,253	7,882	8,093	37,419	12,136	5,894	10,964	38,536	158,177
Commercial	5,395	3,176	2,036	2,234	1,106	669	-	74	14,690
Private banking	3,494	-	167	9,732	274	-	-	4,365	18,032
Retail	41,408	18,633	4,272	27,220	4,869	1,845	-	2	98,249
	87,550	29,691	14,568	76,605	18,385	8,408	10,964	42,977	289,148
Portfolio impairment provision	(98)	(75)	(56)	(201)	(78)	(47)	(9)	(132)	(696)
Total loans and advances to customers^{1,2}	87,452	29,616	14,512	76,404	18,307	8,361	10,955	42,845	288,452
Intra-segmental balance	2,194	(34)	8,347	2,137	4,468	4,742	(3)	(21,851)	-
Total loans and advances to customers^{1,3}	89,646	29,582	22,859	78,541	22,775	13,103	10,952	20,994	288,452
Total loans and advances to banks^{1,2}	28,758	5,997	488	12,388	1,603	940	12,661	24,660	87,495

Group	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Corporate and Institutional	37,428	7,297	7,394	41,649	12,192	5,658	10,681	38,770	161,069
Commercial	6,406	3,109	2,340	3,249	1,274	672	-	791	17,841
Private banking	3,003	33	131	9,020	250	-	-	4,723	17,160
Retail	40,936	20,283	4,295	28,337	4,708	1,696	-	262	100,517
	87,773	30,722	14,160	82,255	18,424	8,026	10,681	44,546	296,587
Portfolio impairment provision	(146)	(107)	(53)	(152)	(85)	(68)	(6)	(79)	(696)
Total loans and advances to customers^{1,2}	87,627	30,615	14,107	82,103	18,339	7,958	10,675	44,467	295,891
Intra-segmental balance	2,219	3	11,501	749	5,196	5,164	(246)	(24,586)	-
Total loans and advances to customers^{1,3}	89,846	30,618	25,608	82,852	23,535	13,122	10,429	19,881	295,891
Total loans and advances to banks^{1,2}	27,905	6,561	575	6,776	2,097	742	13,067	28,445	86,168

¹ Amounts net of individual impairment provision and include financial instruments held at fair value through profit or loss (see note 15 on page 196)

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

³ The balances are based on the location of the customer

Standard Chartered Bank

Risk and Capital review continued

Loan portfolio continued

Client segment by geographic region

Company	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Corporate and Institutional	795	1,015	7,813	32,497	11,319	997	10,964	38,071	103,471
Commercial	11	-	2,012	667	859	-	-	74	3,623
Private banking	-	-	129	8,811	274	-	-	4,250	13,464
Retail	-	1	4,126	1,134	4,740	14	-	2	10,017
	806	1,016	14,080	43,109	17,192	1,011	10,964	42,397	130,575
Portfolio impairment provision	(1)	(2)	(54)	(91)	(68)	(2)	(9)	(132)	(359)
Total loans and advances to customers^{1,2}	805	1,014	14,026	43,018	17,124	1,009	10,955	42,265	130,216
Total loans and advances to banks^{1,2}	222	1,159	455	11,549	1,538	112	12,623	24,641	52,299

Company	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Corporate and Institutional	807	857	7,144	37,212	11,349	978	10,674	38,277	107,298
Commercial	10	-	2,329	677	977	-	-	791	4,784
Private banking	-	-	131	8,024	250	-	-	4,231	12,636
Retail	-	1	4,164	1,157	4,470	10	-	257	10,059
	817	858	13,768	47,070	17,046	988	10,674	43,556	134,777
Portfolio impairment provision	(1)	-	(53)	(61)	(69)	(2)	(5)	(79)	(270)
Total loans and advances to customers^{1,2}	816	858	13,715	47,009	16,977	986	10,669	43,477	134,507
Total loans and advances to banks^{1,2}	68	2,369	557	5,878	2,061	241	12,897	28,347	52,418

¹ Amounts net of individual impairment provision and include financial instruments held at fair value through profit or loss (see note 15 on page 198)

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

Standard Chartered Bank

Risk and Capital review continued

Industry and Retail products analysis by geographic region

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

The Manufacturing sector makes up 16 per cent of Corporate & Institutional and Commercial Clients customer loans and advances (2013: 16 per cent). The Manufacturing industry group is spread across a diverse range of industries, including Automobiles & Components, Capital goods, Pharmaceuticals Biotech & life sciences, Technology hardware & equipments, Chemicals, paper products and packaging, with lending spread over 4,390 clients.

Lending to Financing Banking and Insurance clients is mostly to investment grade institutions and is part of the liquidity management of the Group.

The Group provides loans to commercial real estate (CRE) counterparties of \$16.1 billion (2013: \$16.9 billion), which represents less than 6 per cent of total customer loans and advances and less than 3 per cent of assets. Loans greater than 5 years are less than 10 per cent of the CRE portfolio.

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

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

Industry and Retail products analysis by geographic region

Group	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Industry									
Energy	1,470	310	123	9,006	1,228	533	3,206	11,347	27,223
Manufacturing	9,456	2,419	2,452	4,337	2,239	1,031	1,031	3,838	26,803
Financing, insurance and non-banking	5,856	995	431	5,497	1,136	628	3,507	7,336	25,386
Transport, telecom and utilities	3,715	1,602	922	3,706	1,210	662	612	6,055	18,484
Food and household products	2,589	313	929	5,034	1,381	1,346	1,438	1,302	14,332
Commercial real estate	6,876	2,190	1,503	3,798	1,133	79	-	485	16,064
Mining and Quarrying	3,383	649	922	2,186	512	764	273	4,123	12,812
Consumer durables	5,076	659	1,291	1,170	1,385	439	404	1,752	12,176
Construction	1,169	486	897	1,178	1,352	252	20	1,095	6,449
Trading Companies & Distributors	1,419	400	232	932	719	418	56	114	4,290
Government	536	368	5	1,206	230	19	220	165	2,749
Other	1,103	667	422	1,603	717	392	197	998	6,099
Retail Products									
Mortgages	34,381	12,918	2,366	20,724	1,853	345	-	1,320	73,907
CCPL and other unsecured lending	6,673	4,407	987	4,850	2,096	1,425	-	51	20,489
Auto	-	-	40	631	339	6	-	-	1,016
Secured Wealth Products	3,466	74	70	9,385	805	-	-	1,455	15,255
Other	382	1,234	976	1,362	50	69	-	1,541	5,614
	87,550	29,691	14,568	76,605	18,385	8,408	10,964	42,977	289,148
Portfolio impairment provision	(98)	(75)	(56)	(201)	(78)	(47)	(9)	(132)	(696)
Total loans and advances to customers¹	87,452	29,616	14,512	76,404	18,307	8,361	10,955	42,845	288,452
Total loans and advances to banks¹	28,758	5,997	488	12,388	1,603	940	12,661	24,660	87,495

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

Standard Chartered Bank

Risk and Capital review continued

Industry and Retail products analysis by geographic region continued

Group	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Industry¹									
Energy	1,999	356	160	10,491	1,496	345	3,434	12,260	30,541
Manufacturing	9,975	3,314	2,311	4,355	1,775	1,278	1,387	3,683	28,078
Financing, insurance and non-banking	5,087	402	152	2,136	1,543	344	1,966	3,942	15,572
Transport, telecom and utilities	3,814	1,199	912	4,751	1,123	475	880	7,028	20,182
Food and household products	3,243	302	808	8,538	1,109	1,608	1,386	1,553	18,547
Commercial real estate	6,743	2,097	1,426	3,954	1,302	89	-	1,318	16,929
Mining and Quarrying	3,712	720	835	2,738	500	945	762	5,758	15,970
Consumer durables	5,344	637	1,432	1,338	1,358	230	529	2,137	13,005
Construction	1,198	478	955	864	1,803	178	20	777	6,273
Trading Companies & Distributors	1,167	354	321	2,739	706	419	124	109	5,939
Government	141	-	7	1,483	215	11	48	115	2,020
Other	1,411	547	415	1,511	536	408	145	881	5,854
Retail Products									
Mortgages	32,940	12,821	2,298	21,636	1,753	293	-	1,355	73,096
CCPL and other unsecured lending	7,672	5,586	1,161	5,617	2,102	1,399	-	271	23,808
Auto	-	1	44	914	321	4	-	-	1,284
Secured Wealth Products	2,821	105	63	7,721	603	-	-	1,537	12,850
Other	506	1,803	860	1,469	179	-	-	1,822	6,639
	87,773	30,722	14,160	82,255	18,424	8,026	10,681	44,546	296,587
Portfolio impairment provision	(146)	(107)	(53)	(152)	(85)	(68)	(6)	(79)	(696)
Total loans and advances to customers²	87,627	30,615	14,107	82,103	18,339	7,958	10,675	44,467	295,891
Total loans and advances to banks²	27,905	6,561	575	6,776	2,097	742	13,067	28,445	86,168

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

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

Standard Chartered Bank

Risk and Capital review continued

Industry and Retail products analysis by geographic region continued

Company	2014								
	Greater China	North East Asia	South Asia	ASEAN	MENAP	Africa	Americas	Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Industry									
Energy	-	35	120	8,590	1,153	81	3,206	11,347	24,532
Manufacturing	515	16	2,422	3,017	2,039	32	1,031	3,837	12,909
Financing, insurance and non-banking	-	-	407	4,565	1,327	13	3,507	7,336	17,155
Transport, telecom and utilities	-	945	922	3,456	944	40	612	5,637	12,556
Food and household products	14	3	852	4,138	1,136	139	1,438	1,294	9,014
Commercial real estate	-	-	1,417	3,380	1,132	-	-	483	6,412
Mining and Quarrying	135	2	893	1,482	461	381	273	4,123	7,750
Consumer durables	110	-	1,286	894	1,090	226	404	1,753	5,763
Construction	32	-	880	830	1,326	29	20	1,095	4,212
Trading Companies & Distributors	-	11	216	809	668	39	56	79	1,878
Government	-	-	5	647	219	-	220	165	1,256
Other	-	3	405	1,356	683	17	197	996	3,657
Retail Products									
Mortgages	-	-	2,302	231	1,825	14	-	1,320	5,692
CCPL and other unsecured lending	-	1	971	739	2,014	-	-	51	3,776
Auto	-	-	14	1	339	-	-	-	354
Secured Wealth Products	-	-	70	8,764	800	-	-	1,447	11,081
Other	-	-	898	210	36	-	-	1,434	2,578
	806	1,016	14,080	43,109	17,192	1,011	10,964	42,397	130,575
Portfolio impairment provision	(1)	(2)	(54)	(91)	(68)	(2)	(9)	(132)	(359)
Total loans and advances to customers¹	805	1,014	14,026	43,018	17,124	1,009	10,955	42,265	130,216
Total loans and advances to banks¹	222	1,159	455	11,549	1,538	112	12,623	24,641	52,299

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

Standard Chartered Bank

Risk and Capital review continued

Industry and Retail products analysis by geographic region continued

Company	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Industry¹									
Energy	50	49	160	10,183	1,430	-	3,434	12,256	27,562
Manufacturing	570	18	2,277	3,144	1,543	29	1,380	3,679	12,640
Financing, insurance and non-banking	-	-	127	1,222	1,723	20	1,966	3,941	8,999
Transport, telecom and utilities	-	640	912	4,273	857	58	880	6,560	14,180
Food and household products	10	5	749	7,511	885	168	1,386	1,545	12,259
Commercial real estate	76	-	1,349	3,206	1,295	-	-	1,316	7,242
Mining and Quarrying	19	5	811	2,105	464	503	762	5,758	10,427
Consumer durables	92	111	1,428	988	1,124	91	529	2,137	6,500
Construction	-	-	935	373	1,769	48	20	777	3,922
Trading Companies & Distributors	-	13	304	2,497	625	20	124	104	3,687
Government	-	-	7	1,133	178	-	48	115	1,481
Other	-	16	414	1,254	433	41	145	880	3,183
Retail Products									
Mortgages	-	-	2,240	299	1,722	10	-	1,355	5,626
CCPL and other unsecured lending	-	1	1,146	751	1,947	-	-	271	4,116
Auto	-	-	18	1	318	-	-	-	337
Secured wealth products	-	-	63	7,716	603	-	-	1,529	9,911
Other	-	-	828	414	130	-	-	1,333	2,705
	817	858	13,768	47,070	17,046	988	10,674	43,556	134,777
Portfolio impairment provision	(1)	-	(53)	(61)	(69)	(2)	(5)	(79)	(270)
Total loans and advances to customers²	816	858	13,715	47,009	16,977	986	10,669	43,477	134,507
Total loans and advances to banks²	68	2,369	557	5,878	2,061	241	12,897	28,347	52,418

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

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

Standard Chartered Bank

Risk and Capital review continued

Maturity analysis by client segment

The Corporate & Institutional and Commercial Client segment loans and advances remain predominantly short term with 65 per cent of loans and advances to customers in the segments maturing in less than one year, a marginal decrease compared to December 2013. 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. 96 per cent of the loans to banks mature in less than one year.

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

The Retail Clients loan book continues to be longer term in nature as Mortgages constitute the majority of the Retail Clients loan book at 64 per cent (2013: 61 per cent). The slight increase in the tenor of retail products overall reflects the reduction in unsecured assets and the corresponding increase in the proportion of mortgages.

The following table presents the maturity profile by client segment:

By Client segment

Group	2014			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Corporate and Institutional	184,754	48,542	12,378	245,674
- Loans to banks	83,840	3,587	70	87,497
- Loans to customers	100,914	44,955	12,308	158,177
Commercial	11,905	1,436	1,349	14,690
Private Banking	15,349	1,423	1,260	18,032
Retail	16,877	18,610	62,762	98,249
	228,885	70,011	77,749	376,645
Portfolio impairment provision				(698)
Total loans and advances to banks and customers				375,947

Group	2013			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Corporate and Institutional	185,311	50,514	11,414	247,239
- Loans to banks	82,641	3,445	84	86,170
- Loans to customers	102,670	47,069	11,330	161,069
Commercial	12,627	2,653	2,561	17,841
Private Banking	14,664	1,145	1,351	17,160
Retail	19,106	19,979	61,432	100,517
	231,708	74,291	76,758	382,757
Portfolio impairment provision				(698)
Total loans and advances to banks and customers				382,059

Standard Chartered Bank

Risk and Capital review continued

By Client segment

Company	2014			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Corporate and Institutional	111,523	33,877	10,371	155,771
- Loans to banks	49,003	3,227	70	52,300
- Loans to customers	62,520	30,650	10,301	103,471
Commercial	3,051	334	238	3,623
Private Banking	11,787	1,324	353	13,464
Retail	2,863	2,624	4,530	10,017
	129,224	38,159	15,492	182,875
Portfolio impairment provision				(360)
Total loans and advances to banks and customers				182,515

Company	2013			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Corporate and Institutional	116,186	34,496	9,035	159,717
- Loans to banks	49,350	2,985	84	52,419
- Loans to customers	66,836	31,511	8,951	107,298
Commercial	3,189	1,066	529	4,784
Private Banking	11,392	998	246	12,636
Retail	3,744	3,095	3,220	10,059
	134,511	39,655	13,030	187,196
Portfolio impairment provision				(271)
Total loans and advances to banks and customers				186,925

Standard Chartered Bank

Risk and Capital review continued

Maturity analysis by Industry

By Industry

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

Group	2014			
	One year or less	One to five years	Over five years	Total
	\$million	\$million	\$million	\$million
Industry				
Energy	14,894	9,545	2,784	27,223
Manufacturing	19,984	5,813	1,006	26,803
Financing, insurance and non-banking	20,980	4,162	244	25,386
Transport, telecom and utilities	6,083	6,946	5,455	18,484
Food and household products	11,642	2,606	84	14,332
Commercial real estate	6,184	8,549	1,331	16,064
Mining and Quarrying	9,104	2,517	1,191	12,812
Consumer durables	10,682	1,346	148	12,176
Construction	3,758	2,060	631	6,449
Trading Companies & Distributors	3,969	246	75	4,290
Government	2,612	56	81	2,749
Other	2,927	2,545	627	6,099
Retail Products				
Mortgages	4,733	8,786	60,388	73,907
CCPL and other unsecured lending	10,424	8,533	1,532	20,489
Auto	199	742	75	1,016
Secured Wealth products	14,085	1,074	96	15,255
Other	2,785	898	1,931	5,614
	145,045	66,424	77,679	289,148
Portfolio impairment provision				(696)
Total loans and advances to customers¹				288,452

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

Group	2013			
	One year or less	One to five years	Over five years	Total
	\$million	\$million	\$million	\$million
Industry¹				
Energy	19,511	8,605	2,425	30,541
Manufacturing	21,021	6,130	927	28,078
Financing, insurance and non-banking	11,025	4,055	492	15,572
Transport, telecom and utilities	6,681	7,740	5,761	20,182
Food and household products	14,737	3,433	377	18,547
Commercial real estate	5,615	9,480	1,834	16,929
Mining and Quarrying	11,364	3,879	727	15,970
Consumer durables	10,641	2,143	221	13,005
Construction	4,255	1,663	355	6,273
Trading Companies & Distributors	5,415	355	169	5,939
Government	1,767	167	86	2,020
Other	3,265	2,072	517	5,854
Retail Products				
Mortgages	4,528	8,828	59,740	73,096
CCPL and other unsecured lending	12,537	9,629	1,642	23,808
Auto	191	877	216	1,284
Secured Wealth products	11,833	972	45	12,850
Other	4,681	818	1,140	6,639
	149,067	70,846	76,674	296,587
Portfolio impairment provision				(696)
Total loans and advances to customers²				295,891

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

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

Standard Chartered Bank

Risk and Capital review continued

Maturity analysis by Industry

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

Company	2014			
	One year or less	One to five years	Over five years	Total
	\$million	\$million	\$million	\$million
Industry				
Energy	12,797	9,153	2,582	24,532
Manufacturing	9,169	3,013	727	12,909
Financing, insurance and non-banking	14,772	2,168	215	17,155
Transport, telecom and utilities	3,871	4,474	4,211	12,556
Food and household products	7,346	1,617	51	9,014
Commercial real estate	1,611	4,295	506	6,412
Mining and Quarrying	4,778	1,988	984	7,750
Consumer durables	5,038	667	58	5,763
Construction	2,111	1,509	592	4,212
Trading Companies & Distributors	1,733	132	13	1,878
Government	1,149	38	69	1,256
Other	1,196	1,930	531	3,657
Retail Products				
Mortgages	1,226	746	3,720	5,692
CCPL and other unsecured lending	1,764	1,610	402	3,776
Auto	102	234	18	354
Secured Wealth products	10,098	943	40	11,081
Other	1,460	415	703	2,578
	80,221	34,932	15,422	130,575
Portfolio impairment provision				(359)
Total loans and advances to customers¹				130,216

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

Company	2013			
	One year or less	One to five years	Over five years	Total
	\$million	\$million	\$million	\$million
Industry				
Energy	17167	8257	2138	27562
Manufacturing	8656	3263	721	12640
Financing, insurance and non-banking	6350	2501	148	8999
Transport, telecom and utilities	4670	4934	4576	14180
Food and household products	10095	2065	99	12259
Commercial real estate	2016	4702	524	7242
Mining and Quarrying	7040	2863	524	10427
Consumer durables	5394	1002	104	6500
Construction	2681	1008	233	3922
Trading Companies & Distributors	3304	308	75	3687
Government	1242	154	85	1481
Other	1410	1520	253	3183
Retail Products:				
Mortgages	1634	1257	2735	5626
CCPL and other unsecured lending	2251	1727	138	4116
Auto	137	199	1	337
Secured Wealth products	8987	882	42	9911
Other	2,127	28	550	2,705
	85,161	36,670	12,946	134,777
Portfolio impairment provision				(270)
Total loans and advances to customers²				134,507

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

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

Standard Chartered Bank

Risk and Capital review continued

Credit risk mitigation - Group

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor. See page 140 for our overall approach to credit risk mitigation.

Collateral

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

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

The collateral amount in the table on page 69 are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation. Exposures for 53 per cent of the clients, that have placed collateral with the Group, are over-collateralised. The average amount of over-collateralisation is 42 per cent.

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

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

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

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

In the Retail and Private Banking Client segments, a secured loan is one where the borrower pledges an asset as collateral which the Group is able to take possession in the event that the borrower defaults.

The collateral levels for Retail have remained stable compared to 2013.

For Retail, all secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. 19 per cent of the Group's retail product exposures are unsecured, compared to 21 per cent in 2013.

See details on page 70, which presents a detailed analysis of loans to individuals by product, split between fully secured, partially secured and unsecured.

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

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

See details on page 71, which presents an analysis of loan to value ratios by geography for the mortgage portfolio.

Standard Chartered Bank

Risk and Capital review continued

For loans and advances to banks and customers (including those held at fair value through profit or loss), the table below sets out the fair value of collateral held by the Group adjusted where appropriate in accordance

with the risk mitigation policy as outlined on page 140 and for the effect of over-collateralisation.

Group	Collateral			Amount Outstanding ¹		
	Of which			Of which		
	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans
	\$million	\$million	\$million	\$million	\$million	\$million
As at 31 December 2014						
Corporate & Institutional ²	63,798	228	837	245,674	1,847	6,094
Commercial	5,924	927	253	14,690	454	1,068
Private Banking	12,905	220	40	18,032	140	91
Retail	76,194	2,053	360	98,249	2,928	846
Total	158,820	3,428	1,490	376,645	5,369	8,099
As at 31 December 2013						
Corporate & Institutional ²	61,484	623	642	247,239	3,331	5,018
Commercial	6,422	454	156	17,841	519	963
Private Banking	13,435	149	65	17,160	85	93
Retail	71,585	2,305	396	100,517	3,360	898
Total	152,926	3,531	1,259	382,757	7,295	6,972

¹ Includes loans held at fair value through profit or loss

² Includes loans and advances to banks

Company	Collateral			Amount Outstanding ¹		
	Of which			Of which		
	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans
	\$million	\$million	\$million	\$million	\$million	\$million
As at 31 December 2014						
Corporate & Institutional ²	42,838	162	444	155,771	1,555	4,678
Commercial	1,430	97	58	3,623	272	543
Private Banking	1,908	220	40	13,464	139	32
Retail	4,034	523	121	10,017	535	109
Total	51,073	1,002	663	182,875	2,501	5,362
As at 31 December 2013						
Corporate & Institutional ²	42,838	447	388	159,717	3,030	3,913
Commercial	1,430	336	56	4,784	348	503
Private Banking	3,191	146	-	12,636	84	27
Retail	4,419	641	114	10,059	597	117
Total	50,178	1,570	558	187,196	4,059	4,560

¹ Includes loans held at fair value through profit or loss

² Includes loans and advances to banks

Standard Chartered Bank

Risk and Capital review continued

Corporate & Institutional and Commercial Clients - Group

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

Our underwriting standards encourage taking specific charges on assets and we consistently seek high quality, investment-grade-secured collateral. 46 per cent of collateral held is comprised of physical assets or is property based, with the remainder held largely in cash and investment securities.

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

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

Collateral taken for longer term and non-investment grade loans continues to be high at 59 per cent (63 per cent in 2013). Collateral is also held against off-balance sheet exposures including undrawn commitments and trade related instruments.

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

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

Group	2014 \$million	2013 \$million
Property	15,783	18,490
Plant, machinery and other stock	5,498	6,059
Cash	12,594	13,444
Reverse repo & Securities	25,641	18,353
AAA	4	45
AA- to AA+	17,188	9,651
BBB- to BBB+	3,062	2,758
Lower than BBB-	997	865
Unrated	4,390	5,034
Commodities	2,426	4,038
Ships and aircraft	7,780	7,522
Total value of collateral	69,722	67,906

Company	2014 \$million	2013 \$million
Property	7,604	9,041
Plant, machinery and other stock	3,538	3,726
Cash	7,895	8,767
Reverse repo & Securities	20,193	14,272
AAA	-	43
AA- to AA+	13,327	6,827
BBB- to BBB+	2,846	2,463
Lower than BBB-	982	855
Unrated	3,038	4,084
Commodities	1,954	3,246
Ships and aircraft	3,084	3,516
Total value of collateral	44,268	42,568

Standard Chartered Bank

Risk and Capital review continued

Commercial real estate (CRE) – Group

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

Retail and Private Banking Clients loan portfolio - Group

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

Group	2014				2013			
	Fully secured	Partially secured	Unsecured	Total ¹	Fully secured	Partially secured	Unsecured	Total ¹
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Loans to individuals								
Mortgages	73,907	-	-	73,907	73,096	-	-	73,096
Credit card and personal loans	4	-	20,485	20,489	5	-	23,803	23,808
Auto	1,016	-	-	1,016	1,284	-	-	1,284
Secured Wealth Products	15,255	-	-	15,255	12,850	-	-	12,850
Other	2,757	1,494	1,363	5,614	4,729	1,462	448	6,639
	92,939	1,494	21,848	116,281	91,964	1,462	24,251	117,677
Percentage of total loans	80%	1%	19%		78%	1%	21%	

¹ Amounts net of individual impairment provisions

Standard Chartered Bank

Risk and Capital review continued

Mortgage loan-to-value ratios by geography

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

2014									
Group	Greater China %	North East Asia %	South Asia %	ASEAN %	MENAP %	Africa %	Americas %	Europe %	Total %
Less than 50 per cent	65.7	46.3	68.5	32.7	28.9	32.1	-	33.2	52.0
50 per cent to 59 per cent	12.3	22.0	13.0	21.0	18.7	13.6	-	40.3	17.0
60 per cent to 69 per cent	10.5	24.5	11.3	20.1	19.8	21.7	-	23.2	16.2
70 per cent to 79 per cent	7.1	4.7	5.6	17.7	17.7	23.3	-	3.3	9.5
80 per cent to 89 per cent	4.1	1.5	1.2	7.3	7.2	8.9	-	-	4.4
90 per cent to 99 per cent	0.3	0.6	0.2	1.0	3.6	0.1	-	-	0.6
100 per cent and greater	-	0.4	0.2	0.2	4.1	0.3	-	-	0.3
Average Portfolio loan to value	44.0	50.0	38.7	56.4	61.4	58.2	-	51.5	49.3
Loans to individuals - Mortgages (\$million)	34,381	12,918	2,366	20,724	1,853	345	-	1,320	73,907

2013									
Group	Greater China %	North East Asia %	South Asia %	ASEAN %	MENAP %	Africa %	Americas %	Europe %	Total %
Less than 50 per cent	62.9	48.8	65.8	32.3	31.0	27.0	-	20.6	50.6
50 per cent to 59 per cent	14.7	22.7	13.5	22.0	16.3	13.6	-	32.2	18.5
60 per cent to 69 per cent	9.6	19.1	10.7	20.3	19.5	21.3	-	22.7	14.8
70 per cent to 79 per cent	6.4	5.6	7.1	18.5	16.1	22.4	-	24.5	10.0
80 per cent to 89 per cent	4.0	2.2	2.4	5.4	7.4	15.1	-	-	4.1
90 per cent to 99 per cent	2.4	1.1	0.5	1.1	3.4	0.2	-	-	1.6
100 per cent and greater	-	0.5	-	0.4	6.3	0.4	-	-	0.4
Average Portfolio loan to value	45.6	49.3	40.5	56.0	62.1	64.3	-	57.8	49.9
Loans to individuals - Mortgages (\$million)	32,940	12,821	2,298	21,636	1,753	293	-	1,355	73,096

Collateral and other credit enhancements possessed or called upon

The Group obtains assets by taking possession of collateral or calling upon other credit enhancements (such as guarantees). Repossessed properties are sold in an orderly fashion. Where the proceeds are in excess of the outstanding loan balance the excess is returned to the borrower. Certain equity securities acquired may be

held by the Group for investment purposes and are classified as available-for-sale, and the related loan written off.

The carrying value of collateral possessed and held by the Group at 31 December 2014 is \$20 million (2013: \$44 million). The carrying value of collateral possessed and held by the Company at 31 December 2014 is \$2 million (2013: \$2 million).

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Risk and Capital review continued

Other Credit risk mitigation

Other forms of credit risk mitigation are set out below.

Securitisation

The Group has transferred to third parties by way of securitisation the rights to any collection of principal and interest on client loan assets with a face value of \$31 million (2013: \$779 million). The Group continues to recognise these assets in addition to the proceeds and related liability of \$29 million (2013: \$502 million) arising from the securitisations. The Group considers the above client loan assets to be encumbered. Further details of encumbered assets are provided on page 117.

Credit default swaps

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of \$22.3 billion (2013: \$21.4 billion). These credit default swaps are accounted for as guarantees as they meet the accounting requirements set out in IAS39. The Group continues to hold the underlying assets referenced in the credit default swaps and it continues to be exposed to related credit and foreign exchange risk on these assets.

Derivatives financial instruments

The Group enters into master netting agreements which in the event of default, results in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions. The value of exposure under master netting agreements is \$43,735 million (2013: \$46,242 million).

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

Off-balance sheet exposures

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

Credit quality analysis - Group

An overall breakdown of the loan portfolio by client segment is set out on pages 74 to 77, differentiating between the performing and non performing book.

Within the performing book, there is an analysis:

- By credit grade, which plays a central role in the quality assessment and monitoring of risk as explained in page 140
- 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 forbore accounts which have complied with their revised contractual terms for more than 180 days and on which no loss of principal is expected

Non-performing loans are analysed, net of individual impairment provisions between what is past due but not impaired and what is impaired.

This is followed by further analysis of credit quality by geography, together with the related impairment charges and provisions (pages 83 to 86).

Credit grade migration

Performing loans that are neither past due nor impaired constitutes 97 per cent of customer loans and this is consistent with past periods (2013: 96 per cent). Overall credit quality has also remained stable, with the average credit grade of the corporate loan portfolio remaining at 8B, unchanged since 2013.

All loans are assigned a credit grade, which is reviewed periodically and amended in light of changes in the borrower's circumstances or behaviour. Credit grades 1-12 are assigned to performing clients or accounts, while credit grades 13 and 14 are assigned to non performing or defaulted clients.

Further details of our approach to credit rating is set out on page 139

Credit grade migration trends have also been stable across most countries, although there has been some deterioration in India and China, related to the slower economic growth in those countries (see details on page 51). The increase in CG12 balances in 2014 is principally due to the downgrade of a small number of connected exposures. Excluding this, the credit grade composition across all client segments is consistent with the prior year. In respect of loans to banks, the credit quality composition is also consistent with prior periods with most of the growth in this period being in Credit Grade 1 to 5.

Retail Clients credit quality composition remained stable over last year. The increase in Credit Grade 1 to 5 was mainly due to a rerating of the mortgage portfolio in Hong Kong.

Performing loans and advances "past due but not impaired" are \$1.9 billion lower than 2013, with decrease across all categories. The past due balances arise substantially in the "up to 30 days past due" category. In the Retail client segment, these primarily relate to loans where there is a temporary timing difference in payments. In the Corporate & Institutional Clients and Commercial Clients segments, across all past due

Standard Chartered Bank

Risk and Capital review continued

categories approximately 74 per cent of the amounts past due were regularised by 31 January 2015.

Non-performing loans

Non-performing loans (net of individual impairment provisions) are higher by \$585 million. This increase is primarily in the Corporate & Institutional Clients and Commercial Clients segments and is driven by a small number of large exposures financially booked in Europe, Greater China and ASEAN. Details and further analysis of gross and net non-performing loans by client segment and by geography are provided on pages 87 to 90.

A non-performing loan is any loan that is more than 90 days past due or is otherwise individually impaired. This excludes loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected. These loans may have a provision reflecting the time value of money and if so, are reported as part of forbore loans. Renegotiated and forbore loans included in these amounts are consistent with the level seen as at 31 December 2013.

Other renegotiated and forbore loans are relatively stable since 2013.

The definition and policies in respect of renegotiated and forbore loans are set out on pages 142 and 143.

Loan impairment

The total loan impairment losses and other credit risk provisions on loans and advances charge for 2014 has increased by \$522 million, or 32 per cent, to \$2.1 billion compared to 2013. This represents 72 basis points of average customer loans and advances.

In Corporate & Institutional Clients and Commercial Clients, total loan impairment provisions on balance sheet have increased by \$415 million, or 18 per cent, compared to 31 December 2013. The provisions were concentrated in a few clients in Europe, ASEAN and Greater China. Loan impairment for Corporate & Institutional and Commercial Clients represents 67 basis points of average customer loans and advances.

In Retail Clients, total individual impairment provisions were marginally lower than 2013. Impairments from Korea Personal Debt Rehabilitation Scheme (PDRS) filings remains broadly stable and there were modest improvements in some other markets. Portfolio impairment provisions also reduced as we reduced high risk personal loans exposure. We remain disciplined in our approach to risk management and proactive in our collection efforts to minimise account delinquencies.

Other impairment, excluding goodwill impairment, has increased by \$194 million to \$307 million reflecting the write-down of commodity assets arising from a fraud in Greater China and certain strategic and associate investments.

Portfolio impairment provision

A Portfolio Impairment Provision (PIP) is held to cover the inherent risk of losses which, although not identified, are known through experience to be present in any loan portfolio. PIP balances have remained the same in 2014. The increase in PIP balances in the Corporate & Institutional and Commercial Clients segments is offset by the decrease in the PIP balance for the Retail Clients segment reflecting the impact of de-risking and classification of assets held for sale. Further details around the policy and rationale underlying the determinant of the PIP are provided on pages 141 and 142.

Cover ratio

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

The cover ratio before collateral for Retail Clients increased to 91 per cent (2013: 86 per cent). The cover ratio before collateral for Corporate and Institutional Clients was lower at 46 per cent compared to 2013. The Commercial Clients and Private Banking Clients segments cover ratios before collateral also increased to 51 per cent and 67 per cent respectively since 2013.

The balance of non-performing loans 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. The cover ratio after taking into account collateral but excluding portfolio impairment provisions for Corporate and Institutional Clients is 55 per cent (2013: 56 per cent) and for Commercial Clients is 71 per cent (2013: 59 per cent).

As highlighted on page 67, collateral provides risk mitigation to some degree in all client segments and better supports the credit quality and cover ratio assessments post impairment provisions. Details are provided on pages 67 to 72.

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Risk and Capital review continued

Credit quality analysis

By Client segment

Group	2014					
	Loans to banks	Loans to Customers				Total
		Corporate and Institutional Clients	Commercial Clients	Private Banking Clients	Retail Clients	
	\$million	\$million	\$million	\$million	\$million	\$million
Performing Loans						
Neither past due nor impaired						
- Grades 1-5	78,996	65,449	775	3,089	65,467	134,780
- Grades 6-8	6,456	61,863	5,413	14,648	14,472	96,396
- Grades 9-11	1,871	20,879	7,377	120	14,050	42,426
- Grade 12	28	4,526	126	3	944	5,599
	87,351	152,717	13,691	17,860	94,933	279,201
<i>of the above, renegotiated loans</i>	-	4,277	17	-	262	4,556
Past due but not impaired						
- Up to 30 days past due	40	1,467	344	139	2,187	4,137
- 31 - 60 days past due	-	183	60	1	400	644
- 61 - 90 days past due	3	154	23	-	179	356
	43	1,804	427	140	2,766	5,137
<i>of the above, renegotiated loans</i>	-	106	10	-	61	177
Impaired forborne loans, net of provisions	-	479	-	-	153	632
Total performing loans	87,394	155,000	14,118	18,000	97,852	284,970
Non-performing Loans						
Past due but not impaired						
- 91 - 120 days past due	-	-	2	-	96	98
- 121 - 150 days past due	-	-	25	-	66	91
	-	-	27	-	162	189
Individually impaired loans, net of provisions	103	3,177	545	32	235	3,989
<i>of the above, forborne loans</i>	-	1,072	48	-	225	1,345
Total non-performing loans, net of individual impairment	103	3,177	572	32	397	4,178
Total loans and advances	87,497	158,177	14,690	18,032	98,249	289,148
Portfolio impairment provision	(2)	(328)	(39)	(2)	(327)	(696)
Total net loans and advances	87,495	157,849	14,651	18,030	97,922	288,452

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

Neither past due nor impaired						
- Grades 1-5	3,293	1,651	-	-	-	1,651
- Grades 6-8	317	1,415	-	-	-	1,415
- Grades 9-11	-	320	-	-	-	320
- Grade 12	-	100	-	-	-	100
	3,610	3,486	-	-	-	3,486
Past due but not impaired						
- Up to 30 days past due	-	-	-	-	-	-
Individually impaired loans	-	418	-	-	-	418

Standard Chartered Bank

Risk and Capital review continued

Credit quality analysis continued

By Client segment

Group	2013					
	Loans to banks	Loans to Customers				Total
		Corporate and Institutional Clients	Commercial Clients	Private Banking Clients	Retail Clients	
	\$million	\$million	\$million	\$million	\$million	\$million
Performing Loans						
Neither past due nor impaired						
- Grades 1-5	73,861	61,301	1,326	3,709	54,141	120,477
- Grades 6-8	10,325	66,195	6,812	13,169	24,988	111,164
- Grades 9-11	1,825	25,614	8,348	87	15,236	49,285
- Grade 12	35	1,661	295	69	2,342	4,367
	86,046	154,771	16,781	17,034	96,707	285,293
<i>of the above, renegotiated loans</i>	-	4,208	26	-	388	4,622
Past due but not impaired						
- Up to 30 days past due	17	2,463	422	42	2,548	5,475
- 31 - 60 days past due	-	272	59	38	418	787
- 61 - 90 days past due	-	579	33	4	202	818
	17	3,314	514	84	3,168	7,080
<i>of the above, renegotiated loans</i>	-	583	-	-	-	583
Impaired forborne loans, net of provisions	-	474	1	-	150	625
Total performing loans	86,063	158,559	17,296	17,118	100,025	292,998
Non-performing Loans						
Past due but not impaired						
- 91 - 120 days past due	-	-	-	-	115	115
- 121 - 150 days past due	-	-	5	1	77	83
	-	-	5	1	192	198
Individually impaired loans, net of provisions	107	2,510	540	41	300	3,391
<i>of the above, forborne loans</i>	-	801	61	-	461	1,323
Total non-performing loans, net of individual impairment	107	2,510	545	42	492	3,589
Total loans and advances	86,170	161,069	17,841	17,160	100,517	296,587
Portfolio impairment provision	(2)	(287)	(39)	(1)	(369)	(696)
Total net loans and advances	86,168	160,782	17,802	17,159	100,148	295,891

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

Neither past due nor impaired						
- Grades 1-5	2,271	1,026	-	-	-	1,026
- Grades 6-8	196	3,321	-	-	-	3,321
- Grades 9-11	-	211	-	-	-	211
- Grade 12	-	25	-	-	-	25
	2,467	4,583	-	-	-	4,583
Past due but not impaired						
- Up to 30 days past due	-	405	-	-	-	405
Individually impaired loans	-	319	-	-	-	319

Standard Chartered Bank

Risk and Capital review continued

Credit quality analysis continued

By Client segment

2014						
Company	Loans to banks	Loans to Customers				Total
		Corporate and Institutional Clients	Commercial Clients	Private Banking Clients	Retail Clients	
	\$million	\$million	\$million	\$million	\$million	\$million
Performing Loans						
Neither past due nor impaired						
- Grades 1-5	45,832	40,674	118	2,300	4,493	47,585
- Grades 6-8	5,117	41,248	1,369	10,924	1,765	55,306
- Grades 9-11	1,277	13,003	1,539	78	3,152	17,772
- Grade 12	28	3,900	23	3	52	3,978
	52,254	98,825	3,049	13,305	9,462	124,641
<i>of the above, renegotiated loans</i>	-	3,969	6	-	36	4,011
Past due but not impaired						
- Up to 30 days past due	27	1,218	216	138	362	1,934
- 31 - 60 days past due	-	170	40	1	73	284
- 61 - 90 days past due	3	137	11	-	45	193
	30	1,525	267	139	480	2,411
<i>of the above, renegotiated loans</i>	-	81	8	-	6	95
Impaired forborne loans, net of provisions	-	548	-	-	(5)	543
Total performing loans	52,284	100,898	3,316	13,444	9,937	127,595
Non-performing Loans						
Past due but not impaired						
- 91 - 120 days past due	-	-	2	-	34	36
- 121 - 150 days past due	-	-	3	-	21	24
	-	-	5	-	55	60
Individually impaired loans, net of provisions	16	2,573	302	20	25	2,920
<i>of the above, forborne loans</i>	-	922	7	-	11	940
Total non-performing loans, net of individual impairment	16	2,573	307	20	80	2,980
Total loans and advances	52,300	103,471	3,623	13,464	10,017	130,575
Portfolio impairment provision	(1)	(265)	(12)	(1)	(81)	(359)
Total net loans and advances	52,299	103,206	3,611	13,463	9,936	130,216

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

Neither past due nor impaired						
- Grades 1-5	3,293	1,397	-	-	-	1,397
- Grades 6-8	317	1,393	-	-	-	1,393
- Grades 9-11	-	314	-	-	-	314
- Grade 12	-	52	-	-	-	52
	3,610	3,156	-	-	-	3,156
Past due but not impaired						
- Up to 30 days past due	-	-	-	-	-	-
Individually impaired loans	-	418	-	-	-	418

Standard Chartered Bank

Risk and Capital review continued

Credit quality analysis continued

By Client segment

Company	2013					
	Loans to banks	Loans to Customers				Total
		Corporate and Institutional Clients	Commercial Clients	Private Banking Clients	Retail Clients	
	\$million	\$million	\$million	\$million	\$million	\$million
Performing Loans						
Neither past due nor impaired						
- Grades 1-5	41,189	37,597	81	2,215	3,947	43,840
- Grades 6-8	9,687	44,463	2,098	10,166	1,695	58,422
- Grades 9-11	1,498	18,576	1,812	87	2,403	22,878
- Grade 12	19	1,037	147	69	1,395	2,648
	52,393	101,673	4,138	12,537	9,440	127,788
<i>of the above, renegotiated loans</i>	-	3,971	19	-	78	4,068
Past due but not impaired						
- Up to 30 days past due	13	2,274	270	41	410	2,995
- 31 - 60 days past due	-	250	52	38	81	421
- 61 - 90 days past due	-	493	25	4	57	579
	13	3,017	347	83	548	3,995
<i>of the above, renegotiated loans</i>	-	583	-	-	-	583
Impaired forborne loans, net of provisions	-	488	1	-	-	489
Total performing loans	52,406	105,178	4,486	12,620	9,988	132,272
Non-performing Loans						
Past due but not impaired						
- 91 - 120 days past due	-	-	-	-	27	27
- 121 - 150 days past due	-	-	1	1	22	24
	-	-	1	1	49	51
Individually impaired loans, net of provisions	13	2,120	297	15	22	2,454
<i>of the above, forborne loans</i>	-	525	24	-	55	604
Total non-performing loans, net of individual impairment	13	2,120	298	16	71	2,505
Total loans and advances	52,419	107,298	4,784	12,636	10,059	134,777
Portfolio impairment provision	(1)	(176)	(10)	(1)	(83)	(270)
Total net loans and advances	52,418	107,122	4,774	12,635	9,976	134,507

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

Neither past due nor impaired					
- Grades 1-5	2,271	919	-	-	919
- Grades 6-8	196	2,892	-	-	2,892
- Grades 9-11	-	187	-	-	187
- Grade 12	-	-	-	-	-
	2,467	3,998	-	-	3,998
Past due but not impaired					
- Up to 30 days past due	-	405	-	-	405
Individually impaired loans	-	319	-	-	319

Standard Chartered Bank

Risk and Capital review continued

Renegotiated and forborne loans

The table below shows an analysis of renegotiated and forborne loans by region.

Group	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Other renegotiated loans	321	85	18	579	258	42	-	3,255	4,558
Loans subject to forbearance	212	114	75	417	550	75	-	534	1,977
Total renegotiated and forborne loans	533	199	93	996	808	117	-	3,964	6,710

Group	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Other renegotiated loans	161	139	74	1,512	404	45	-	2,870	5,205
Loans subject to forbearance	296	225	58	315	688	42	-	324	1,948
Total renegotiated and forborne loans	457	364	132	1,827	1,092	87	-	3,194	7,153

Company	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Other renegotiated loans	30	-	18	373	244	12	-	3,429	4,106
Loans subject to forbearance	-	-	75	286	571	19	-	532	1,483
Total renegotiated and forborne loans	30	-	93	659	815	31	-	3,961	5,589

Company	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Other renegotiated loans	-	-	74	1,307	390	9	-	2,871	4,651
Loans subject to forbearance	-	-	59	38	648	26	-	322	1,093
Total renegotiated and forborne loans	-	-	133	1,345	1,038	35	-	3,193	5,744

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Risk and Capital review continued

Credit quality analysis continued

By Industry

Group	2014								
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Individual impairment provision	Total	Movements in impairment			
						Individual impairment provision held as at 1 January 2014	Net impairment charge/ (recovery)	Amounts written off/ Other movements	Individual impairment provision held as at 31 December 2014
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Industry									
Energy	26,568	293	503	(141)	27,223	109	43	(11)	141
Manufacturing	25,609	360	1,140	(306)	26,803	217	243	(154)	306
Financing, insurance and non-banking	24,708	27	985	(334)	25,386	474	11	(151)	334
Transport, telecom and utilities	17,899	277	574	(266)	18,484	333	77	(144)	266
Food and household products	13,860	263	545	(336)	14,332	247	124	(35)	336
Commercial real estate	15,989	36	55	(16)	16,064	39	1	(24)	16
Mining and Quarrying	11,795	201	1,388	(572)	12,812	139	460	(27)	572
Consumer durables	11,841	123	487	(275)	12,176	266	45	(36)	275
Construction	5,769	270	509	(99)	6,449	76	35	(12)	99
Trading Companies & Distributors	4,055	54	477	(296)	4,290	265	43	(12)	296
Government	2,749	-	-	-	2,749	-	-	-	-
Other	5,566	354	297	(118)	6,099	84	64	(30)	118
Retail Products									
Mortgage	72,131	1,610	297	(131)	73,907	123	42	(34)	131
CCPL and other unsecured lending	19,181	1,106	491	(289)	20,489	273	869	(853)	289
Auto	935	80	1	-	1,016	1	(4)	3	-
Secured Wealth products	15,166	8	8	-	15,255	-	-	-	-
Other	5,380	191	140	(97)	5,614	103	39	(45)	97
Loans and advances to customers	279,201	5,326	7,897	(3,276)	289,148				
Individual impairment provision						2,749	2,092	(1,565)	3,276
Portfolio impairment provision					(696)	696	38	(38)	696
Total					288,452	3,445	2,130	(1,603)	3,972
Loans and advances to banks	87,351	43	202	(99)	87,497				
Individual impairment provision						100	4	(5)	99
Portfolio impairment provision					(2)	2	-	-	2
Total					87,495	102	4	(5)	101

Standard Chartered Bank

Risk and Capital review continued

Credit quality analysis continued

By Industry

Group	2013								
	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individually impaired \$million	Individual impairment provision \$million	Total \$million	Movements in impairment			
						Individual impairment provision held as at 1 January 2013 \$million	Net impairment charge/(recovery) \$million	Amounts written off/ Other movements \$million	Individual impairment provision held as at 31 December 2013 \$million
Industry¹									
Energy	29,088	1,167	395	(109)	30,541	113	5	(9)	109
Manufacturing	27,091	606	598	(217)	28,078	212	67	(62)	217
Financing, insurance and non-banking	14,804	93	1,149	(474)	15,572	440	7	27	474
Transport, telecom and utilities	19,253	468	794	(333)	20,182	310	66	(43)	333
Food and household products	18,067	204	523	(247)	18,547	80	198	(31)	247
Commercial real estate	16,823	66	79	(39)	16,929	30	13	(4)	39
Mining and Quarrying	15,210	334	565	(139)	15,970	108	99	(68)	139
Consumer durables	12,337	241	693	(266)	13,005	177	114	(25)	266
Construction	5,655	378	316	(76)	6,273	89	29	(42)	76
Trading Companies & Distributors	5,751	51	402	(265)	5,939	256	12	(3)	265
Government	2,019	1	-	-	2,020	-	-	-	-
Other	5,454	224	260	(84)	5,854	66	26	(8)	84
Retail Products									
Mortgage	71,114	1,795	310	(123)	73,096	143	11	(31)	123
CCPL and other unsecured lending	22,341	1,258	482	(273)	23,808	192	887	(806)	273
Auto	1,156	128	1	(1)	1,284	1	1	(1)	1
Secured Wealth Products	12,814	12	24	-	12,850	4	14	(18)	-
Other	6,316	252	174	(103)	6,639	109	49	(55)	103
Loans and advances to customers	285,293	7,278	6,765	(2,749)	296,587				
Individual impairment provision						2,330	1,598	(1,179)	2,749
Portfolio impairment provision					(696)	722	15	(41)	696
Total					295,891	3,052	1,613	(1,220)	3,445
Loans and advances to banks	86,046	17	207	(100)	86,170				
Individual impairment provision						103	(1)	(2)	100
Portfolio impairment provision					(2)	2	-	-	2
Total					86,168	105	(1)	(2)	102

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

Standard Chartered Bank

Risk and Capital review continued

Credit quality analysis continued

By Industry

Company	2014								
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Individual impairment provision	Total	Movements in impairment			
						Individual impairment provision held as at 1 January 2014	Net impairment charge/ (recovery)	Amounts written off/ Other movements	Individual impairment provision held as at 31 December 2014
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Industry									
Energy	23,983	266	416	(133)	24,532	98	38	(3)	133
Manufacturing	12,057	240	685	(73)	12,909	47	38	(12)	73
Financing, insurance and non-banking	16,303	23	957	(128)	17,155	256	11	(139)	128
Transport, telecom and utilities	12,102	224	402	(172)	12,556	233	7	(68)	172
Food and household products	8,730	196	352	(264)	9,014	214	95	(45)	264
Commercial real estate	6,388	24	2	(2)	6,412	2	-	-	2
Mining and Quarrying	7,032	105	1,034	(421)	7,750	127	323	(29)	421
Consumer durables	5,554	87	278	(156)	5,763	150	19	(13)	156
Construction	3,587	261	433	(69)	4,212	52	27	(10)	69
Trading Companies & Distributors	1,698	36	418	(274)	1,878	255	33	(14)	274
Government	1,256	-	-	-	1,256	-	-	-	-
Other	3,184	335	206	(68)	3,657	41	31	(4)	68
Retail Products:									
Mortgage	5,429	229	94	(60)	5,692	67	(2)	(5)	60
CCPL and other unsecured lending	3,521	248	25	(18)	3,776	24	132	(138)	18
Auto	341	13	-	-	354	-	1	(1)	-
Secured Wealth products	11,032	50	7	(8)	11,081	8	-	-	8
Other	2,444	134	15	(15)	2,578	8	5	2	15
Loans and advances to customers	124,641	2,471	5,324	(1,861)	130,575				
Individual impairment provision						1,582	758	(479)	1,861
Portfolio impairment provision					(359)	270	96	(7)	359
Total					130,216	1,852	854	(486)	2,220
Loans and advances to banks	52,254	30	38	(22)	52,300				
Individual impairment provision						22	1	(1)	22
Portfolio impairment provision					(1)	1	-	-	1
Total					52,299	23	1	(1)	23

Standard Chartered Bank

Risk and Capital review continued

Credit quality analysis continued

By Industry

Company	2013								
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Individual impairment provision	Total	Movements in impairment			Individual impairment provision held as at 31 December 2013
						Individual impairment provision held as at 1 January 2013	Net impairment charge/(recovery)	Amounts written off/Other movements	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Industry¹									
Energy	26,210	1,154	296	(98)	27,562	102	3	(7)	98
Manufacturing	11,926	504	257	(47)	12,640	51	12	(16)	47
Financing, insurance and non-banking	8,068	71	1,116	(256)	8,999	228	-	28	256
Transport, telecom and utilities	13,355	444	614	(233)	14,180	247	18	(32)	233
Food and household products	11,893	126	454	(214)	12,259	46	185	(17)	214
Commercial real estate	7,219	23	2	(2)	7,242	8	(2)	(4)	2
Mining and Quarrying	9,927	327	300	(127)	10,427	96	98	(67)	127
Consumer durables	5,987	144	519	(150)	6,500	79	92	(21)	150
Construction	3,416	324	234	(52)	3,922	59	7	(14)	52
Trading Companies & Distributors	3,523	44	375	(255)	3,687	241	17	(3)	255
Government	1,480	1	-	-	1,481	-	-	-	-
Other	2,807	203	214	(41)	3,183	30	22	(11)	41
Retail Products									
Mortgage	5,312	297	84	(67)	5,626	73	-	(6)	67
CCPL and other unsecured lending	3,835	280	25	(24)	4,116	11	166	(153)	24
Auto	319	18	-	-	337	-	1	(1)	-
Secured Wealth Products	9,885	10	24	(8)	9,911	4	22	(18)	8
Other	2,626	76	11	(8)	2,705	26	9	(27)	8
Loans and advances to customers	127,788	4,046	4,525	(1,582)	134,777				
Individual impairment provision						1,301	650	(369)	1,582
Portfolio impairment provision					(270)	306	-	(36)	270
Total					134,507	1,607	650	(405)	1,852
Loans and advances to banks	52,393	13	35	(22)	52,419				
Individual impairment provision						24	-	(2)	22
Portfolio impairment provision					(1)	1	-	-	1
Total					52,418	25	-	(2)	23

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

Standard Chartered Bank

Risk and Capital review continued

Credit quality by geographic region

Loans and advances to customers

The tables below set out an analysis of the loan to customers 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:

2014									
Group	Balance sheet ¹						Profit and loss		
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Individual impairment provision	Portfolio impairment provision	Total	Net individual impairment provision	Portfolio impairment provision/(release)	Net loan impairment charge ²
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Greater China	86,315	754	847	(366)	(98)	87,452	496	(25)	471
North East Asia	28,989	562	428	(288)	(75)	29,616	423	(34)	389
South Asia	13,129	754	1,135	(450)	(56)	14,512	149	5	154
ASEAN	74,059	1,859	1,137	(450)	(201)	76,404	477	54	531
MENAP	16,683	544	2,204	(1,046)	(78)	18,307	96	(7)	89
Africa	7,785	260	478	(115)	(47)	8,361	74	(15)	59
Americas	10,924	3	37	-	(9)	10,955	(2)	3	1
Europe	41,317	590	1,631	(561)	(132)	42,845	379	57	436
	279,201	5,326	7,897	(3,276)	(696)	288,452	2,092	38	2,130

2013									
Group	Balance sheet ¹						Profit and loss		
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Individual impairment provision	Portfolio impairment provision	Total	Net individual impairment provision	Portfolio impairment provision/(release)	Net loan impairment charge ²
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Greater China	86,512	822	634	(195)	(146)	87,627	236	4	240
North East Asia	29,724	784	536	(322)	(107)	30,615	430	(2)	428
South Asia	12,670	854	1,023	(387)	(53)	14,107	198	5	203
ASEAN	79,502	2,232	883	(362)	(152)	82,103	376	19	395
MENAP	16,472	685	2,386	(1,119)	(85)	18,339	87	(39)	48
Africa	7,620	219	277	(90)	(68)	7,958	67	8	75
Americas	10,554	127	5	(5)	(6)	10,675	4	1	5
Europe	42,239	1,555	1,021	(269)	(79)	44,467	200	19	219
	285,293	7,278	6,765	(2,749)	(696)	295,891	1,598	15	1,613

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

² Excludes impairment charges relating to debt securities classified as loans and receivables (refer to note 10 on page 190)

Standard Chartered Bank

Risk and Capital review continued

Loans and advances to customers

2014									
Company	Balance sheet ¹						Profit and loss		
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Individual impairment provision	Portfolio impairment provision	Total	Net individual impairment provision	Portfolio impairment provision/ (release)	Net loan impairment charge ²
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Greater China	802	-	17	(13)	(1)	805	-	(1)	(1)
North East Asia	1,017	-	-	(1)	(2)	1,014	-	2	2
South Asia	12,667	734	1,127	(448)	(54)	14,026	149	5	154
ASEAN	42,050	673	587	(201)	(91)	43,018	153	31	184
MENAP	15,450	472	1,943	(673)	(68)	17,124	76	(1)	75
Africa	976	1	52	(18)	(2)	1,009	6	-	6
Americas	10,924	3	37	-	(9)	10,955	(2)	3	1
Europe	40,755	588	1,561	(507)	(132)	42,265	376	57	433
	124,641	2,471	5,324	(1,861)	(359)	130,216	758	96	854

2013									
Company	Balance sheet ¹						Profit and loss		
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Individual impairment provision	Portfolio impairment provision	Total	Net individual impairment provision	Portfolio impairment provision/ (release)	Net loan impairment charge ²
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Greater China	819	1	11	(14)	(1)	816	3	(1)	2
North East Asia	857	1	1	(1)	-	858	-	-	-
South Asia	12,290	839	1,021	(382)	(53)	13,715	198	4	202
ASEAN	45,987	915	361	(193)	(61)	47,009	172	17	189
MENAP	15,083	607	2,103	(747)	(69)	16,977	63	(41)	22
Africa	935	1	66	(14)	(2)	986	12	(1)	11
Americas	10,548	127	5	(6)	(5)	10,669	4	1	5
Europe	41,269	1,555	957	(225)	(79)	43,477	198	21	219
	127,788	4,046	4,525	(1,582)	(270)	134,507	650	-	650

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

² Excludes impairment charges relating to debt securities classified as loans and receivables

Standard Chartered Bank

Risk and Capital review continued

Loans and advances to banks

The tables below set out an analysis of the loan to banks between those loans that are neither past due nor

impaired, those that are past due but not impaired, those that are impaired, the impairment provision and net impairment charge by geographic region:

2014									
Group	Balance sheet ¹						Profit and loss		
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Individual impairment provision	Portfolio impairment provision	Total	Net individual impairment provision	Portfolio impairment provision/ (release)	Net loan impairment charge
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Greater China	28,757	1	-	-	-	28,758	3	-	3
North East Asia	5,997	-	-	-	-	5,997	-	-	-
South Asia	485	3	-	-	-	488	-	-	-
ASEAN	12,297	5	165	(78)	(1)	12,388	-	-	-
MENAP	1,604	-	-	-	(1)	1,603	-	-	-
Africa	930	10	-	-	-	940	-	-	-
Americas	12,641	20	-	-	-	12,661	-	-	-
Europe	24,640	4	37	(21)	-	24,660	1	-	1
	87,351	43	202	(99)	(2)	87,495	4	-	4

2013									
Group	Balance sheet ¹						Profit and loss		
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Individual impairment provision	Portfolio impairment provision	Total	Net individual impairment provision	Portfolio impairment provision/ (release)	Net loan impairment charge
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Greater China	27,895	4	6	-	-	27,905	-	-	-
North East Asia	6,561	-	-	-	-	6,561	-	-	-
South Asia	575	-	-	-	-	575	-	-	-
ASEAN	6,677	13	165	(78)	(1)	6,776	-	-	-
MENAP	2,098	-	-	-	(1)	2,097	-	-	-
Africa	742	-	-	-	-	742	-	-	-
Americas	13,067	-	-	-	-	13,067	-	-	-
Europe	28,431	-	36	(22)	-	28,445	(1)	-	(1)
	86,046	17	207	(100)	(2)	86,168	(1)	-	(1)

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

Standard Chartered Bank

Risk and Capital review continued

Loans and advances to banks

2014									
Company	Balance sheet ¹						Profit and loss		
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Individual impairment provision	Portfolio impairment provision	Total	Net individual impairment provision	Portfolio impairment provision/ (release)	Net loan impairment charge
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Greater China	223	(1)	-	-	-	222	-	-	-
North East Asia	1,159	-	-	-	-	1,159	-	-	-
South Asia	452	3	-	-	-	455	-	-	-
ASEAN	11,545	4	-	-	-	11,549	-	-	-
MENAP	1,539	-	-	-	(1)	1,538	-	-	-
Africa	112	-	-	-	-	112	-	-	-
Americas	12,603	20	-	-	-	12,623	-	-	-
Europe	24,621	4	38	(22)	-	24,641	1	-	1
	52,254	30	38	(22)	(1)	52,299	1	-	1

2013									
Company	Balance sheet ¹						Profit and loss		
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Individual impairment provision	Portfolio impairment provision	Total	Net individual impairment provision	Portfolio impairment provision/ (release)	Net loan impairment charge
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Greater China	68	-	-	-	-	68	-	-	-
North East Asia	2,369	-	-	-	-	2,369	-	-	-
South Asia	557	-	-	-	-	557	-	-	-
ASEAN	5,865	13	-	-	-	5,878	-	-	-
MENAP	2,062	-	-	-	(1)	2,061	-	-	-
Africa	241	-	-	-	-	241	-	-	-
Americas	12,897	-	-	-	-	12,897	-	-	-
Europe	28,334	-	35	(22)	-	28,347	-	-	-
	52,393	13	35	(22)	(1)	52,418	-	-	-

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

Standard Chartered Bank

Risk and Capital review continued

Problem credit management and provisioning

Non-performing loans by client segment

The table below presents a movement of the gross non-performing loans to banks and customers, together with the provisions held, for all segments and the respective cover ratios.

Group	2014				
	Corporate and Institutional Clients	Commercial Clients	Private Banking Clients	Retail Clients	Total
	\$million	\$million	\$million	\$million	\$million
Gross non-performing loans at 1 January	4,541	959	94	885	6,479
Exchange translation differences	(73)	(35)	(9)	(33)	(150)
Classified as non-performing during the year	1,981	469	28	606	3,084
Recoveries on loans and advances previously written off	32	-	-	2	34
Additions	2,013	469	28	608	3,118
Transferred to assets held for sale	(6)	(2)	-	(15)	(23)
Transferred to performing during the year	(232)	(30)	(17)	(142)	(421)
Net repayments	(230)	(155)	-	(124)	(509)
Amounts written off	(369)	(53)	-	(349)	(771)
Disposals of loans	(134)	(58)	(6)	(33)	(231)
Reductions	(971)	(298)	(23)	(663)	(1,955)
Gross non-performing loans at 31 December	5,510	1,095	90	797	7,492
Individual impairment provisions ¹	(2,230)	(523)	(58)	(400)	(3,211)
Net non-performing loans	3,280	572	32	397	4,281
Portfolio impairment provision (PIP)	(330)	(39)	(2)	(327)	(698)
Total	2,950	533	30	70	3,583
Cover ratio	46%	51%	67%	91%	52%
Collateral (\$ million)	809	253	40	360	1,462
Cover ratio (after collateral excl.PIP)	55%	71%	nm ²	95%	62%

Group	2013				
	Corporate and Institutional Clients	Commercial Clients	Private Banking Clients	Retail Clients	Total
	\$million	\$million	\$million	\$million	\$million
Gross non-performing loans at 1 January	3,788	720	95	935	5,538
Exchange translation differences	(105)	(45)	3	(23)	(170)
Classified as non-performing during the year	1,638	381	2	915	2,936
Recoveries on loans and advances previously written off	-	5	-	24	29
Additions	1,638	386	2	939	2,965
Transferred to assets held for sale	-	-	-	(111)	(111)
Transferred to performing during the year	(87)	(3)	-	(126)	(216)
Net repayments	(585)	(53)	-	(84)	(722)
Amounts written off	(28)	(36)	-	(558)	(622)
Disposals of loans	(80)	(10)	(6)	(87)	(183)
Reductions	(780)	(102)	(6)	(966)	(1,854)
Gross non-performing loans at 31 December	4,541	959	94	885	6,479
Individual impairment provisions ¹	(1,924)	(414)	(52)	(393)	(2,783)
Net non-performing loans	2,617	545	42	492	3,696
Portfolio impairment provision (PIP)	(289)	(39)	(1)	(369)	(698)
Total	2,328	506	41	123	2,998
Cover ratio	49%	47%	56%	86%	54%
Collateral (\$ million)	614	156	65	396	1,231
Cover ratio (after collateral excl.PIP)	56%	59%	nm ²	89%	62%

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

² Not meaningful

Standard Chartered Bank

Risk and Capital review continued

Non-performing loans by client segment continued

Company	2014				
	Corporate and Institutional Clients	Commercial Clients	Private Banking Clients	Retail Clients	Total
	\$million	\$million	\$million	\$million	\$million
Gross non-performing loans at 1 January	3,413	500	28	167	4,108
Exchange translation differences	(64)	(5)	(1)	(2)	(72)
Classified as non-performing during the year	1,384	103	27	46	1,560
Recoveries on loans and advances previously written off	9	-	-	2	11
Additions	1,393	103	27	48	1,571
Transferred to assets held for sale	-	-	-	-	-
Transferred to performing during the year	(225)	(3)	(17)	(11)	(256)
Net repayments	(58)	(35)	-	(9)	(102)
Amounts written off	(296)	(14)	-	(16)	(326)
Disposals of loans	(74)	-	(6)	(5)	(85)
Reductions	(653)	(52)	(23)	(41)	(769)
Gross non-performing loans at 31 December	4,089	546	31	172	4,838
Individual impairment provisions ¹	(1,500)	(239)	(11)	(92)	(1,842)
Net non-performing loans	2,589	307	20	80	2,996
Portfolio impairment provision (PIP)	(266)	(12)	(1)	(81)	(360)
Total	2,323	295	19	(1)	2,636
Cover ratio	43%	46%	39%	101%	46%
Collateral (\$ million)	416	58	40	121	635
Cover ratio (after collateral excl.PIP)	47%	54%	nm ²	nm ²	51%

Company	2013				
	Corporate and Institutional Clients	Commercial Clients	Private Banking Clients	Retail Clients	Total
	\$million	\$million	\$million	\$million	\$million
Gross non-performing loans at 1 January	2,843	311	32	216	3,402
Exchange translation differences	(89)	(23)	-	(9)	(121)
Classified as non-performing during the year	1,158	237	2	61	1,458
Recoveries on loans and advances previously written off	(1)	-	-	5	4
Additions	1,157	237	2	66	1,462
Transferred to assets held for sale	-	-	-	-	-
Transferred to performing during the year	(30)	(1)	-	(5)	(36)
Net repayments	(402)	(15)	-	(17)	(434)
Amounts written off	(16)	(9)	-	(34)	(59)
Disposals of loans	(50)	-	(6)	(50)	(106)
Reductions	(498)	(25)	(6)	(106)	(635)
Gross non-performing loans at 31 December	3,413	500	28	167	4,108
Individual impairment provisions ¹	(1,280)	(202)	(12)	(96)	(1,590)
Net non-performing loans	2,133	298	16	71	2,518
Portfolio impairment provision (PIP)	(177)	(10)	(1)	(83)	(271)
Total	1,956	288	15	(12)	2,247
Cover ratio	43%	42%	46%	107%	45%
Collateral (\$ million)	360	56	-	114	530
Cover ratio (after collateral excl.PIP)	48%	52%	43%	nm ²	52%

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

² Not meaningful

Standard Chartered Bank

Risk and Capital review continued

Non-performing loans by geographic region

Gross non-performing, increased by \$1,013 million, or 16 per cent, since 2013. These increases were primarily driven by a small number of large exposures in Europe, ASEAN and Greater China.

The following tables set out the total non-performing loans to banks and customers on the basis of the geographic regions:

Group	2014								
	Greater China	North East Asia	South Asia	ASEAN	MENAP	Africa	Americas	Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Loans and advances									
Gross non-performing ¹	668	448	1,159	1,396	1,643	478	37	1,663	7,492
Individual impairment provision ²	(321)	(288)	(450)	(519)	(936)	(115)	-	(582)	(3,211)
Non-performing loans net of individual impairment provision	347	160	709	877	707	363	37	1,081	4,281
Portfolio impairment provision	(98)	(75)	(56)	(202)	(79)	(47)	(9)	(132)	(698)
Net non-performing loans and advances	249	85	653	675	628	316	28	949	3,583
Cover ratio	63%	81%	44%	52%	62%	34%	24%	43%	52%

Group	2013								
	Greater China	North East Asia	South Asia	ASEAN	MENAP	Africa	Americas	Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Loans and advances									
Gross non-performing ¹	460	574	1,040	1,117	1,935	291	5	1,057	6,479
Individual impairment provision ²	(149)	(322)	(386)	(435)	(1,105)	(90)	(5)	(291)	(2,783)
Non-performing loans net of individual impairment provision	311	252	654	682	830	201	-	766	3,696
Portfolio impairment provision	(146)	(107)	(53)	(153)	(86)	(68)	(6)	(79)	(698)
Net non-performing loans and advances	165	145	601	529	744	133	(6)	687	2,998
Cover ratio	64%	75%	42%	53%	62%	54%	nm ³	35%	54%

¹ The disclosures in the Risk profile are presented on the basis of booking location and not customer location. Prior periods are re-presented on this basis.

² The difference to total individual impairment provision reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days

³ Not meaningful

Standard Chartered Bank

Risk and Capital review continued

Non-performing loans by geographic region continued

Company	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Loans and advances									
Gross non-performing ¹	17	-	1,153	603	1,378	52	37	1,598	4,838
Individual impairment provision ²	(13)	(1)	(448)	(201)	(632)	(18)	-	(529)	(1,842)
Non-performing loans net of individual impairment provision	4	(1)	705	402	746	34	37	1,069	2,996
Portfolio impairment provision	(1)	(2)	(54)	(91)	(69)	(2)	(9)	(132)	(360)
Net non-performing loans and advances	3	(3)	651	311	677	32	28	937	2,636
Cover ratio	82%	N/A	44%	48%	51%	38%	24%	41%	46%

Company	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Loans and advances									
Gross non-performing ¹	11	1	1,037	296	1,701	66	5	991	4,108
Individual impairment provision ²	(14)	(1)	(381)	(193)	(733)	(14)	(6)	(248)	(1,590)
Non-performing loans net of individual impairment provision	(3)	-	656	103	968	52	(1)	743	2,518
Portfolio impairment provision	(1)	-	(53)	(61)	(70)	(2)	(5)	(79)	(271)
Net non-performing loans and advances	(4)	-	603	42	898	50	(6)	664	2,247
Cover ratio	nm ³	100%	42%	86%	47%	24%	nm ³	33%	45%

¹ The disclosures in the Risk profile section are presented on the basis of booking location and not customer location. Prior periods are re-presented on this basis.

² The difference to total individual impairment provision reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days

³ not meaningful

Standard Chartered Bank

Risk and Capital review continued

Individual and portfolio impairment provisions

The movement in individual impairment provision is discussed on page 73. Portfolio impairment provisions charge increased by \$23 million, largely in relation to C&I Clients based in Europe.

The following tables set out the movements in total individual and portfolio impairment provisions.

Group	2014			2013		
	Individual impairment provisions	Portfolio impairment provisions	Total	Individual impairment provisions	Portfolio impairment provisions	Total
	\$million	\$million	\$million	\$million	\$million	\$million
Provisions held at 1 January	2,849	698	3,547	2,433	724	3,157
Exchange translation differences	(61)	(21)	(82)	(81)	(16)	(97)
Amounts written off	(1,517)	-	(1,517)	(1,173)	-	(1,173)
Releases of acquisition fair values	(5)	-	(5)	(3)	-	(3)
Recoveries of amounts previously written off	217	-	217	211	-	211
Discount unwind	(100)	-	(100)	(93)	-	(93)
Transferred to assets held for sale	(104)	(17)	(121)	(42)	(25)	(67)
New provisions	2,483	202	2,685	2,007	170	2,177
Recoveries/provisions no longer required	(387)	(164)	(551)	(410)	(155)	(565)
Net impairment charge against profit	2,096	38	2,134	1,597	15	1,612
Provisions held at 31 December	3,375	698	4,073	2,849	698	3,547

Company	2014			2013		
	Individual impairment provisions	Portfolio impairment provisions	Total	Individual impairment provisions	Portfolio impairment provisions	Total
	\$million	\$million	\$million	\$million	\$million	\$million
Provisions held at 1 January	1,604	271	1,875	1,325	307	1,632
Exchange translation differences	(37)	(7)	(44)	(80)	(36)	(116)
Amounts written off	(434)	-	(434)	(302)	-	(302)
Releases of acquisition fair values	-	-	-	-	-	-
Recoveries of amounts previously written off	47	-	47	66	-	66
Discount unwind	(56)	-	(56)	(55)	-	(55)
Transferred to assets held for sale	-	-	-	-	-	-
New provisions	853	127	980	763	62	825
Recoveries/provisions no longer required	(94)	(31)	(125)	(113)	(62)	(175)
Net impairment charge against profit	759	96	855	650	-	650
Provisions held at 31 December	1,883	360	2,243	1,604	271	1,875

Standard Chartered Bank

Risk and Capital review continued

By geographic region

The table below sets out the movement in total impairment provisions by geographic region:

Group	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Provisions held at 1 January	341	429	440	593	1,205	158	11	370	3,547
Exchange translation differences	(6)	(13)	(10)	(11)	4	(15)	-	(31)	(82)
Amounts written off	(362)	(370)	(64)	(448)	(165)	(45)	(5)	(58)	(1,517)
Releases of acquisition fair values	(4)	-	-	-	(1)	-	-	-	(5)
Recoveries of amounts previously written off	59	26	17	80	26	7	2	-	217
Discount unwind	(15)	(9)	(31)	(15)	(24)	(2)	-	(4)	(100)
Transferred to assets held for sale	(23)	(89)	-	-	(9)	-	-	-	(121)
New provisions	593	512	198	691	155	90	3	443	2,685
Individual impairment provision	572	509	182	599	149	88	-	384	2,483
Portfolio impairment provision	21	3	16	92	6	2	3	59	202
Recoveries/provisions no longer required	(119)	(123)	(44)	(160)	(66)	(31)	(2)	(6)	(551)
Net impairment charge against profit	474	389	154	531	89	59	1	437	2,134
Provisions held at 31 December	464	363	506	730	1,125	162	9	714	4,073

Group	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Provisions held at 1 January	333	380	347	552	1,272	111	8	154	3,157
Exchange translation differences	(3)	7	(39)	(43)	(13)	(6)	-	-	(97)
Amounts written off	(276)	(339)	(59)	(366)	(97)	(27)	(2)	(7)	(1,173)
Releases of acquisition fair values	(1)	-	-	-	(2)	-	-	-	(3)
Recoveries of amounts previously written off	61	30	10	71	23	8	-	8	211
Discount unwind	(13)	(10)	(22)	(16)	(26)	(3)	-	(3)	(93)
Transferred to assets held for sale	-	(67)	-	-	-	-	-	-	(67)
New provisions	385	538	238	541	155	89	5	226	2,177
Individual impairment provision	330	521	227	491	148	81	4	205	2,007
Portfolio impairment provision	55	17	11	50	7	8	1	21	170
Recoveries/provisions no longer required	(145)	(110)	(35)	(146)	(107)	(14)	-	(8)	(565)
Net impairment charge against profit	240	428	203	395	48	75	5	218	1,612
Provisions held at 31 December	341	429	440	593	1,205	158	11	370	3,547

Standard Chartered Bank

Risk and Capital review continued

By geographic region

The table below sets out the movement in total impairment provisions by geographic region:

Company	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Provisions held at 1 January	15	1	435	254	817	16	11	326	1,875
Exchange translation differences	-	-	(10)	(5)	(3)	(2)	-	(30)	(44)
Amounts written off	-	-	(64)	(150)	(150)	-	(5)	(65)	(434)
Recoveries of amounts previously written off	-	-	17	5	23	-	2	-	47
Discount unwind	-	-	(30)	(4)	(18)	-	-	(4)	(56)
New provisions	2	2	198	208	121	6	3	440	980
Individual impairment provision	-	-	182	165	117	6	-	383	853
Portfolio impairment provision	2	2	16	43	4	-	3	57	127
Recoveries/provisions no longer required	(3)	-	(44)	(24)	(46)	-	(2)	(6)	(125)
Net impairment charge against profit	(1)	2	154	184	75	6	1	434	855
Provisions held at 31 December	14	3	502	292	742	20	9	661	2,243

Company	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Provisions held at 1 January	13	1	343	270	878	8	8	111	1,632
Exchange translation differences	-	-	(39)	(76)	2	(3)	-	-	(116)
Amounts written off	-	-	(59)	(148)	(84)	-	(2)	(9)	(302)
Recoveries of amounts previously written off	-	-	10	28	20	-	-	8	66
Discount unwind	-	-	(22)	(9)	(21)	-	-	(3)	(55)
New provisions	3	-	237	233	109	11	5	227	825
Individual impairment provision	3	-	226	206	106	12	4	206	763
Portfolio impairment provision	-	-	11	27	3	(1)	1	21	62
Recoveries/provisions no longer required	(1)	-	(35)	(44)	(87)	-	-	(8)	(175)
Net impairment charge against profit	2	-	202	189	22	11	5	219	650
Provisions held at 31 December	15	1	435	254	817	16	11	326	1,875

Standard Chartered Bank

Risk and Capital review continued

Individually impaired loans by client segment

Individually impaired loans were lower in Retail Clients, compared to 2013 at \$0.8 billion. Corporate and Institutional Clients gross individually impaired loans increased by \$1.1 billion, or 21 per cent since 2013. Individual impairment provisions increases were primarily in Europe, Greater China and ASEAN, as a result of a small number of Corporate and Institutional Clients exposures.

The amounts written off primarily relate to Retail Clients, which generate a higher level of write-offs as unsecured lending balances are written off once they are more than 150 days past due.

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

Group	2014				
	Corporate and Institutional Clients	Commercial Clients	Private Banking Clients	Retail Clients	Total
	\$million	\$million	\$million	\$million	\$million
Gross impaired loans at 1 January	5,018	963	93	898	6,972
Exchange translation differences	(63)	(41)	(8)	(40)	(152)
Transfer to assets held for sale	(6)	(2)	-	(15)	(23)
Classified as individually impaired during the year	2,215	469	28	656	3,368
Transferred to not impaired during the year	(234)	(30)	(17)	(133)	(414)
Other movements ¹	(836)	(291)	(5)	(520)	(1,652)
Gross impaired loans at 31 December	6,094	1,068	91	846	8,099
Provisions held at 1 January	1,927	422	52	448	2,849
Exchange translation differences	(44)	(5)	-	(12)	(61)
Amounts written off	(417)	(97)	7	(1,010)	(1,517)
Releases of acquisition fair values	(4)	(1)	-	-	(5)
Recoveries of amounts previously written off	-	2	-	215	217
Discount unwind	(58)	(16)	-	(26)	(100)
Transferred to assets held for sale	(1)	-	-	(103)	(104)
New provisions	955	251	-	1,277	2,483
Recoveries/provisions no longer required	(23)	(33)	-	(331)	(387)
Net individual impairment charge against profit	932	218	-	946	2,096
Individual impairment provisions held at 31 December	2,335	523	59	458	3,375
Net individually impaired loans	3,759	545	32	388	4,724

¹ Other movement includes repayments, amounts written off and disposals of loans.

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Risk and Capital review continued

Individually impaired loans by client segment continued

Group	2013				
	Corporate and Institutional Clients	Commercial Clients	Private Banking Clients	Retail Clients	Total
	\$million	\$million	\$million	\$million	\$million
Gross impaired loans at 1 January	4,230	716	94	901	5,941
Exchange translation differences	(109)	(39)	2	(26)	(172)
Transfer to assets held for sale	-	-	-	(111)	(111)
Classified as individually impaired during the year	1,690	381	2	998	3,071
Transferred to not impaired during the year	(97)	(2)	-	(106)	(205)
Other movements ¹	(696)	(93)	(5)	(758)	(1,552)
Gross impaired loans at 31 December	5,018	963	93	898	6,972
Provisions held at 1 January	1,639	345	44	405	2,433
Exchange translation differences	(60)	(16)	-	(5)	(81)
Amounts written off	(82)	(52)	-	(1,039)	(1,173)
Releases of acquisition fair values	-	(2)	-	(1)	(3)
Recoveries of amounts previously written off	13	-	-	198	211
Discount unwind	(57)	(14)	-	(22)	(93)
Transferred to assets held for sale	-	-	-	(42)	(42)
New provisions	517	189	8	1,293	2,007
Recoveries/provisions no longer required	(43)	(28)	-	(339)	(410)
Net individual impairment charge against profit	474	161	8	954	1,597
Individual impairment provisions held at 31 December	1,927	422	52	448	2,849
Net individually impaired loans	3,091	541	41	450	4,123

¹ Other movement includes repayments, amounts written off and disposals of loans.

Company	2014				
	Corporate and Institutional Clients	Commercial Clients	Private Banking Clients	Retail Clients	Total
	\$million	\$million	\$million	\$million	\$million
Gross impaired loans at 1 January	3,913	503	27	117	4,560
Exchange translation differences	(63)	(5)	(1)	(2)	(71)
Transfer to assets held for sale	-	-	-	-	-
Classified as individually impaired during the year	1,612	102	28	44	1,786
Transferred to not impaired during the year	(230)	(3)	(17)	(10)	(260)
Other movements ¹	(554)	(54)	(5)	(40)	(653)
Gross impaired loans at 31 December	4,678	543	32	109	5,362
Provisions held at 1 January	1,292	205	12	95	1,604
Exchange translation differences	(31)	(3)	-	(3)	(37)
Amounts written off	(227)	(23)	-	(184)	(434)
Releases of acquisition fair values	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	47	47
Discount unwind	(45)	(9)	-	(2)	(56)
Transferred to assets held for sale	-	-	-	-	-
New provisions	569	77	-	207	853
Recoveries/provisions no longer required	(17)	(6)	-	(71)	(94)
Net individual impairment charge against profit	552	71	-	136	759
Individual impairment provisions held at 31 December	1,541	241	12	89	1,883
Net individually impaired loans	3,137	302	20	20	3,479

¹ Other movement includes repayments, amounts written off and disposals of loans.

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Risk and Capital review continued

Individually impaired loans by client segment continued

Company	2013				
	Corporate and Institutional Clients	Commercial Clients	Private Banking Clients	Retail Clients	Total
	\$million	\$million	\$million	\$million	\$million
Gross impaired loans at 1 January	3,264	310	31	150	3,755
Exchange translation differences	(90)	(22)	-	(9)	(121)
Transfer to assets held for sale	-	-	-	-	-
Classified as individually impaired during the year	1,214	238	2	61	1,515
Transferred to not impaired during the year	(3)	1	-	(7)	(9)
Other movements ¹	(472)	(24)	(6)	(78)	(580)
Gross impaired loans at 31 December	3,913	503	27	117	4,560
Provisions held at 1 January	1,045	166	4	110	1,325
Exchange translation differences	(48)	(16)	-	(16)	(80)
Amounts written off	(38)	(17)	-	(247)	(302)
Releases of acquisition fair values	-	-	-	-	-
Recoveries of amounts previously written off	8	(3)	-	61	66
Discount unwind	(44)	(8)	-	(3)	(55)
Transferred to assets held for sale	-	-	-	-	-
New provisions	384	90	8	281	763
Recoveries/provisions no longer required	(15)	(7)	-	(91)	(113)
Net individual impairment charge against profit	369	83	8	190	650
Individual impairment provisions held at 31 December	1,292	205	12	95	1,604
Net individually impaired loans	2,621	298	15	22	2,956

¹ Other movement includes repayments, amounts written off and disposals of loans.

Standard Chartered Bank

Risk and Capital review continued

Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

Group	2014			2013		
	Debt securities \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Treasury bills \$million	Total \$million
Net impaired securities:						
Impaired securities	677	-	677	389	-	389
Impairment	(314)	-	(314)	(204)	-	(204)
	363	-	363	185	-	185
Securities neither past due nor impaired:						
AAA	31,549	5,569	37,118	23,771	4,456	28,227
AA- to AA+	23,131	13,621	36,752	23,267	19,228	42,495
A- to A+	19,489	640	20,129	21,392	1,087	22,479
BBB- to BBB+	10,140	3,393	13,533	5,913	4,238	10,151
Lower than BBB-	3,423	2,097	5,520	3,291	898	4,189
Unrated	7,452	581	8,033	8,101	1,500	9,601
	95,184	25,901	121,085	85,735	31,407	117,142
	95,547	25,901	121,448	85,920	31,407	117,327
Of which:						
Assets at fair value						
Trading	17,735	1,720	19,455	12,407	5,161	17,568
Designated at fair value	-	92	92	292	-	292
Available-for-sale	74,937	24,073	99,010	70,545	26,246	96,791
	92,672	25,885	118,557	83,244	31,407	114,651
Assets at amortised cost						
Loans and receivables	2,753	-	2,753	2,676	-	2,676
Held-to-maturity	122	16	138	-	-	-
	2,875	16	2,891	2,676	-	2,676
	95,547	25,901	121,448	85,920	31,407	117,327

The above tables analyse 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 their equivalent. Debt securities held that have a short-term rating are reported against the long-term rating of the issuer. For securities that are unrated, the Group applies an internal credit rating as described under credit rating and measurements on page 139.

Net impaired debt securities increased during the year primarily due to the impairment of a strategic investment in the Europe and a corporate bond exposure in South Asia.

Debt securities in the AAA rating category increased by \$7.8 billion to \$31.5 billion in December 2014 mainly due to an increase in higher quality corporate bonds in Hong Kong and Singapore.

This was offset by low level of AAA trading business as funds were deployed into higher quality assets in Singapore and as part of the restructuring of the balance sheet in Korea.

Debt securities in the BBB- to BBB+ rating category increased by \$4.2 billion in December 2014. The increase is mainly in India due to investment in government securities which are currently rated as BBB

Unrated securities primarily relate to corporate issuers. Using internal credit ratings \$7,908 million (2013: \$9,275 million) of these securities are considered to be equivalent to investment grade

Standard Chartered Bank

Risk and Capital review continued

Debt securities and treasury bills continued

Debt securities and treasury bills are analysed as follows:

Company	2014			2013		
	Debt securities \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Treasury bills \$million	Total \$million
Net impaired securities:						
Impaired securities	167	-	167	123	-	123
Impairment	(165)	-	(165)	(121)	-	(121)
	2	-	2	2	-	2
Securities neither past due nor impaired:						
AAA	26,059	3,915	29,974	20,350	2,907	23,257
AA- to AA+	5,388	761	6,149	7,472	1,538	9,010
A- to A+	5,024	-	5,024	3,200	-	3,200
BBB- to BBB+	6,482	2,654	9,136	4,850	2,977	7,827
Lower than BBB-	2,625	475	3,100	2,042	408	2,450
Unrated	5,624	409	6,033	5,670	483	6,153
	51,202	8,214	59,416	43,584	8,313	51,897
	51,204	8,214	59,418	43,586	8,313	51,899
Of which:						
Assets at fair value						
Trading	10,439	769	11,208	6,543	2,276	8,819
Available-for-sale	39,722	7,429	47,151	35,242	6,037	41,279
	50,161	8,198	58,359	41,785	8,313	50,098
Assets at amortised cost						
Loans and receivables	921	-	921	1,801	-	1,801
Held-to-maturity	122	16	138	-	-	-
	1,043	16	1,059	1,801	-	1,801
	51,204	8,214	59,418	43,586	8,313	51,899

Standard Chartered Bank

Risk and Capital review continued

Asset backed securities - Group

Total exposures to asset backed securities

	2014				2013			
	Percentage of notional value of portfolio	Notional \$million	Carrying value \$million	Fair value ¹ \$million	Percentage of notional value of portfolio	Notional \$million	Carrying value \$million	Fair value ¹ \$million
Residential Mortgage Backed Securities (RMBS)	39%	4,002	4,007	4,004	46%	3,059	3,052	3,045
Collateralised Debt Obligations (CDOs)	1%	82	54	54	3%	223	181	190
Commercial Mortgage Backed Securities (CMBS)	4%	390	325	318	5%	321	242	235
Other Asset Backed Securities (Other ABS)	56%	5,796	5,795	5,795	46%	3,126	3,081	3,124
	100%	10,270	10,181	10,171	100%	6,729	6,556	6,594
Of which included within:								
Financial assets held at fair value through profit or loss	3%	286	282	282	2%	158	158	158
Investment securities - available-for-sale	84%	8,624	8,548	8,548	79%	5,295	5,202	5,202
Investment securities - loans and receivables	13%	1,360	1,351	1,341	19%	1,276	1,196	1,234
	100%	10,270	10,181	10,171	100%	6,729	6,556	6,594

¹ Fair value reflects the value of the entire portfolio, including assets redesignated to loans and receivables

The carrying value of asset backed securities represents 1 per cent (2013: 1 per cent) of our total assets.

The Group has an existing portfolio of asset backed securities which it reclassified from trading and available-for-sale to loans and receivables with effect from 1 July 2008. No assets have been reclassified since 2008. This portfolio has been gradually managed down since 2010. The carrying value and fair value for this part of the portfolio were \$316 million and \$334 million respectively as at 31 December 2014 (31 December 2013: \$614 million and \$647 million respectively). Note 15 to the financial statements provide details of the remaining balance of those assets reclassified in 2008.

The Group has also extended its investment to a limited amount of trading in asset backed securities and also

acquired an additional \$4 billion of asset backed securities during the first half of 2014 for liquidity reasons.

This is classified as available-for-sale and primarily related to high quality RMBS assets with an average credit grade of AAA. The credit quality of the asset backed securities portfolio remains strong. With the exception of those securities subject to an impairment charge, over 98 per cent of the overall portfolio is rated A- or better, and 90 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.

The decline in the bank's legacy portfolios and significant increase in asset purchases for liquidity reasons in the available-for-sale book makes the fair value of the entire portfolio similar to the carrying value

Financial statement impact of asset backed securities

	Available-for-sale \$million
2014	
Charge to available-for-sale reserves	22
Charge to the profit and loss account	-
2013	
Charge to available-for-sale reserves	26
Credit to the profit and loss account	(1)

Risk and Capital review continued

Selected European country exposures

The following tables summarise the Group's direct exposure (both on and off balance sheet) to certain specific countries within the eurozone that have been identified on the basis of their higher bond yields, higher sovereign debt to GDP ratio and external credit ratings compared with the rest of the eurozone.

Total gross exposure represents the amount outstanding on the balance sheet (including any accrued interest but before provisions) and positive mark-to-market amounts on derivatives before netting. To the extent gross exposure does not represent the maximum exposure to loss this is disclosed separately. Exposures are assigned to a country based on the country of incorporation of the counterparty as at 31 December 2014.

The Group has \$10 million direct sovereign exposure (as defined by the European Banking Authority) to the eurozone countries of Greece, Ireland, Italy, Portugal and Spain (GIIPS) and only \$0.7 billion direct sovereign exposure to other eurozone countries. The Group's non-sovereign exposure to GIIPS is \$1.6 billion (\$1.0 billion after collateral and netting) and \$35 billion (\$20.1 billion after collateral and netting) to the remainder of the eurozone. This exposure primarily consists of balances with corporates. The substantial majority of the Group's total gross GIIPS exposure has a tenor of less than five years, with approximately 58 per cent having a tenor of less than one year. The Group has no direct sovereign exposure and \$120 million (2013: \$260 million) of non-sovereign exposure (after collateral and netting) to Cyprus.

The exit of one or more countries from the eurozone or ultimately its dissolution could potentially lead to significant market dislocation, the extent of which is difficult to predict. Any such exit or dissolution, and the redenomination of formerly euro-denominated rights and obligations in replacement national currencies would cause significant uncertainty in any exiting country, whether sovereign or otherwise. Such events are also likely to be accompanied by the imposition of capital, exchange and similar controls. We monitor the situation closely and we have prepared contingency plans to respond to a range of potential scenarios, including the possibility of currency redenomination. Local assets and liability positions are carefully monitored by in-country asset and liability and risk committees with appropriate oversight by Group Asset & Liability Committee and Group Risk Committee at the Group level.

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Risk and Capital review continued

Group	Greece \$million	Ireland \$million	Italy \$million	Portugal \$million	Spain \$million	Total \$million
As at 31 December 2014						
Direct sovereign exposure	-	-	10	-	-	10
Banks	-	-	452	-	437	889
Other financial institutions	-	192	6	-	-	198
Other corporate	6	302	38	-	145	491
Total gross exposure	6	494	506	-	582	1,588
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	-	(38)	-	(239)	(277)
Other financial institutions	-	(189)	(6)	-	-	(195)
Other corporate	-	(43)	(16)	-	(16)	(75)
Total collateral/netting	-	(232)	(60)	-	(255)	(547)
Direct sovereign exposure	-	-	10	-	-	10
Banks	-	-	414	-	198	612
Other financial institutions	-	3	-	-	-	3
Other corporate	6	259	22	-	129	416
Total net exposure at 31 December 2014	6	262	446	-	327	1,041
Total net exposure at 31 December 2013	14	950	741	-	284	1,989

Company	Greece \$million	Ireland \$million	Italy \$million	Portugal \$million	Spain \$million	Total \$million
As at 31 December 2014						
Direct sovereign exposure	-	-	10	-	-	10
Banks	-	-	269	-	422	691
Other financial institutions	-	192	6	-	-	198
Other corporate	6	107	38	-	96	247
Total gross exposure	6	299	323	-	518	1,146
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	-	(38)	-	(238)	(276)
Other financial institutions	-	(189)	(6)	-	-	(195)
Other corporate	-	(36)	(16)	-	(1)	(53)
Total collateral/netting	-	(225)	(60)	-	(239)	(524)
Direct sovereign exposure	-	-	10	-	-	10
Banks	-	-	231	-	184	415
Other financial institutions	-	3	-	-	-	3
Other corporate	6	71	22	-	95	194
Total net exposure at 31 December 2014	6	74	263	-	279	622
Total net exposure at 31 December 2013	14	2,084	539	-	238	2,875

Standard Chartered Bank

Risk and Capital review continued

Selected European country exposures continued

The Group's exposure to GIIPS at 31 December 2014 is analysed by financial asset as follows:

Group	2014					
	Greece \$million	Ireland \$million	Italy \$million	Portugal \$million	Spain \$million	Total \$million
As at 31 December 2014						
Loans and advances						
Loans and receivables	-	167	52	-	84	303
Held at fair value through profit or loss	-	-	-	-	-	-
Total gross loans and advances	-	167	52	-	84	303
Collateral held against loans and advances	-	(8)	(26)	-	-	(34)
Total net loans and advances	-	159	26	-	84	269
Debt securities						
Trading	-	-	-	-	-	-
Designated at fair value	-	-	-	-	32	32
Available-for-sale	-	100	-	-	-	100
Loans and receivables	-	-	-	-	5	5
Total gross debt securities	-	100	-	-	37	137
Collateral held against debt securities	-	-	-	-	-	-
Total net debt securities	-	100	-	-	37	137
Derivatives						
Gross exposure	-	229	44	-	239	510
Collateral/netting ¹	-	(226)	(34)	-	(239)	(497)
Total derivatives	-	3	10	-	-	13
Contingent liabilities and commitments	6	-	410	-	204	620
Total net exposure (on and off balance sheet)¹	6	262	446	-	325	1,039
Total balance sheet exposure	-	496	96	-	361	953

As at 31 December 2013

Net loans and advances	8	139	223	-	9	379
Net debt securities	-	51	-	-	42	93
Net derivatives	-	8	1	-	-	9
Contingent liabilities and commitments	6	752	517	-	233	1,508
Total net exposure (on and off balance sheet)¹	14	950	741	-	284	1,989

¹ Based on ISDA (International Swaps and Derivatives Association) netting

Standard Chartered Bank

Risk and Capital review continued

Selected European country exposures continued

The Company's exposure to GIIPS at 31 December 2014 is analysed by financial asset as follows:

Company As at 31 December 2014	2014					
	Greece \$million	Ireland \$million	Italy \$million	Portugal \$million	Spain \$million	Total \$million
Loans and advances						
Loans and receivables	-	22	50	-	82	154
Held at fair value through profit or loss	-	-	-	-	-	-
Total gross loans and advances	-	22	50	-	82	154
Collateral held against loans and advances	-	(1)	(26)	-	-	(27)
Total net loans and advances	-	21	24	-	82	127
Debt securities						
Trading	-	-	-	-	-	-
Designated at fair value	-	-	-	-	-	-
Available-for-sale	-	50	-	-	-	50
Loans and receivables	-	-	-	-	5	5
Total gross debt securities	-	50	-	-	5	55
Collateral held against debt securities	-	-	-	-	-	-
Total net debt securities	-	50	-	-	5	55
Derivatives						
Gross exposure	-	229	44	-	239	512
Collateral/netting ¹	-	(226)	(34)	-	(239)	(499)
Total derivatives	-	3	10	-	-	13
Contingent liabilities and commitments	6	-	229	-	192	427
Total net exposure (on and off balance sheet)¹	6	74	263	-	279	622
Total balance sheet exposure	-	301	94	-	326	721

As at 31 December 2013

Net loans and advances	8	1,273	210	-	7	1,498
Net debt securities	-	51	-	-	6	57
Net derivatives	-	9	-	-	-	9
Contingent liabilities and commitments	6	751	329	-	225	1,311
Total net exposure (on and off balance sheet)¹	14	2,084	539	-	238	2,875

¹ Based on ISDA (International Swaps and Derivatives Association) netting

Standard Chartered Bank

Risk and Capital review continued

Other selected eurozone countries

A summary analysis of the Group's and Company's exposure to France, Germany, the Netherlands and

Luxembourg is also provided as these countries are considered to have significant sovereign debt exposure to GIIIPS.

Group	France \$million	Germany \$million	Netherlands \$million	Luxembourg \$million	Total \$million
Direct sovereign exposure	-	245	-	-	245
Banks	2,627	4,111	972	2,025	9,735
Other financial institutions	49	-	85	208	342
Other corporate	896	740	4,795	924	7,355
Total net exposure at 31 December 2014	3,572	5,096	5,852	3,157	17,677
Total net exposure at 31 December 2013	4,516	5,390	7,735	1,916	19,557

Company	France \$million	Germany \$million	Netherlands \$million	Luxembourg \$million	Total \$million
Direct sovereign exposure	-	171	-	-	171
Banks	1,835	3,750	597	2,025	8,207
Other financial institutions	49	-	74	208	331
Other corporate	590	677	3,795	645	5,707
Total net exposure at 31 December 2014	2,474	4,598	4,466	2,878	14,416
Total net exposure at 31 December 2013	2,909	5,003	5,851	1,817	15,580

The Group's lending to these selected eurozone countries primarily takes the form of repurchase agreements, inter-bank loans and bonds. The substantial majority of the Group's total gross exposures to these selected countries have a tenor of less than three years, with over 56 per cent having a tenor of less than one year.

The Group's exposure in Germany is primarily with the central bank. Other than all these specifically identified countries, the Group's residual net exposure to the eurozone is \$2.9 billion, which primarily comprises bonds and export structured financing to banks and corporates.

Risk and Capital review continued

Country cross-border risk- Group

Country cross-border risk is the risk that we will be unable to obtain payment from our customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency. See further details of our approach to managing country cross-border risk on page 143.

The profile of our country cross-border exposures as at 31 December 2014 remained consistent with our strategic focus on core franchise countries, and with the scale of the larger markets in which we operate. Changes in the pace of economic activity had an impact on growth of cross-border exposure for certain territories.

Cross-border exposure to China remains predominantly short-term (74 per cent of such exposure had a tenor of less than 12-months), including very short-dated interbank and treasury exposures. Progressing internationalisation of the renminbi contributed to the growth in cross-border exposure to China, with short-term cross-border exposure increasing throughout 2014 in response to the deployment of renminbi customer deposits. Short-dated trade finance activity and an expansion of our corporate client base also increased cross-border exposure to China.

We took steps to diversify the placement of surplus liquidity away from Chinese banks during 2014, resulting in an increase in short-term cross-border exposure to other countries, particularly Hong Kong, Korea and Malaysia, as noted further below.

Trade finance activity and short dated lending to corporate, commercial and private banking clients drove an increase in short-term cross-border exposure to Singapore.

The overall size of cross border exposure to India reflects our competitive advantage in offering US dollar facilities in the domestic market, and the facilitation of overseas investment and trade flows supported by parent companies in India. During 2014, efforts to prioritise business that offered higher returns contributed to the lower cross-border exposure. Other factors that led to decreased exposure in India were maturing corporate client facilities and a reduction in new business due to a moderation in the business environment.

Increased trade finance activity and interbank placements of foreign currency liquidity resulted in increased cross-

border exposure to Korea during 2014, with growth in medium-term exposure driven by offshore transactions to support Korean clients across the Group's footprint.

Cross-border exposure to the United Arab Emirates declined during 2014, due to decreases in trade financing transactions and short dated exposures arising from financial markets activity.

Growth in short-term cross-border activity in Indonesia was attributable to an expansion of the corporate client base, and growth in international trade finance. Successful syndication and distribution of risk on new longer dated transactions resulted in a decline in medium-term cross-border exposure. The country cross-border exposure to Indonesia arising from Permata, a joint venture in which the Group holds 44.56 per cent, is counted at the value of the Group's equity in the joint venture.

Overall cross-border exposure to Nigeria increased, driven by project financing and foreign currency funding of Nigerian corporate and institutional clients. Exposure with a tenor greater than one year declined as a result of a focus on shorter dated transactions and the successful syndication and distribution of term facilities.

Cross-border exposure to Malaysia increased in 2014 in response to growth in trade finance activity amidst rising intra-region trade flows with ASEAN member countries, and with China and India. Higher short-dated cross-border exposure to Malaysia was also representative of increased interbank money market positions booked offshore.

The decrease in cross-border exposure to Brazil is attributable to a moderation in economic growth, and slowing trade and investment flows with our core markets.

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

The table below, which is based on our internal cross-border country risk reporting requirements, shows cross-border exposures that exceed 1 per cent of total assets

Group	2014			2013		
	Less than one year \$million	More than one year \$million	Total \$million	Less than one year \$million	More than one year \$million	Total \$million
China	42,098	14,790	56,888	35,833	14,449	50,282
US	26,406	10,672	37,078	19,001	7,287	26,288
Hong Kong	22,104	8,684	30,788	21,164	8,210	29,374
Singapore	21,422	5,930	27,352	19,328	5,749	25,077
India	8,551	15,015	23,566	12,566	18,295	30,861
Korea	9,581	8,216	17,797	9,093	7,415	16,508
United Arab Emirates	6,955	8,752	15,707	6,281	10,997	17,278
Indonesia	4,172	4,058	8,230	3,959	4,958	8,917
Nigeria	4,543	3,301	7,844	2,318	4,072	6,390
Malaysia	4,115	3,488	7,603	3,878	3,396	7,274
Brazil	5,297	2,228	7,525	6,175	2,002	8,177

Risk and Capital review continued

Market risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises predominantly from providing clients access to financial markets, facilitation of which entails the Group's taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk related activities is broadly stable. Market risk also arises in the non-trading book from the requirement to hold a large liquid assets buffer of high quality liquid debt securities and from the translation of non-dollar denominated assets, liabilities and earnings. A summary of our current policies and practices regarding market risk management is provided in the Risk management approach section pages 143 to 144.

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 commodity option implied volatilities; covering energy, precious metals, base metals and agriculture;
- Equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

Market risk in 2014

Market risk VaR changes - Group

The average levels of VaR in 2014 were slightly higher than in 2013: Total VaR increase 5 per cent, with trading VaR increase 9 per cent and non trading VaR rising 3 per cent. The increases were driven by rises in interest rate risk and equity risk, offset by decreases in foreign exchange risk and commodity risk.

The actual levels of VaR as at 31 December were considerably lower in 2014 than in 2013 with all asset class risks being reduced, except trading book equities, which was higher by 11 per cent.

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Risk and Capital review continued

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

Group	2014				2013			
	Average \$million	High ⁴ \$million	Low ⁴ \$million	Actual ⁵ \$million	Average \$million	High ⁴ \$million	Low ⁴ \$million	Actual ⁵ \$million
Trading and Non-trading								
Interest rate risk ²	25.8	36.8	19.0	22.0	25.0	37.4	18.2	23.3
Foreign exchange risk	3.6	6.7	2.2	4.7	4.2	7.6	2.3	7.0
Commodity risk	1.4	2.9	0.7	0.7	1.5	2.6	0.9	1.5
Equity risk	17.9	20.0	15.1	16.4	15.4	18.4	13.0	18.3
Total ³	34.4	47.4	25.2	26.5	32.8	44.8	22.1	38.5

Trading ¹	2014				2013			
	Average \$million	High ⁴ \$million	Low ⁴ \$million	Actual ⁵ \$million	Average \$million	High ⁴ \$million	Low ⁴ \$million	Actual ⁵ \$million
Interest rate risk ²	9.3	21.3	5.7	5.7	9.1	15.0	6.5	8.1
Foreign exchange risk	3.6	6.7	2.2	4.7	4.2	7.6	2.3	7.0
Commodity risk	1.4	2.9	0.7	0.7	1.5	2.6	0.9	1.5
Equity risk	1.6	2.4	1.3	2.0	1.5	2.1	1.1	1.8
Total ³	10.6	20.8	7.1	7.6	9.8	14.9	7.3	9.1

Non-trading	2014				2013			
	Average \$million	High ⁴ \$million	Low ⁴ \$million	Actual ⁵ \$million	Average \$million	High ⁴ \$million	Low ⁴ \$million	Actual ⁵ \$million
Interest rate risk ²	20.9	27.4	14.6	18.0	22.6	34.3	16.9	22.1
Equity risk	17.2	19.1	15.5	16.1	14.9	17.6	12.4	17.4
Total ³	30.1	39.0	17.3	25.1	29.2	34.9	19.6	32.7

¹ 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'

² Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale

³ The total VaR shown in the tables above is not a sum of the component risks due to offsets between them

⁴ Highest and lowest VaR for each risk factor are independent and usually occur on different days

⁵ Actual one day VaR at period end date

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Risk and Capital review continued

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

Group	2014				2013			
	Average \$million	High ³ \$million	Low ³ \$million	Actual ⁴ \$million	Average \$million	High ³ \$million	Low ³ \$million	Actual ⁴ \$million
Trading and Non-trading	34.4	47.4	25.2	26.5	32.8	44.8	22.1	38.5
Trading¹								
Rates	6.3	13.7	3.7	3.9	6.4	12.2	3.5	5.5
Global Foreign Exchange	3.6	6.7	2.2	4.7	4.2	7.6	2.3	7.0
Credit Trading & Capital Markets	3.9	8.2	2.8	2.8	3.1	4.3	2.2	3.4
Commodities	1.4	2.9	0.7	0.7	1.5	2.6	0.9	1.5
Equities	1.6	2.4	1.3	2.0	1.5	2.1	1.1	1.8
Total ²	10.6	20.8	7.1	7.6	9.8	14.9	7.3	9.1
Non-trading								
Asset & Liability Management	20.6	26.6	14.5	17.7	22.2	33.9	17.1	21.2
Other Financial Markets non-trading book	1.2	1.5	0.9	1.3	1.6	2.4	1.0	1.3
Listed private equity	17.2	19.1	15.5	16.1	14.9	17.6	12.4	17.4
Total ²	30.1	39.0	17.3	25.1	29.2	34.9	19.6	32.7

¹ 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'

² The total VaR shown in the tables above is not a sum of the component risks due to offsets between them

³ Highest and lowest VaR for each risk factor are independent and usually occur on different days

⁴ Actual one day VaR at period end date

Standard Chartered Bank

Risk and Capital review continued

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

Company	2014	2013
Trading ¹ and Non-trading	\$million	\$million
Interest rate risk ²	15.9	14.8
Foreign exchange risk	4.3	6.5
Commodity risk	0.8	1.5
Equity risk	16.4	18.3
Total ³	25.3	30.6
Trading ¹		
Interest rate risk ²	5	5.9
Foreign exchange risk	4.3	6.5
Commodity risk	0.8	1.5
Equity risk	1.8	1.7
Total ³	7.7	8.7
Non-Trading		
Interest rate risk ²	14.2	13.2
Equity risk	16.6	17.4
Total ³	24.5	25.0

¹ 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'

² Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale

³ The total VaR shown in the tables above is not a sum of the component risks due to offsets between them

Risks not in VaR

The only material market risk which is not reflected in VaR is the currency risk where the exchange rate is currently pegged or managed. The VaR historical one

year observation period therefore does not reflect the future possibility of a change in the currency regime such as sudden depegging. Additional capital is set aside to cover this 'risk not in VaR'. For further details on market risk capital see the Standard Chartered PLC Pillar 3 Disclosures 2014 section on market risk.

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Risk and Capital review continued

Backtesting

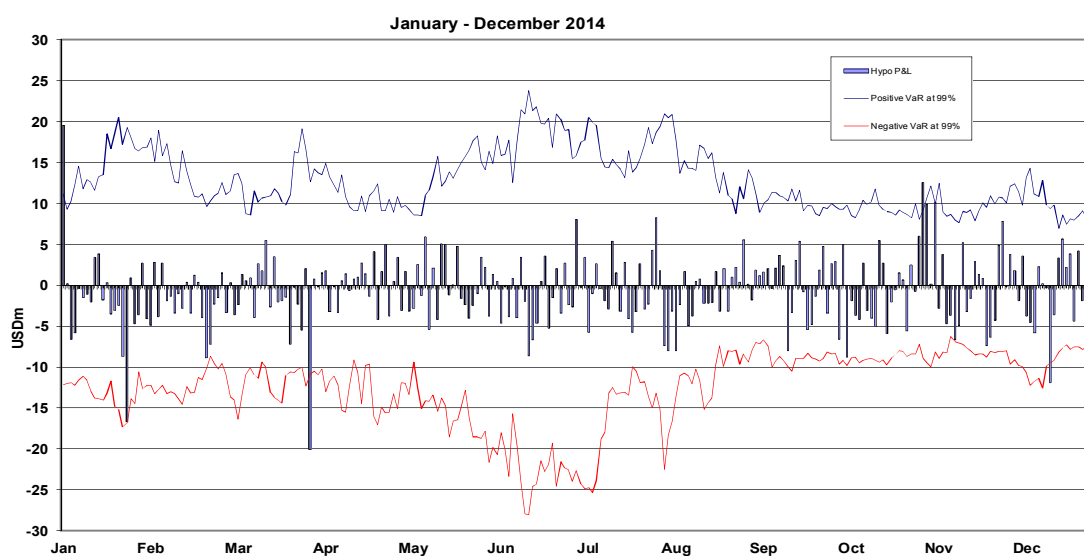
Regulatory backtesting is applied at both Group and Solo levels. In 2014, exceptions due to exceptional market volatility occurred on three days: one at Group level (none in 2013) and three at Solo level (one in 2013).

These occasions followed notable central bank action with impact in Group footprint markets:

- 21 February: the People's Bank of China widened the renminbi trading band resulting in sharp movement in the renminbi foreign exchange market (solo level only).
- 24 November: after the People's Bank of China had cut renminbi interest rates for the first time since 2012, there were sharp movements in both renminbi interest rate and FX markets (solo level only).
- 16 December: the Russian rouble dropped in value after the Central Bank of Russia suddenly increased rouble interest rates. This induced wider reaction in other interest rate markets, notably India and Brazil (Group and solo levels).

Three exceptions due to market events are within the 'green zone' applied internationally to internal models by bank supervisors.

2014 backtesting chart for Internal Model Approach regulatory trading book at Group level Hypothetical P/L versus VaR (99 per cent, one day)



The backtesting exception on 31 March 2014 was due to a quarter-end adjustment and not due to a market event.

Financial Markets loss days

	2014	2013
Number of loss days reported for Financial Markets trading book total product income ¹	2	2

¹ Reflects total product income for Financial Markets excluding ALM business (non-trading) and periodic valuation changes for Capital Markets, expected loss provisions and OIS discounting

Standard Chartered Bank

Risk and Capital review continued

Average daily income earned from market risk related activities¹

	2014 \$million	2013 \$million
Trading - Group		
Interest rate risk	3.9	4.7
Foreign exchange risk	5.1	5.5
Commodity risk	1.4	1.5
Equity risk	0.6	0.5
Total	11.0	12.2

Non-Trading - Group

Interest rate risk	3.2	2.8
Equity risk	0.1	0.5
Total	3.3	3.3

¹ Reflects total product income which is the sum of client income and own account income. Includes elements of trading income, interest income and other income which are generated from market risk-related activities

Mapping of market risk items to the balance sheet

Market risk contributes only 5.9 per cent of the Group's regulatory capital RWA requirement (see RWA table on page 151). As highlighted in the VaR disclosure, the

majority of market risk is managed within Financial Markets which spans both trading book and non-trading book. The non-trading equity market risk is generated by listed private equity holdings within Principal Finance. Group Treasury manages the market risk associated with debt and equity capital issuance.

Group	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	66,315	65,132	1,183	Interest rate, foreign exchange, commodity or equity risk
Loans and advances to banks	87,495	16,288	71,207	Interest rate or foreign exchange risk
Loans and advances to customers	288,452	11,823	276,629	Interest rate or foreign exchange risk
Debt securities	95,547	17,553	77,994	Interest rate mainly, but also foreign exchange or equity risk
Treasury bills	25,901	1,803	24,098	Interest rate or foreign exchange risk
Equities	7,366	4,515	2,851	Equities risk mainly, but also interest or foreign exchange risk
Other Assets	38,525	15,508	23,017	Interest rate, foreign exchange, commodity or equity risk
Total	609,601	132,622	476,979	
Financial liabilities				
Deposits by banks	55,233	-	55,233	Interest rate or foreign exchange risk
Customer accounts	414,189	-	414,189	Interest rate or foreign exchange risk
Debt securities in issue	62,150	-	62,150	Interest rate mainly, but also foreign exchange or equity risk
Derivatives financial instruments	64,184	62,704	1,480	Interest rate, foreign exchange, commodity or equity risk
Short positions	3,785	3,686	99	Interest rate, foreign exchange, commodity or equity risk
Total	599,541	66,390	533,151	

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Risk and Capital review continued

Group Treasury market risk

Group Treasury raises debt and equity capital and the proceeds are invested within the Group as capital or placed with ALM. Interest rate risk arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements. This risk is measured as the impact on net interest income (NII) of an unexpected and instantaneous adverse parallel shift in rates and is monitored over a rolling one-year time horizon (see table below).

Group Treasury NII sensitivity to parallel shifts in yield curves

	2014 \$million	2013 \$million
+25 basis points	38.9	33.9
-25 basis points	(38.9)	(33.9)

NII sensitivity has increased as Group capital investment in branches and subsidiaries has increased.

Structured foreign exchange exposures

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

	2014 \$million	2013 \$million
Hong Kong dollar	8,208	7,079
Korean won	4,782	5,194
Indian rupee	4,425	3,793
Taiwanese dollar	2,755	2,853
Chinese renminbi	3,586	3,084
Singapore dollar	2,768	2,925
Thai baht	1,608	1,640
UAE dirham	1,757	1,766
Malaysian ringgit	1,578	1,650
Indonesian rupiah	1,185	993
Pakistani rupee	594	530
Other	3,948	4,010
	37,194	35,517

As at 31 December 2014, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial instruments) of \$1,097 million (2013: \$1,280 million) to partly cover its exposure to the Korea 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 dollar. The impact on the positions above would be an increase of \$265 million (2013: \$247 million). Changes in the valuation of these positions are taken to reserves.

Derivatives

Derivatives are contracts with characteristics and value derived from underlying financial instruments, interest and exchange rates or indices. They include futures, forwards, swaps and options transaction. See further details in the risk management approach section on page 145.

Hedging

The notional value of interest rate swaps for the purpose of fair value hedging decreased by \$4.1 billion at 31 December 2014 compared to 31 December 2013. Fair value hedges largely hedge the interest-rate risk on our sub-debt and debt securities in the UK, which form part of the Group's liquidity buffers and are used to manage fixed rate securities and loan portfolios in our key markets. Currency and interest rate swaps used for cash flow hedging have decreased by \$11.7 billion as at 31 December 2014 compared to 31 December 2013. The increase of cash flow hedges is attributable to floating rate loans, bonds and deposits mainly in Korea and Singapore.

Standard Chartered Bank

Risk and Capital review continued

Liquidity risk

Liquidity risk is the risk that we either do not have sufficient financial resources available to meet our obligations as they fall due, or can only access these financial resources at excessive cost.

A summary of our current policies and practices regarding liquidity risk management is provided in the Risk management approach section on page 145.

Liquidity in 2014

The liquidity position of the Group stayed strong in 2014 and we continued to enjoy inflows of customer deposits and maintained good access to wholesale markets.

Conditions in the bank wholesale debt markets were generally positive in 2014, supported by strong investor demand. In 2014, the Group issued \$10 billion of term debt securities, \$5.3 billion of senior debt and \$4.7 billion of Tier 2 subordinated debt (2013: \$9.5 billion of which \$4 billion was senior debt and \$5.5 billion was Tier 2 subordinated debt).

Primary sources of funding

A substantial portion of our assets are funded by customer deposits. Wholesale funding is diversified by type and maturity and represents a stable source of funds for the Group.

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

Debt refinancing levels are low. In the next 12 months approximately \$6.6 billion of the Group's senior debt is falling due for repayment contractually. Further details of the Group's senior and subordinated debt by geography are provided in note 2 to the financial statements on pages 184 and 185.

The table below shows the composition of liabilities in which customer deposits make up 57 per cent of total liabilities as at 31 December 2014, the majority of which are current accounts, savings accounts and time deposits. Our largest customer deposit base by geography is Greater China (in particular Hong Kong), which holds almost 37 per cent of Group customer accounts.

	2014	2013
Group's composition of Liabilities	%	%
Customer accounts	57.2	58.0
Deposits by banks	7.6	6.6
Derivative financial instruments	8.9	9.2
Other liabilities	8.0	8.2
Debt securities in issue	8.6	7.9
Subordinated liabilities and other borrowed funds	3.0	3.3
Total equity	6.7	6.8
Total	100.0	100.0
Geographic distribution of customer accounts	%	%
Greater China	36.6	37.2
North East Asia	7.9	8.7
South Asia	3.7	4.0
ASEAN	22.6	24.5
MENAP	5.4	6.0
Africa	2.7	2.9
Americas	8.1	3.8
Europe	13.0	12.9
Total	100.0	100.0

Liquidity metrics

We monitor key liquidity metrics on a regular basis, both on a country basis and in aggregate across the Group. In addition to the metrics listed here we also monitor other risk metrics which are covered in the Risk Management Approach section on page 146.

Liquid asset ratio (LAR)

The Liquid Asset Ratio (LAR) ensures that a proportion of the Group's total assets are held in liquid assets, on a consolidated currency basis.

Liquid assets are the total cash (less restricted balances), treasury bills, loans and advances to banks (less deposits by banks) and debt securities (less illiquid securities).

Illiquid securities are debt securities that cannot be sold or exchanged easily for cash without substantial loss in value amounting to \$492 million (2013: \$1,012 million).

LAR limit (minimum LAR level acceptable) is set and monitored at Group level in order to ensure that an adequate proportion of the balance sheet shall always remain highly liquid. In addition, the Group keeps sufficient liquid assets to survive a number of severe stress scenarios, both internal and regulatory.

The Group LAR (32.4 per cent) increased from the previous year (30.0 per cent) reflecting an increase in liquid assets held mainly in the Americas and Europe.

Standard Chartered Bank

Risk and Capital review continued

The following table sets an analysis of the Group's liquid assets by geographic region:

2014									
Group	Greater China \$ million	North East Asia \$ million	South Asia \$ million	ASEAN \$ million	MENAP \$ million	Africa \$ million	Americas \$ million	Europe \$ million	Total \$million
Cash and balances at central banks	9,017	5,278	808	4,182	2,239	1,682	42,257	31,819	97,282
Restricted balances	(3,339)	(919)	(486)	(2,098)	(1,602)	(710)	(877)	(42)	(10,073)
Loans and advances to banks - net of non-performing loans	28,758	5,997	488	12,301	1,603	940	12,661	24,644	87,392
Deposits by banks	(5,200)	(4,202)	(338)	(7,283)	(2,374)	(687)	(16,496)	(18,653)	(55,233)
Treasury bills	7,689	5,320	1,864	4,540	954	2,723	2,059	752	25,901
Debt securities	30,928	5,357	4,292	16,280	5,024	2,539	5,124	26,003	95,547
of which :									
Issued by governments	13,992	4,412	3,651	6,859	4,315	1,001	367	3,438	38,035
Issued by banks	10,495	185	163	4,088	272	430	3,823	14,149	33,605
Issued by corporate and other entities	6,441	760	478	5,333	437	1,108	934	8,416	23,907
Illiquid securities and Other Assets	-	(18)	(747)	(356)	(5)	-	(1,689)	(3,509)	(6,324)
Liquid assets	67,853	16,813	5,881	27,566	5,839	6,487	43,039	61,014	234,492
Total assets	185,802	66,092	26,179	134,282	31,380	18,004	79,085	182,939	723,763
Liquid assets to total asset ratio (%)	36.5%	25.4%	22.5%	20.5%	18.6%	36.0%	54.4%	33.4%	32.4%

Standard Chartered Bank

Risk and Capital review continued

2013									
Group	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Cash and balances at central banks	7,188	4,909	970	5,679	2,169	1,621	23,345	8,653	54,534
Restricted balances	(3,431)	(547)	(523)	(2,959)	(1,546)	(644)	(262)	(34)	(9,946)
Loans and advances to banks - net of non-performing loans	27,899	6,561	575	6,689	2,097	742	13,067	28,431	86,061
Deposits by banks	(4,652)	(3,719)	(542)	(6,917)	(1,491)	(566)	(17,739)	(8,801)	(44,427)
Treasury bills	10,741	6,794	2,567	4,751	1,221	2,777	1,027	1,529	31,407
Debt securities	30,126	5,895	2,896	16,093	3,986	2,803	3,979	20,142	85,920
of which :									
Issued by governments	12,625	4,289	2,162	6,584	3,382	1,307	194	3,331	33,874
Issued by banks	12,334	935	327	4,183	265	267	3,484	10,369	32,164
Issued by corporate and other entities	5,167	671	407	5,326	339	1,229	301	6,442	19,882
Illiquid securities and Other Assets	34	1	(813)	(92)	-	-	-	(499)	(1,369)
Liquid assets	67,905	19,894	5,130	23,244	6,436	6,733	23,417	49,421	202,180
Total assets	183,451	69,055	26,595	132,940	30,830	17,480	56,010	157,317	673,678
Liquid assets to total asset ratio (%)	37.0%	28.8%	19.3%	17.5%	20.9%	38.5%	41.8%	31.4%	30.0%

2014									
Company	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Cash and balances at central banks	43	3,895	737	1,981	2,038	57	42,214	31,763	82,728
Restricted balances	(4)	-	(467)	(1,112)	(1,446)	(57)	(877)	(42)	(4,005)
Loans and advances to banks - net of non-performing loans	222	1,159	455	11,549	1,538	112	12,623	24,625	52,283
Deposits by banks	-	(2,415)	(338)	(5,621)	(2,218)	(302)	(16,496)	(18,651)	(46,041)
Treasury bills	9	-	1,839	2,551	363	641	2,059	752	8,214
Debt securities	-	864	4,292	9,673	3,747	478	4,768	27,382	51,204
of which :									
Issued by governments	-	864	3,651	2,623	3,040	53	18	3,439	13,688
Issued by banks	-	-	163	3,116	272	425	3,813	14,149	21,938
Issued by corporate and other entities	-	-	478	3,934	435	-	937	9,794	15,578
Illiquid securities and Other Assets	-	-	(747)	(356)	-	-	(1,689)	(3,509)	(6,301)
Liquid assets	270	3,503	5,771	18,665	4,022	929	42,602	62,320	138,082
Total assets	1,957	9,954	25,976	107,782	33,955	2,822	84,661	188,548	455,655
Liquid assets to total asset ratio (%)	13.8%	35.2%	22.2%	17.3%	11.8%	32.9%	50.3%	33.1%	30.3%

Standard Chartered Bank

Risk and Capital review continued

2013									
Company	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Cash and balances at central banks	48	4,022	883	2,399	1,851	111	23,305	8,653	41,272
Restricted balances	(7)	(5)	(509)	(1,998)	(1,282)	(47)	(262)	(34)	(4,144)
Loans and advances to banks - net of non-performing loans	68	2,369	557	5,878	2,061	241	12,897	28,334	52,405
Deposits by banks	-	(2,240)	(542)	(5,126)	(1,327)	(218)	(17,739)	(8,774)	(35,966)
Treasury bills	9	-	2,560	2,387	241	559	1,027	1,530	8,313
Debt securities	63	625	2,896	10,137	3,572	448	3,787	22,058	43,586
of which :									
Issued by governments	-	625	2,162	3,015	2,970	186	18	3,330	12,306
Issued by banks	-	-	327	2,940	265	262	3,466	10,346	17,606
Issued by corporate and other entities	63	-	407	4,182	337	-	303	8,382	13,674
Illiquid securities and Other Assets	(204)	(1)	(772)	(363)	(39)	-	-	(1,051)	(2,430)
Liquid assets	(23)	4,770	5,073	13,314	5,077	1,094	23,015	50,716	103,036
Total assets	1,324	11,318	26,342	97,541	33,465	3,043	64,487	163,517	401,037
Liquid assets to total asset ratio (%)	-1.7%	42.1%	19.3%	13.6%	15.2%	36.0%	35.7%	31.0%	25.7%

Advances-to-deposits ratio

This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposits ratio demonstrates that customer deposits exceed customer loans as a result of the emphasis placed on generating a high level of funding from customers. Customer Deposits tend to be more stable than wholesale funding and a core portion of these deposits are likely to remain with the bank for the medium term.

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

The Group monitors the LCR in line with the Capital Requirements Regulation (CRR), the Regulation that implements BCBS238 in Europe. The Group also monitors NSFR in line with BCBS271, pending implementation in Europe. As at 31 December 2014 both the Group LCR and NSFR were above 100 per cent, well ahead of regulatory implementation.

	2014 \$million	2013 \$million
Loans and advances to customers ¹	288,452	295,891
Customer accounts	414,189	390,971
Advances to deposits ratio	69.6%	75.7%

¹ see note 19 to the financial statements on page 230

Standard Chartered Bank

Risk and Capital review continued

Encumbered assets

Encumbered assets represent those on balance sheet assets pledged or used as collateral in respect of certain of the Group's liabilities. Hong Kong government certificates of indebtedness which secure the equivalent amount of Hong Kong currency notes in circulation, and cash collateral pledged against derivatives are included

within other assets. Taken together these encumbered assets represent 2.8 per cent (2013: 2.7 per cent) of total assets, continuing the Group's historical low level of encumbrance.

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

Group	2014				2013			
	Unencumbered assets		Encumbered assets	Total assets	Unencumbered assets		Encumbered assets	Total assets
	Not readily available to secure funding	Readily available to secure funding			Not readily available to secure funding	Readily available to secure funding		
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Cash and balances at central banks	10,073	87,209	-	97,282	9,946	44,588	-	54,534
Derivative financial instruments	66,317	-	-	66,317	62,161	-	-	62,161
Loans and advances to banks ¹	49,387	38,108	-	87,495	49,278	36,890	-	86,168
Loans and advances to customers ¹	288,421	-	31	288,452	295,112	-	779	295,891
Investment securities ¹	41,480	81,869	5,465	128,814	48,355	71,910	3,516	123,781
Other assets	23,476	-	15,049	38,525	19,794	-	13,700	33,494
Current tax assets	362	-	-	362	234	-	-	234
Prepayments and accrued income	2,620	-	-	2,620	2,493	-	-	2,493
Interests in associates and joint ventures	1,954	-	-	1,954	1,767	-	-	1,767
Goodwill and intangible assets	4,782	-	-	4,782	5,694	-	-	5,694
Property, plant and equipment	6,615	-	-	6,615	6,903	-	-	6,903
Deferred tax assets	545	-	-	545	558	-	-	558
Total	496,032	207,186	20,545	723,763	502,295	153,388	17,995	673,678

Company	2014				2013			
	Unencumbered assets		Encumbered assets	Total assets	Unencumbered assets		Encumbered assets	Total assets
	Not readily available to secure funding	Readily available to secure funding			Not readily available to secure funding	Readily available to secure funding		
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Cash and balances at central banks	4,005	78,723	-	82,728	4,144	37,128	-	41,272
Derivative financial instruments	63,465	-	-	63,465	60,146	-	-	60,146
Loans and advances to banks ¹	33,906	18,393	-	52,299	32,342	20,076	-	52,418
Loans and advances to customers ¹	130,185	-	31	130,216	134,467	-	40	134,507
Investment securities ¹	9,584	51,736	2,996	64,316	9,816	42,893	2,577	55,286
Other assets	14,757	-	10,010	24,767	12,666	-	8,954	21,620
Due from Subsidiary undertakings and other related parties	19,349	-	-	19,349	17,520	-	-	17,520
Current tax assets	69	-	-	69	29	-	-	29
Prepayments and accrued income	1,308	-	-	1,308	1,133	-	-	1,133
Interests in associates and joint ventures	13,551	-	-	13,551	15,307	-	-	15,307
Goodwill and intangible assets	1,020	-	-	1,020	915	-	-	915
Property, plant and equipment	474	-	-	474	484	-	-	484
Deferred tax assets	367	-	-	367	400	-	-	400
Total	292,040	148,852	13,037	455,655	289,369	100,097	11,571	401,037

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

Standard Chartered Bank

Risk and Capital review continued

In addition to the above, the Group received \$27,910 million (2013: \$15,906 million) as collateral under reverse repurchase agreements that was eligible for repledging; of this the Group sold \$2,252 million (2013: \$1,804 million) under repurchase agreements.

Readily available to secure funding

Readily available to secure funding includes unencumbered assets that can be sold outright or under repo within a few days, in line with regulatory definitions. The Group's readily available assets comprise of cash and balances at central banks, loans and advances to banks and investment securities.

Assets classified as not readily available to secure funding include:

- Assets which have no restrictions for funding and collateral purposes, such as loans and advances to customers, which are not acquired or originated with the intent of generating liquidity value
- Assets that cannot be encumbered, such as derivatives, goodwill and intangible and deferred tax assets

Standard Chartered Bank

Risk and Capital review continued

Liquidity analysis of the Group's balance sheet

Contractual maturity of assets and liabilities

This table analyses assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date as at the balance sheet date on a discounted basis. Contractual maturities do not necessarily reflect actual repayments or cash flow.

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

Contractual maturity

Group	2014								Total
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Assets									
Cash and balances at central banks	87,209	-	-	-	-	-	-	10,073	97,282
Derivative financial instruments	7,830	8,987	7,753	5,796	4,075	9,545	12,327	10,004	66,317
Loans and advances to banks ¹	38,108	18,419	15,388	6,260	5,663	1,774	1,813	70	87,495
Loans and advances to customers ¹	77,288	26,106	19,147	10,801	11,007	22,677	43,747	77,679	288,452
Investment securities	9,951	13,065	11,245	8,202	8,446	20,881	36,790	20,234	128,814
Other assets	20,163	7,488	2,950	366	456	321	693	22,966	55,403
Total assets	240,549	74,065	56,483	31,425	29,647	55,198	95,370	141,026	723,763
Liabilities									
Deposits by banks ¹	49,903	2,775	783	168	266	114	681	543	55,233
Customer accounts ¹	308,310	49,482	24,117	10,342	10,847	6,194	1,899	2,998	414,189
Derivative financial instruments	8,703	8,844	7,605	5,478	3,737	8,714	12,449	8,654	64,184
Senior debt	215	191	596	904	91	1,812	931	766	5,506
Other debt securities in issue ¹	12,078	16,217	14,818	3,767	1,169	695	1,133	6,767	56,644
Other liabilities	16,566	7,648	4,650	801	295	418	786	10,957	42,121
Due from Parent companies	15,705	-	-	-	-	-	-	-	15,705
Subordinated liabilities and other borrowed funds	-	-	-	6	-	1,014	3,872	16,470	21,362
Total liabilities	411,480	85,157	52,569	21,466	16,405	18,961	21,751	47,155	674,944
Net gap	(170,931)	(11,092)	3,914	9,959	13,242	36,237	73,619	93,871	48,819

¹ Amounts include financial instruments held at fair value through profit or loss (see note 15) on pages 197 and 198

Standard Chartered Bank

Risk and Capital review continued

Contractual maturity continued

Group	2013								Total
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Assets									
Cash and balances at central banks	44,309	264	-	-	-	-	-	9,961	54,534
Derivative financial instruments	6,820	7,376	8,403	4,514	3,612	9,085	13,633	8,718	62,161
Loans and advances to banks ¹	36,890	21,704	13,349	5,543	5,153	1,647	1,798	84	86,168
Loans and advances to customers ¹	73,036	29,469	23,541	10,772	11,553	22,549	48,297	76,674	295,891
Investment securities	11,496	13,948	12,567	7,252	11,234	21,052	30,355	15,877	123,781
Other assets	14,677	10,964	2,300	44	316	35	201	22,606	51,143
Total assets	187,228	83,725	60,160	28,125	31,868	54,368	94,284	133,920	673,678
Liabilities									
Deposits by banks ¹	36,084	4,873	1,489	394	177	173	521	716	44,427
Customer accounts ¹	279,638	48,630	26,473	12,864	10,793	2,574	6,310	3,689	390,971
Derivative financial instruments	6,922	7,306	9,608	4,101	3,472	8,725	13,104	9,051	62,289
Senior debt	478	291	920	430	19	607	2,981	803	6,529
Other debt securities in issue ¹	10,114	13,252	11,516	1,422	1,938	1,141	1,992	4,858	46,233
Other liabilities	12,759	8,665	3,259	960	432	544	1,099	10,911	38,629
Due to Parent Companies	16,364	-	-	-	-	-	-	-	16,364
Subordinated liabilities and other borrowed funds	-	-	-	-	-	6	4,785	17,356	22,147
Total liabilities	362,359	83,017	53,265	20,171	16,831	13,770	30,792	47,384	627,589
Net gap	(175,131)	708	6,895	7,954	15,037	40,598	63,492	86,536	46,089

¹ Amounts include financial instruments held at fair value through profit or loss (see note 15) on pages 197 and 198

Standard Chartered Bank

Risk and Capital review continued

Contractual maturity

Company	2014								Total \$million
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	
Assets									
Cash and balances at central banks	78,723	-	-	-	-	-	-	4,005	82,728
Derivative financial instruments	7,283	8,668	7,506	5,362	3,899	9,318	11,566	9,863	63,465
Loans and advances to banks ¹	18,483	13,097	10,202	4,502	2,718	1,670	1,557	70	52,299
Loans and advances to customers ¹	49,177	13,540	7,543	4,993	4,609	10,995	23,937	15,422	130,216
Investment securities	1,858	3,637	4,487	3,888	2,944	6,857	26,333	14,312	64,316
Investments in subsidiary undertaking	-	-	-	-	-	-	-	14,688	14,688
Other assets	18,178	5,083	2,080	59	127	46	23	2,998	28,594
Due from subsidiary undertakings	19,349	-	-	-	-	-	-	-	19,349
Total assets	193,051	44,025	31,818	18,804	14,297	28,886	63,416	61,358	455,655
Liabilities									
Deposits by banks ¹	42,059	2,336	704	164	217	100	424	37	46,041
Customer accounts ¹	131,029	27,334	11,627	4,959	3,710	2,813	792	144	182,408
Derivative financial instruments	7,587	8,599	7,447	5,117	3,631	8,330	11,713	9,085	61,509
Senior debt	-	-	-	167	-	-	-	-	167
Other debt securities in issue ¹	10,116	15,084	14,372	3,704	905	646	892	3,160	48,879
Other liabilities	13,074	4,984	3,029	650	81	186	336	2,347	24,687
Due to subsidiary undertaking	37,488	-	-	-	-	-	-	-	37,488
Subordinated liabilities and other borrowed funds	-	-	-	-	-	1,014	3,780	14,816	19,610
Total liabilities	241,353	58,337	37,179	14,761	8,544	13,089	17,937	29,589	420,789
Net gap	(48,302)	(14,312)	(5,361)	4,043	5,753	15,797	45,479	31,769	34,866

¹ Amounts include financial instruments held at fair value through profit or loss (see note 15) on pages 199 and 200

Standard Chartered Bank

Risk and Capital review continued

Contractual maturity

Company	2013								Total
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Assets									
Cash and balances at central banks	37,128	-	-	-	-	-	-	4,144	41,272
Derivative financial instruments	6,550	7,319	8,189	4,429	3,529	8,706	12,734	8,690	60,146
Loans and advances to banks ¹	20,076	12,627	9,444	3,688	3,514	1,568	1,417	84	52,418
Loans and advances to customers ¹	44,064	17,321	12,236	5,100	6,170	10,278	26,392	12,946	134,507
Investment securities	2,693	3,103	3,747	2,562	3,601	8,963	20,040	10,577	55,286
Investment In Subsidiary Undertakings	-	-	-	-	-	-	-	14,763	14,763
Other assets	12,155	8,547	1,450	33	106	7	14	2,813	25,125
Due From Subsidiary Undertakings	17,520								17,520
Total assets	140,186	48,917	35,066	15,812	16,920	29,522	60,597	54,017	401,037
Liabilities									
Deposits by banks ¹	30,578	3,663	1,149	84	106	31	308	47	35,966
Customer accounts ¹	110,914	25,002	11,456	5,858	3,861	537	3,691	112	161,431
Derivative financial instruments	6,685	7,191	9,404	4,111	3,306	8,318	12,267	8,421	59,703
Senior debt	-	-	-	-	-	-	189	-	189
Other debt securities in issue ¹	9,332	11,667	10,855	1,329	1,835	1,129	1,177	2,836	40,160
Other liabilities	8,360	4,915	2,266	819	61	153	493	2,777	19,844
Due to subsidiary undertakings	33,096	-	-	-	-	-	-	-	33,096
Subordinated liabilities and other borrowed funds	-	-	-	-	-	-	4,691	15,050	19,741
Total liabilities	198,965	52,438	35,130	12,201	9,169	10,168	22,816	29,243	370,130
Net gap	(58,779)	(3,521)	(64)	3,611	7,751	19,354	37,781	24,774	30,907

¹ Amounts include financial instruments held at fair value through profit or loss (see note 15) on pages 199 and 200

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Risk and Capital review continued

Behavioural maturity of financial assets and liabilities

The cash flows presented on page 162 reflect the cash flows which will be contractually payable over the residual maturity of the instruments. However, contractual maturities do not necessarily reflect the timing of actual repayments or cash flow. In practice, certain assets and liabilities instruments behave differently from their contractual terms and, especially for short-term customer accounts, credit card balances and overdrafts,

which extend to a longer period than their contractual maturity. On the other hand, mortgage balances tend to have a shorter repayment period than their contractual maturity date. Such behavioural adjustments are identified and managed in each country through analysis of the historic behaviour of balances. The expected behavioural tenor of the Group's loans and deposits are likely to become due is provided in the table below:

Behavioural maturity

2014									
Group	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Assets									
Loans and advances to banks ¹	38,954	17,945	14,935	6,237	5,320	1,734	2,285	85	87,495
Loans and advances to customers ¹	56,455	22,010	14,780	9,023	15,663	22,053	90,032	58,436	288,452
Total loans and advances	95,409	39,955	29,715	15,260	20,983	23,787	92,317	58,521	375,947
Liabilities									
Deposits by banks ¹	37,983	2,853	840	223	337	11,716	737	544	55,233
Customer accounts ¹	144,144	29,151	15,898	11,151	22,720	79,491	107,446	4,188	414,189
Total deposits	182,127	32,004	16,738	11,374	23,057	91,207	108,183	4,732	469,422
Net gap	(86,718)	7,951	12,977	3,886	(2,074)	(67,420)	(15,866)	53,789	(93,475)

2013									
Group	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Assets									
Loans and advances to banks ¹	36,990	21,855	13,342	5,532	5,072	1,554	1,665	158	86,168
Loans and advances to customers ¹	55,193	27,724	18,204	8,491	17,867	21,239	88,092	59,081	295,891
Total loans and advances	92,183	49,579	31,546	14,023	22,939	22,793	89,757	59,239	382,059
Liabilities									
Deposits by banks ¹	35,804	5,063	1,472	427	219	138	597	707	44,427
Customer accounts ¹	131,684	28,574	16,700	11,055	23,572	115,686	58,868	4,832	390,971
Total deposits	167,488	33,637	18,172	11,482	23,791	115,824	59,465	5,539	435,398
Net gap	(75,305)	15,942	13,374	2,541	(852)	(93,031)	30,292	53,700	(53,339)

¹ Amounts include financial instruments held at fair value through profit or loss (see note 15)

Standard Chartered Bank

Risk and Capital review continued

Behavioural maturity continued

Company	2014								Total \$million
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	
Assets									
Loans and advances to banks ¹	18,640	13,022	10,138	4,498	2,702	1,638	1,578	83	52,299
Loans and advances to customers ¹	42,290	13,572	8,459	5,537	5,171	12,811	27,346	15,030	130,216
Total loans and advances	60,930	26,594	18,597	10,035	7,873	14,449	28,924	15,113	182,515
Liabilities									
Deposits by banks ¹	30,184	2,373	761	219	289	11,700	479	36	46,041
Customer accounts ¹	81,180	21,507	11,191	7,131	7,005	16,795	37,545	54	182,408
Total deposits	111,364	23,880	11,952	7,350	7,294	28,495	38,024	90	228,449
Net gap	(50,434)	2,714	6,645	2,685	579	(14,046)	(9,100)	15,023	(45,934)

Company	2013								Total \$million
	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	
Assets									
Loans and advances to banks ¹	20,174	12,698	9,409	3,674	3,513	1,536	1,270	144	52,418
Loans and advances to customers ¹	39,961	19,322	12,381	5,203	6,450	10,538	27,295	13,357	134,507
Total loans and advances	60,135	32,020	21,790	8,877	9,963	12,074	28,565	13,501	186,925
Liabilities									
Deposits by banks ¹	30,319	3,774	1,185	119	150	42	344	33	35,966
Customer accounts ¹	69,509	19,361	11,361	7,194	6,664	4,585	42,746	11	161,431
Total deposits	99,828	23,135	12,546	7,313	6,814	4,627	43,090	44	197,397
Net gap	(39,693)	8,885	9,244	1,564	3,149	7,447	(14,525)	13,457	(10,472)

¹ Amounts include financial instruments held at fair value through profit or loss (See Note 15)

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Risk and Capital review continued

Maturity of Financial liabilities (excluding derivative financial instruments) 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 cash flows, on an undiscounted basis, relating to both principal and interest payments.

Within the 'More than five years and undated' maturity band are undated financial liabilities of \$3,121 million (2013: \$3,124 million), all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful given the instruments are undated. Interest payments on these instruments are included within the relevant maturities up to five years.

2014									
Group	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Deposits by banks	49,597	2,861	811	177	262	190	1,030	690	55,618
Customer accounts	297,368	49,629	24,341	10,453	10,978	10,419	14,410	4,108	421,706
Debt securities in issue	12,306	16,446	15,462	4,712	1,325	2,643	2,195	17,013	72,102
Subordinated liabilities and other borrowed funds	25	35	227	154	66	1,523	4,813	4,540	11,383
Other liabilities	16,308	7,706	4,661	806	297	419	774	11,151	42,122
Total liabilities	375,604	76,677	45,502	16,302	12,928	15,194	23,222	37,502	602,931

2013									
Group	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Deposits by banks	36,084	4,873	1,489	394	177	269	588	729	44,603
Customer accounts	279,638	48,630	26,473	12,864	10,793	2,820	6,972	4,359	392,549
Debt securities in issue	10,592	13,543	12,436	4,020	2,636	1,749	4,973	5,660	55,609
Subordinated liabilities and other borrowed funds	8	113	295	300	278	933	7,020	31,325	40,272
Other liabilities	12,759	8,665	3,259	960	432	544	1,099	10,954	38,672
Total liabilities	339,081	75,824	43,952	18,538	14,316	6,315	20,652	53,027	571,705

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Risk and Capital review continued

2014									
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
Company	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Deposits by banks	42,083	2,343	714	172	219	122	380	36	46,069
Customer accounts	136,558	27,445	11,731	4,995	3,747	2,961	434	142	188,013
Debt securities in issue	10,121	15,088	14,396	3,884	909	649	896	10,530	56,473
Subordinated liabilities and other borrowed funds	24	32	188	143	28	1,428	4,447	2,784	9,074
Other liabilities	12,462	4,986	3,039	654	81	186	336	2,946	24,690
Total liabilities	201,248	49,894	30,068	9,848	4,984	5,346	6,493	16,438	324,319

2013									
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
Company	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Deposits by banks	30,578	3,663	1,149	84	106	98	381	47	36,106
Customer accounts	110,914	25,002	11,641	5,858	3,861	643	3,691	112	161,722
Debt securities in issue	9,332	11,667	10,855	1,329	1,835	1,129	1,366	3,227	40,740
Subordinated liabilities and other borrowed funds	2	107	248	271	248	814	6,571	28,881	37,142
Other liabilities	8,360	4,915	2,266	819	61	153	493	2,820	19,887
Total liabilities	159,186	45,354	26,159	8,361	6,111	2,837	12,502	35,087	295,597

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Risk and Capital review continued

Maturity of derivative financial instruments on an undiscounted (notional) basis

Derivative financial instruments include those net settled derivative contracts in a net liability position, together with the pay leg of gross settled contracts regardless of whether the overall contract is in an asset or liability

position. The receiving leg is not shown in this table and as a result the derivative amounts in this table are increased by their exclusion. Derivative financial instruments make up 9 per cent of the Group balance sheet.

2014									
Group	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	289,570	260,393	196,594	125,535	96,151	149,743	160,834	102,843	1,381,663

2013									
Group	One month or less \$million	Between one month and three months \$million	Between three months and six months \$million	Between six months and nine months \$million	Between nine months and one year \$million	Between one year and two years \$million	Between two years and five years \$million	More than five years and undated \$million	Total \$million
Derivative financial instruments	204,012	174,783	149,101	98,972	88,696	110,913	142,221	82,249	1,050,947

2014									
Company	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	482,765	408,904	288,696	180,494	132,254	160,733	168,480	102,204	1,924,530

2013									
Company	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	325,584	266,494	203,252	122,180	105,289	119,051	146,817	80,627	1,369,294

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Risk and Capital review continued

Operational Risk

We define operational risk as the potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risk.

As operational risk arises from all activities carried out within the Group, the potential for operational risk events occurring across a large and complex international organisation is a constant challenge. To address this we aim to achieve 'industrial strength' process and control design standards for all activities and benchmark practices against peers, other industries and regulatory requirements.

A summary of our current policies and practices regarding Operational Risk Management is provided in the Risk Management Approach section on pages 146 to 148.

Operational risk profile

The Operational Risk Profile is the Group's overall exposure to operational risk, at a given point in time, covering all applicable Operational risk types. The operational risk profile comprises of 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

The most significant losses reviewed by Group Committees during the year were:

- Execution delivery and process management: the terms of the Group's settlement with the New York State Department of Financial Services (DFS) include a \$300 million civil monetary penalty which was the highest operational risk loss during the year. The settlement includes various business restrictions with a range of deadlines which are being complied with. In addition, the Group has initiated a number of change programmes which include significant design typologies and system enhancements to improve its defences against financial crime
- External fraud: the Group has recorded an operational risk event for \$193 million in relation to a warehouse fraud in Qinghao in China. The root cause analysis identified the main cause as collusive fraud, which is inherently difficult to detect. Fraud detection controls are being enhanced and include increased frequency of inspections and periodically moving inventory

The Group's profile of operational loss events in 2013 and 2014 is summarised in the table below. It shows by Basel business line the percentage distribution of gross operational losses.

Distribution of operational losses by Basel business line	% Loss	
	2014	2013
Agency services	0.1%	0.3%
Commercial banking	28.8% ¹	3.6%
Corporate finance	1.3%	0.1%
Corporate items	44.8% ²	3.0%
Payment and settlements	19.3%	36.9%
Retail banking	4.5%	47.9%
Retail brokerage	0.2%	1.1%
Trading and sales	1.0%	7.1%

¹ Includes China Commodities Fraud

² Includes civil monetary penalty

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Risk and Capital review continued

The Group's profile of operational loss events in 2013 and 2014 is also summarised by Basel event type in the table below. It shows by Basel event type the percentage distribution of gross operational losses.

Distribution of operational losses by Basel event type	% Loss	
	2014	2013
Business disruption and system failures	2.1%	1.1%
Clients products and business practices	18.4%	35.9%
Employment practices and workplace safety	0.1%	0.9%
Execution delivery and process management	48.0% ¹	38.2% ¹
External fraud	31.2% ²	18.2% ²
Internal fraud	0.2%	5.7%

¹ Includes civil monetary penalty

² Includes China Commodities Fraud

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

Top risks and emerging risks

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

may also be a gross risk triggering any one of a set of filtering criteria.

Emerging risks are also considered, both internally from the Group's internal operational risk profile and from external events. Where relevant an emerging risk may be categorised and prioritised as a top risk for specific monitoring.

Given their significance, top risks attract closer scrutiny from top levels of management and governance committees. Top risks are expected to change over time based on top-down assessments by senior management.

The Group's operational top risks as of 31 December 2014 are shown in the table below.

Top risks

Macro – Prudential, regulatory and external risks	Internal processes, systems and change risks
- Regulatory non-compliance - Anti-Money laundering - International sanctions and terrorist financing - External fraud - Information and cyber security - Critical third party vendors	- Change management - Data management - Major systems failure - Significant business interruption - Rogue trading - Internal fraud - Manipulation of market data submission - Mis-selling - Product management - Collateral management
Additional conduct, including bribery and corruption	

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Risk and Capital review continued

Other risks

Reputational risk

Reputational risk is the potential for damage to the Group's franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the Group or its actions. Failures in behaviours or systems may affect stakeholders' perceptions of the Group's commitment to its Here for good brand promise.

A summary of our current practices regarding reputational risk management is provided in the Risk management approach section on pages 148 and 149.

Pension risk

Pension risk is the potential for loss due to having to meet an actuarially assessed shortfall in the Group's pension schemes. See further pension disclosure in Risk management approach section on page 149.

Risk and Capital review continued

Principal Uncertainties

The management of risk lies at the heart of Standard Chartered's business. We seek to contain and mitigate risks to ensure they remain within our risk tolerance and are adequately compensated. An overview of our risk profile is set out in pages 48 to 51 and our approach to risk management is set out in pages 136 to 149.

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

Deteriorating macroeconomic conditions in footprint countries

Macroeconomic conditions have an impact on personal expenditure and consumption, demand for business products and services, the debt service burden of consumers and businesses, the general availability of credit for retail and corporate borrowers and the availability of capital and liquidity funding for our business. All these factors may impact our performance.

The world economy is coming out of a difficult period and uncertainty remains. The unwinding of the US Federal Reserve's quantitative easing programme could lead to higher interest rates, volatility in financial markets and capital flight from emerging markets which may threaten the growth trajectory of some vulnerable economies. China's slowing economic growth and the rebalancing of the economy may depress prices and trade in a number of commodity sectors such as energy, metals and mining sectors, and a deeper and more prolonged slowdown could have wider economic repercussions.

Supply shocks can result in weak or volatile commodity prices, which in turn can damage economic growth prospects or sovereign creditworthiness of commodity exporting countries.

The sovereign crisis in the eurozone is not fully resolved and, although some risks have been addressed by ongoing policy initiatives, there is still a need for substantial new structural reform (see additional information on the risk of redenomination on page 100). The proposed UK referendum on membership of the EU would bring further economic and political uncertainty.

Our exposure to eurozone sovereign debt is very low. However, we remain alert to the risk of secondary impacts from events on financial institutions, other counterparties and global economic growth.

Inflation and property prices appear to be under control in most of the countries in which we operate, though some central banks are already employing macro-prudential tools to temper property price increases. Changes in monetary policy could lead to significant increases in interest rates from their currently low historical levels, with resulting impacts on the wider economy and on property values.

We balance risk and return taking account of changing conditions through the economic cycle, and monitor economic trends in our markets very closely. We

conduct stress tests to assess the effects of extreme but plausible trading conditions on our portfolio and also continuously review the suitability of our risk policies and controls. We manage credit exposures following the principle of diversification across products, geographies, and client and customer segments. This provides for strong resilience against economic shocks in one or more of our portfolios.

Financial markets dislocation

There is a risk that a sudden financial market dislocation, perhaps as a result of a tightening of monetary policy in the major economies, a deterioration of the sovereign debt crisis in the eurozone, or a geopolitical event could significantly increase general financial market volatility which could affect our performance or the availability of capital or liquidity. In addition, reduction of monetary intervention by the US Federal Reserve, or other central banks, could disrupt external funding for some economies leading to lower growth and financial markets volatility. These factors may have an impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios. The potential losses incurred by certain clients holding derivative contracts during periods of financial market volatility could also lead to an increase in disputes and corporate defaults. At the same time, financial market instability could cause some financial institution counterparties to experience tighter liquidity conditions or even fail. There is no certainty that Government action to reduce the systemic risk will be successful and it may have unintended consequences.

We stress test our market risk exposures to highlight the potential impact of extreme market events on those exposures and to confirm that they are within authorised stress loss triggers. Stress scenarios are regularly updated to reflect changes in risk profile and economic events. Where necessary, overall reductions in market risk exposure are enforced. We closely monitor the performance of our financial institution counterparties and adjust our exposure to these counterparties as necessary. We maintain robust processes to assess the appropriateness and suitability of products and services we provide to clients and customers to mitigate the risk of disputes.

Geopolitical events

We operate in a large number of markets around the world, and our performance is in part reliant on the openness of cross-border trade and capital flows. We face a risk that geopolitical tensions or conflicts in our footprint could impact trade flows, our customers' ability to pay, and our ability to manage capital or operations across borders.

We actively monitor the political situation in all our principal markets. We also monitor the development of broader geopolitical events such as in Ukraine, the Middle East and territorial disputes in North East Asia. We conduct stress loss tests of the impact of extreme but plausible geopolitical events on our performance and the potential for such events to jeopardise our ability to

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Risk and Capital review continued

operate within our stated risk appetite. Further details on stress testing are given on page 148.

Risk of fraud and other criminal acts

The banking industry has long been a target for third parties seeking to defraud, to disrupt legitimate economic activity, or to facilitate other illegal activities. Concerns about cyber risk have risen significantly, driven in part by geopolitical events. Cyber crime risks include fraud, vandalism and damage to critical infrastructure.

While the internet and networked technologies have provided major opportunities for digitising business, they have also given rise to significant risks as well-equipped and motivated attackers become more sophisticated. The incidence of cyber crime is rising, becoming more globally coordinated, and is a challenge for all organisations.

We seek to be vigilant to the risk of internal and external crime in our management of people, processes, systems and in our dealings with customers and other stakeholders. The Group has implemented a range of cyber defences to protect from hacking, misuse, malware, errors, social engineering and physical threats. Controls are embedded in our policies and procedures across a wide range of the Group's activities, such as origination, recruitment, physical and information security. We perform regular reviews our control environment and tests of our defences against cyber and other attacks, also using use third parties where appropriate to further protect, validate and strengthen our defences.

We actively collaborate with our peers, regulators and other expert bodies as part of our response to this risk.

The Group's controls to address money laundering risks are under review as part of the Group's Financial Crime Risk Mitigation Programme, referred to in the section headed "Regulatory compliance, reviews, requests for information and investigations" above.

Fraud and criminal activity may also give rise to litigation impacting the Group. In December 2008 Bernard Madoff confessed to running a Ponzi scheme through Bernard L. Madoff Investment Securities, LLC ('BMIS'). American Express Bank ('AEB'), acquired by the Group in February 2008, had provided clients with access to funds that

invested in BMIS. BMIS and the funds are in liquidation. Certain clients have brought actions against the Group in various jurisdictions seeking to recover losses based principally on the assertion that inadequate due diligence was undertaken on the funds. In addition, the BMIS bankruptcy trustee and the funds' liquidator have commenced proceedings against the Group, seeking to recover sums paid to clients when they redeemed their investments prior to BMIS' bankruptcy. There is a range of possible outcomes in the litigation described above, with the result that it is not possible for the Group to estimate reliably the liability that might arise. However, the Group considers that it has good defences to the asserted claims and continues to defend them vigorously.

For further details on legal and regulatory matters refer to note 42 on page 274.

Exchange rate movements

Changes in exchange rates affect, among other things, the value of our assets and liabilities denominated in foreign currencies, as well as the earnings reported by our non-US dollar denominated branches and subsidiaries. Sharp currency movements can also affect trade flows, the ability of countries and customers to service debt and the wealth of clients any of which could have an impact on our performance.

We monitor exchange rate movements closely and adjust our exposures accordingly. Under certain circumstances, we may take the decision to hedge our foreign exchange exposures in order to protect our capital ratios from the effects of changes in exchange rates. The effect of exchange rate movements on the capital adequacy ratio is mitigated to the extent there are proportionate movements in risk weighted assets.

The table below sets out the period end and average currency exchange rates per US dollar for India, Korea, Indonesia and Taiwan for the year ended 31 December 2014 and 31 December 2013. These are the markets for which currency exchange rate movements have had the greatest translation impact on the Group's results in 2014.

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Risk and Capital review continued

	2014	2013
Indian rupee		
Average	60.98	58.51
Year end	62.96	61.77
Korean won		
Average	1,052.25	1,094.52
Year end	1,098.85	1,055.08
Indonesian rupiah		
Average	11,838.11	10,414.66
Year end	12,396.43	12,164.29
Taiwan dollar		
Average	30.33	29.70
Year end	31.64	29.84

Regulatory changes

Our business as an international bank will continue to be subject to an evolving and complex regulatory framework comprising legislation, regulation, enforcement and codes of practice, in each of the countries in which we operate. A key uncertainty relates to the way in which governments and regulators adjust laws, regulations and economic policies in response to macroeconomic and other systemic conditions. The nature and impact of such future changes are not always predictable and could adversely affect our strategic interests. Some could have a significant impact, such as the calibration and implementation of new liquidity requirements and a leverage ratio, continuing derivatives reform (including the implementation of risk mitigation techniques for Over-the-Counter (OTC) derivatives not cleared by a central counterparty), and banking structural reforms in a number of markets (including proposals which could result in (i) the structural separation of certain trading activities from core deposit-taking and lending activities and (ii) local branches of international banking groups being subsidiarised), the UK bank levy and the US Foreign Account Tax Compliance Act. In relation to the banking structural reforms, the European Commission has published a legislative proposal for a regulation on structural measures improving the resilience of EU credit institutions, including a prohibition on proprietary trading and separation powers for supervisors relating to banks' trading activities. The regulation is expected to be adopted during 2015 with a view to the prohibition on proprietary trading taking effect on 1 January 2017 and the separation powers for supervisors on 1 July 2018.

Uncertainty remains regarding the final calibration and implementation of (i) liquidity requirements and the leverage ratio under the European Union's Capital Requirements Directive and Regulation (CRD IV) (although the Bank of England Financial Policy Committee has consulted on a proposal to introduce, as soon as practicable, a UK-specific 3per cent leverage ratio and, from 2016, supplementary leverage ratio buffers ahead of final calibration by the European Union) and ii) OTC derivative reforms across our markets which could potentially have a material impact on the Group and its business model. Furthermore, proposals for regulatory changes may have unintended consequences

either for individual banks or, in terms of aggregate impact, on the financial system. Depending on the final calibration and implementation of these measures, they could adversely affect economic growth, the volatility and liquidity of the financial markets and, consequently, the way we conduct business, structure our global operating model and manage capital and liquidity. These effects may directly or indirectly impact our financial performance.

Regulatory compliance, reviews, requests for information and investigations

While the Group seeks to comply with the letter and spirit of all applicable laws and regulations at all times, it has been and may continue to be subject to regulatory actions, reviews, requests for information (including subpoenas and requests for documents) and investigations across our markets, the outcomes of which are generally difficult to predict and can be material to the Group.

In 2012, the Group reached settlements with the US authorities regarding US sanctions compliance in the period 2001 to 2007, involving a Consent Order by the New York Department of Financial Services (NYDFS), a Cease and Desist Order by the Board of Governors of the Federal Reserve System (FED), Deferred Prosecution Agreements with each of the Department of Justice (DOJ) and the District Attorney of New York (DANY) (each a DPA) and a Settlement Agreement with the Office of Foreign Assets Control (together, the Settlements). In addition to the civil penalties totalling \$667 million, the terms of these Settlements include a number of conditions and ongoing obligations with regard to improving sanctions, Anti-Money Laundering (AML) and Bank Secrecy Act (BSA) controls such as remediation programmes, reporting requirements, compliance reviews and programmes, banking transparency requirements, training measures, audit programmes, disclosure obligations and, in connection with the NYDFS Consent Order, the appointment of an independent monitor (the Monitor). These obligations are managed under a programme of work referred to as the US Supervisory Remediation Program (SRP). The SRP comprises work streams designed to ensure compliance with the remediation requirements contained in all of the Settlements. In 2013 the Group also established a

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Financial Crime Risk Mitigation Programme (FCRMP), which is a comprehensive, multi-year programme designed to review and enhance many aspects of the Group's existing approach to money laundering prevention and to combating terrorism finance and the approach to sanctions compliance and the prevention of bribery and corruption. Many of the deliverables under the SRP are reliant on, or led by, individuals or functions outside the US, and in some cases represent the US implementation of Group-wide remediation or upgrade activity managed under the FCRMP. Consequently, there is a close working relationship between the SRP and FCRMP for the purpose of project coordination and delivery. As part of the FCRMP, the Group or its advisors may identify new issues, potential breaches or matters requiring further review or further process improvements that could impact the scope or duration of the FCRMP.

The Group is engaged with all relevant authorities to implement these programmes and meet the obligations under the Settlements.

On 19 August 2014, the Group announced that it had reached a final settlement with the NYDFS regarding deficiencies in the anti-money laundering 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 U.S.\$ 300 million
- (II) enhancements to the transaction surveillance system at the Branch
- (III) a two-year extension to the term of the Monitor
- (IV) the following set of temporary remediation measures, which will remain in place until the transaction surveillance system's detection scenarios are operating to a standard approved by the Monitor:
 - (a) the Branch will not, without prior approval of the NYDFS in consultation with the Monitor, open a U.S. Dollar demand deposit account for any client that does not already have such an account with the Branch;
 - (b) requirements for inclusion of identifying information for originators and beneficiaries of some affiliate and third-party payment messages cleared through the Branch;
 - (c) a restriction on U.S. Dollar clearing services for certain Hong Kong retail business clients;
 - (d) enhanced monitoring of certain small and medium sized enterprise clients in the United Arab Emirates. The Group is seeking to exit this business as part of its broader efforts to sharpen its strategic focus, withdrawing or re-aligning non-strategic businesses, including those where increased regulatory costs undermine their economic viability. The exit process is largely complete and, in accordance with the settlement agreement. USD clearance restrictions were implemented effective 17 November 2014.

The remit of the SRP has been expanded to cover the management of these obligations.

On 9 December 2014, the Group announced that the DOJ, DANY and the Group had agreed to a three-year extension of the DPAs until 10 December 2017, and to the retention of a monitor to evaluate and make recommendations regarding the Group's sanctions compliance programme.

Risk and Capital review continued

The DOJ agreement acknowledges that the Group has taken a number of steps to comply with the requirements of the original DPAs and to enhance and optimise its sanctions compliance, including the implementation of more rigorous US sanctions policies and procedures, certified staff training, hiring of senior legal and financial crime compliance staff and recently implementing additional measures to block payment instructions for countries subject to US sanctions laws and regulations. The Group will work closely with the authorities to make additional substantial improvements to its US sanctions programme to reach the standard required by the DPAs. The DOJ agreement also indicates that the Group is co-operating with an investigation related to possible historical violations of US sanctions laws and regulations, but that additional time is needed for the authorities to complete the investigation and determine whether any violations have occurred. The Group remains committed to full cooperation with the authorities during this investigation, alongside an extensive programme of compliance improvements. At the current stage of this investigation, the Group cannot predict the nature or timing of its outcome. There is a range of potential penalties for sanctions compliance violations, which could ultimately include substantial monetary penalties, additional compliance and remediation requirements, and/or additional business restrictions.

The Group recognises that its compliance with historical, current and future sanctions, as well as AML and BSA requirements, and customer due diligence practices, not just in the US but throughout its footprint, is and will remain a focus of the relevant authorities.

As part of their remit to oversee market conduct, regulators and other agencies in certain markets are conducting investigations or requesting reviews into a

number of areas of regulatory compliance and market conduct, including sales and trading, involving a range of financial products, and submissions made to set various market interest rates and other financial benchmarks, such as foreign exchange. At relevant times, certain of the Group's branches and/or subsidiaries were (and are) participants in some of those markets, in some cases submitting data to bodies that set such rates and other financial benchmarks. The Group is contributing to industry proposals to strengthen financial benchmarks processes in certain markets and continues to review its practices and processes in the light of the investigations, reviews and the industry proposals.

The Group is co-operating with all relevant ongoing reviews, requests for information and investigations. The outcome of these reviews, requests for information and investigations is uncertain and could result in further actions, penalties or fines but it is not possible to predict the extent of any liabilities or other consequences that may arise.

In meeting regulatory expectations and demonstrating active risk management, the Group also takes steps to restrict or restructure or otherwise to mitigate higher risk business activities which could include divesting or closing businesses that exist beyond risk tolerances.

For further details on legal and regulatory matters refer to note 42 on page 274.

As a result of our normal business operations, Standard Chartered is exposed to a broader range of risks than those principal uncertainties mentioned above and our approach to managing risk is detailed on the following pages.

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Risk Management Approach

The management of risk lies at the heart of Standard Chartered's business. One of the main risks we incur arises from extending credit to customers through our trading and lending operations. Beyond credit risk, we are also exposed to a range of other risk types such as country cross-border, market, liquidity, operational, pension, reputational and other risks that are inherent to our strategy, product range and geographical coverage.

Risk management framework

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

Through our risk management framework we manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our risk tolerance.

As part of this framework, the Board has approved a set of principles that describe the risk management culture we wish to sustain:

Balancing risk and return

- We manage our risks to build a sustainable franchise, in the interests of all our stakeholders
- We only take risk within our risk tolerances and risk appetite, and where consistent with our approved strategy
- We manage our risk profile to maintain a low probability of an unexpected loss event that would materially undermine the confidence of our investors

Conduct of business

- We demonstrate we are Here for good through our conduct, and are mindful of the reputational consequences of inappropriate conduct
- We seek to achieve good outcomes for clients, investors, and the markets in which we operate, while abiding by the spirit and letter of laws and regulations
- We treat our colleagues fairly and with respect

Responsibility and Accountability

- We take individual responsibility to ensure risk-taking is disciplined and focused, particularly within our area of authority
- We make sure risk taking is transparent, controlled and reported in line with the risk management framework, within risk appetite and risk tolerance boundaries, and only where there is appropriate infrastructure and resource

Anticipation

- We seek to anticipate material future risks, learn lessons from events that have produced adverse outcomes and ensure awareness of known risks

Competitive advantage

- We seek to achieve competitive advantage through efficient and effective risk management and control.

Risk governance

Ultimate responsibility for setting our risk tolerance boundaries and for the effective management of risk

rests with the Board of Standard Chartered PLC, which is the ultimate Group parent company (the Board).

Acting within an authority delegated by the Board, the Board Risk Committee (BRC), whose membership is comprised exclusively of non-executive directors of Group, has responsibility for oversight and review of prudential risks including but not limited to credit, market, capital, liquidity and operational risks. It reviews the Group's overall risk tolerance statement and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, considering the implications of material regulatory change proposals, ensuring effective due diligence on material acquisitions and disposals, and monitoring the activities of the Group Risk Committee (GRC) and Group Asset and Liability Committee (GALCO).

The BRC receives regular reports on risk management, including our portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference. The BRC also conducts "deep dive" reviews on a rolling basis of different sections of the consolidated group risk information report.

The Brand, Values and Conduct Committee oversees the brand, values and good reputation of the Group, ensuring that reputational risk is consistent with the risk tolerance statement approved by the Board and the creation of long term shareholder value.

The Board Financial Crime Risk Committee (BFCRC) oversees the Group's effective compliance with Financial Crime regulations.

The Audit Committee oversees financial, audit and internal control issues. Further details on the role of the Board and its committees in matters of risk governance are covered in the Corporate Governance section in the Group's Annual Report.

Overall accountability for risk management is held by the Standard Chartered Bank Court (the Court) which comprises the group executive directors and other senior executives of Standard Chartered Bank.

The Court is the highest executive body of the Group and its terms of reference are approved by the Board of Standard Chartered PLC. The Court delegates authority for the management of risk to the GRC and the GALCO.

The GRC is responsible for the management of all risks other than those delegated by the Court to the GALCO. The GRC is responsible for the establishment of, and compliance with, policies relating to credit risk, country cross-border risk, market risk, operational risk, pension risk and reputational risk. The GRC also defines our overall risk management framework.

The GALCO is responsible for the management of capital and the establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate risk.

GRC and GALCO are essentially unchanged following the changes to the Group's organisation structure, although the committee structures below them have changed significantly in some areas. The previous divisional risk committee structures have been combined to achieve better integration and alignment to the new organisational model.

Risk and Capital review continued

Members of the GRC and the GALCO are both drawn from the Court. The GRC is chaired by the Group Chief Risk Officer (GCRO). The GALCO is chaired by the Group Finance Director. Risk limits and risk exposure approval authority frameworks are set by the GRC in respect of credit risk, country cross-border risk, market risk and operational risk. The GALCO sets the approval authority framework in respect of liquidity risk. Risk approval authorities may be exercised by risk committees or authorised individuals.

The committee governance structure ensures that risk-taking authority and risk management policies are cascaded down from the Board through to the appropriate functional, business and country-level committees. Information regarding material risk issues and compliance with policies and standards is communicated to the country, business, functional and Group-level committees.

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

- First line of defence: All employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities. Business, function and geographic heads are accountable for risk management in their respective businesses and functions, and for countries where they have governance responsibilities
- Second line of defence: This comprises the risk control owners, supported by their respective control functions. Risk control owners are responsible for ensuring that the risks within the scope of their responsibilities remain within appetite. The scope of a risk control owner's responsibilities is defined by a given risk type and the risk management processes that relate to that risk type. These responsibilities cut across the Group and are not constrained by functional, business and geographic boundaries. The major risk types are described individually in the following sections
- Third line of defence: The independent assurance provided by the Group Internal Audit (GIA) function. Its role is defined and overseen by the Audit Committee

The findings from the GIA's audits are reported to all relevant management and governance bodies – accountable line managers, relevant oversight function or committee and committees of the Board.

The GIA provides independent assurance of the effectiveness of management's control of its own business activities (the first line) and of the processes maintained by the Risk Control Functions (the second line). As a result, the GIA provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework.

The Risk function

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

The role of the Risk function is:

- To maintain the Risk Management Framework, ensuring it remains appropriate to the Group's activities, is effectively communicated and implemented across the Group, and to administer related governance and reporting processes

- To uphold the overall integrity of the Group's risk/return decisions, and in particular ensures that risks are properly assessed, that risk/return decisions are made transparently on the basis of this proper assessment, and are controlled in accordance with the Group's standards and risk appetite
- To exercise direct Risk Control Ownership for Credit, Market, Country Cross-Border, Short-term Liquidity and Operational risk types

The independence of the Risk function is to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. This is particularly important given that revenues are recognised from the point of sale while losses arising from risk positions typically manifest themselves over time.

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

Risk tolerance and appetite

We manage our risks to build a sustainable franchise in the interests of all our stakeholders.

We recognise three sets of constraints which determine the risks that we are willing to take in pursuit of our strategy:

- **Risk Capacity** defines externally imposed constraints within which the Group must operate. It is the maximum level of risk the Group can assume, given its current capabilities and resources, before breaching constraints determined by regulatory capital and liquidity requirements, or otherwise failing to meet the expectations of regulators and law enforcement agencies.
- **Risk Tolerance** is the boundary defined by the Board that determines the maximum level of risk the Group is ordinarily willing to take in pursuit of its strategy, in accordance with its Risk Principles. Risk Tolerance must constrain risk to the levels where the potential for any financial or reputational damage is consistent with the sustained pursuit of strategy and in line with the reasonable expectations of stakeholders. Risk Tolerance cannot exceed Risk Capacity.
- **Risk Appetite** is the amount of risk which the Group regards as optimal in order to generate returns, taking account of current and reasonably foreseeable external market conditions. Risk Appetite cannot exceed Risk Tolerance.

The Group's risk profile is our overall exposure to risk, at a given point in time, covering all applicable risk types. Risk control tools such as exposure limits, underwriting standards, scorecard cut-offs and policies and other operational control parameters are used to keep the Group's risk profile within Risk Appetite (and therefore also Risk Tolerance and Risk Capacity).

The Board has approved a Risk Tolerance Statement, which is underpinned by a set of financial and operational control parameters, known as Risk Tolerances. These Risk Tolerances directly constrain the aggregate risk exposures that can be taken across the Group.

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Risk and Capital review continued

The Group's Risk Tolerance Statement, and the related Risk Tolerance categories approved by the Board are as follows.

- General: The Group will not compromise adherence to its risk tolerances in order to pursue revenue growth or higher returns.
- Credit & Country Cross-Border: The Group manages its credit and country cross-border exposures following the principle of diversification across products, geographies, client segments and industry sectors.

Specific risk tolerances are set for single name credit concentrations, industry credit concentrations, portfolio tenor, retail unsecured credit concentrations and country cross border credit risk concentrations.

- Capital and Earnings Volatility: Under stressed conditions, of a severity experienced on average once in 25 years, the Group's prudential capital ratios on a transitional basis should exceed minimum regulatory capital requirements, without recourse to external sources.

Specific tolerances are set for minimum Core Tier 1 capital and leverage ratios under 1-in-25 year stress conditions

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

Specific tolerances are set for minimum financial markets stress profitability and short term profit and loss volatility

- Liquidity Risk: The Group should be able to meet its payment and collateral obligations under extreme but plausible liquidity stress scenarios without recourse to extraordinary central bank support.

Specific tolerances are set for minimum assets to deposits and liquidity coverage ratios

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

This statement is underpinned by risk tolerances for each operational Top Risk. The risk control metrics that underpin the operational Top Risks are in the process of being defined as part of the roll out of the Group's Operational Risk Framework. See page 129 for the list of the Group's current operational Top Risks

- Reputational Risk: The Group will protect its reputation to ensure that there is no material damage to the Group's franchise.

The Group Risk Committee and Group Asset and Liability Committee are responsible for ensuring that our risk profile is managed in compliance with the risk tolerances set by the Board. The Board Risk Committee advises the Board on the Risk Tolerance Statement and monitors that the Group remains in compliance with it.

Stress testing

Stress testing and scenario analysis are used to assess the financial and management capability of Standard Chartered to continue operating effectively under extreme but plausible trading conditions.

Our stress testing framework is designed to:

- Contribute to the setting and monitoring of risk tolerance
- Identify key risks to our strategy, financial position, and reputation
- Support the development of mitigating actions and contingency plans including business continuity
- Meet regulatory requirements.

Our stress testing activity focuses on the potential impact of market, macroeconomic, geopolitical and physical events on relevant geographies, customer segments and asset classes. Stress tests are performed at Group, country and business level and bespoke scenarios are applied to our market and liquidity positions as described in the section on market risk on page 144 and liquidity risk on page 146.

Credit risk management

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

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework. The Group manages its credit exposures following the principle of diversification across products, geographies, industries, collateral types and client segments.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

Credit risk committee

The Credit Risk Committee (CRC), which receives its ultimate authority from the GRC, is the primary senior management committee to ensure the effective management of credit risk throughout the Group in line with risk appetite and in support of Group strategy. The CRC regularly meets to monitor all material credit risk exposures, key internal developments and external trends and ensure that appropriate action is taken. It is chaired by the Group Chief Credit Officer.

Credit policies

Group-wide credit policies and standards are considered and approved by the GRC, which also oversees the delegation of credit approval and loan impairment provisioning authorities. These policies set key control standards on credit origination and credit risk assessment, concentration risk and large exposures, credit risk mitigation, credit monitoring, collection and recovery management. In addition, there are other

Risk and Capital review continued

group-wide policies integral to the credit risk management such as those relating to stress testing, risk measurement and impairment provisioning.

Policies and procedures specific to each client or product segment are established by authorised bodies. These are consistent with our Group-wide credit policies, but are more detailed and adapted to reflect the different risk characteristics across client and product segments. Policies are regularly reviewed and monitored to ensure these remain effective and consistent with the risk environment and risk appetite.

Credit rating and measurement

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

Since 1 January 2008, Standard Chartered has used the advanced Internal Ratings Based (IRB) approach under the Basel II regulatory framework to calculate credit risk capital requirements.

A standard alphanumeric credit risk grade (CG) system for Corporate, Institutional and Commercial clients is used. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to non-performing or defaulted customers. An analysis by credit grade of those loans that are neither past due nor impaired is set out on page 74 to 77.

For Retail client IRB portfolios, we use application and behaviour credit scores which are calibrated to generate a probability of default and then mapped to the standard alphanumeric credit risk grade system.

Our credit grades are not intended to replicate external credit grades (where these are available), and ratings assigned by external ratings agencies or credit bureaus are not used in determining our internal credit grades. Nonetheless, as the factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency or credit bureau is typically assigned a worse internal credit grade.

Advanced IRB models cover a substantial majority of our exposures and are used in assessing risks at a customer and portfolio level, setting strategy and optimising our risk-return decisions. Material IRB risk measurement models are approved by the Credit Risk Committee, on the recommendation of the Credit Model Assessment Committee (MAC). The Credit MAC approves all other IRB risk measurement models, with all decisions noted to CRC. The Credit MAC supports the Credit Risk Committee in ensuring risk identification and measurement capabilities are objective and consistent, so that risk control and risk origination decisions are properly informed. Prior to review by the Credit MAC, all IRB models are validated in detail by a model validation team, which is separate from the teams that develop and maintain the models. Models undergo annual periodic review. Reviews are also triggered if the performance of a model deteriorates materially against

predetermined thresholds during the ongoing model performance monitoring process.

Credit approval and credit risk assessment

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Credit Approval Committee (CAC). The CAC is appointed by the CRC and derives its credit approving authority from the GRC.

All other credit approval authorities are delegated by the GRC to individuals based both on their judgment and experience and a risk-adjusted scale that takes account of the estimated maximum potential loss from a given customer or portfolio. Credit origination and approval roles are segregated in all but a very few authorised cases. In those very few exceptions where they are not, originators can only approve limited exposures within defined risk parameters.

All credit proposals are subject to a robust credit risk assessment. It includes a comprehensive evaluation of the client's credit quality including willingness, ability, and capacity to repay. The primary lending consideration is usually based on the client's credit quality and the repayment capacity from operating cash flows for counterparties; and personal income or wealth for individual borrowers. The risk assessment gives due consideration to 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 senior credit officer or authorised bodies. An analysis of the loan portfolio is set out on pages 56 to 96.

Credit concentration risk

Credit concentration risk may arise from a single large exposure to a counterparty or a group of connected counterparties, or from multiple exposures across the portfolio that are closely correlated.

Large exposure concentration risk is managed through concentration limits set by counterparty or group of connected counterparties.

At the portfolio level, credit concentration thresholds are set and monitored to control concentrations, where appropriate, by country, industry, product, tenor, collateral type, collateralisation level and credit risk profile.

For concentrations that are material at a Group level, thresholds are set and monitored by the CRC and reported to GRC and BRC.

Credit monitoring

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

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Internal risk management reports are presented to risk committees, containing information on key environmental, political and economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance; and IRB portfolio metrics including credit grade migration.

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

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

Such accounts and portfolios are subjected to a dedicated process overseen by Credit Issues Committees in countries. Client account plans and credit grades are re-evaluated. In addition, remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of Group Special Assets Management (GSAM), our specialist recovery unit. Typically, all Corporate, Institutional, Commercial and Private Banking past due accounts are managed by GSAM.

For retail business client exposures, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and is considered for lending decisions. Accounts that are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by specialist recovery teams. In some countries, aspects of collections and recovery functions are outsourced.

Credit risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

Collateral is held to mitigate credit risk exposures. Where appropriate, credit derivatives are used to reduce credit risks in the portfolio. Due to their potential impact on income volatility, such derivatives are used in a controlled manner with reference to their expected volatility.

The Group credit risk mitigation policy determines the key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements.

Collateral types that are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit. Standard Chartered also enters into collateralised reverse repurchase agreements.

In order to be recognised as security and for the loan to be classified as secured, all items pledged must be valued and an active secondary resale market must exist for the collateral. Documentation must be held to enable the Group to realise the asset without the cooperation of the asset owner in the event that this is necessary. The Group also seeks to diversify its collateral holdings across asset classes and markets.

For certain types of lending – typically mortgages, asset financing – the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. The requirement for collateral is however not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

Regular valuation of collateral is required in accordance with the Group's credit risk mitigation policy, which prescribes both the process of valuation and the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios. Physical collateral is required to be insured at all times and against all risks, with the Group as the loss payee under the insurance policy.

Where appropriate, collateral values are adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of possession.

Where guarantees or credit derivatives are used as credit risk mitigation the creditworthiness of the guarantor is assessed and established using the credit approval process in addition to that of the obligor or main counterparty. The main types of guarantors include bank guarantees, insurance companies, parent companies, shareholders and export credit agencies.

Traded products

Credit risk from traded products is managed within the overall credit risk appetite for corporates and financial institutions.

The credit risk exposure from traded products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements.

The Group uses bilateral and multilateral netting to reduce presettlement and settlement counterparty risk. Pre-settlement risk exposures are normally netted using bilateral netting documentation in legally approved jurisdictions. Settlement exposures are generally netted using Delivery versus Payments or Payment versus Payments systems. Master netting agreements are

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generally enforced only in the event of default. In line with IAS 32, derivative exposures are presented on a net basis in the financial statement only if there is a legal right to offset and there is intent to settle on a net basis or realise the assets and liabilities simultaneously.

In addition, we enter into Credit Support Annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Further details on CSAs are set out on page 72.

Securities

The portfolio limits and parameters for the underwriting and purchase of all pre-defined securities assets to be held for sale are approved by the Underwriting Committee. The Underwriting Committee is established under the authority of the CRC. The business operates within set limits, which include country, single issuer, holding period and credit grade limits.

Day to day credit risk management activities for traded securities are carried out by a specialist team within the Risk function whose activities include oversight and approval within the levels delegated by the Underwriting Committee. Issuer credit risk, including settlement and pre-settlement risk, and price risk are controlled by the Risk function.

The Underwriting Committee approves individual proposals to underwrite new security issues for our clients. Where an underwritten security is held for a period longer than the target sell-down period, the final decision on whether to sell the position rests with the Risk function.

Loan impairment

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

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

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

The total amount of the Group's impairment allowances is inherently uncertain being sensitive to changes in economic and credit conditions across the geographies in which the Group operates. Economic and credit conditions are interdependent within each geography and as a result there is no single factor to which the Group's loan impairment allowances as a whole are sensitive. It is possible that actual events over the next year differ from the assumptions built into the model

resulting in material adjustments to the carrying amount of loans and advances.

Retail Clients

Retail Clients product portfolios consist of a large number of comparatively small exposures, where it is impractical to assess each loan on an individual basis for impairment. The primary indicator of potential impairment in these portfolios is therefore delinquency. A loan is considered delinquent (or 'past due'), when the customer has failed to make a principal or interest payment in accordance with the loan contract. For delinquency reporting purposes we follow industry standards measuring delinquency as of one, 30, 60, 90, 120 and 150 days past due. Impairment is measured against these buckets in two stages:

In the first stage we raise 'portfolio impairment provisions' (PIP). These are calculated by applying expected loss rates to delinquency buckets. These are based on past experience of loss supplemented by an assessment of specific factors that affect each portfolio and that in particular aim to adjust historic data for current market conditions. Loss rates are generally calculated separately for each product in each country (either through the use of historical data or using proxies) and separate loss rates are used for renegotiated and forbore loans to reflect their increased risk. PIPs take into account the fact that, while delinquency is an indication of impairment, not all delinquent loans (particularly those in the early stages of delinquency) will in fact be impaired. This will only become apparent with the passage of time and as we investigate the causes of delinquency on a case by case basis. (Accounts that are overdue by more than 30 days are more closely monitored and subject to specific collections processes for this purpose). At the outset of delinquency therefore it is not possible to determine whether a loan is impaired; it is only possible to estimate the likelihood that it is. This is taken account of in the PIP method, which estimates loss by extrapolating past experience over whole portfolios, rather than analysing individual loans on a case by case basis.

In the second stage we are able to replace PIP with individual impairment provisions (IIP) as we develop more knowledge about each individual account. We apply IIP after the following number of days' delinquency:

- For mortgages after 150 days
- For secured wealth management products after 90 days
- For unsecured consumer finance loans after 90 days
- For all other unsecured loans and loans secured on automobiles, after 150 days

IIP is based on the estimated present values of future cashflows, in particular those resulting from the realisation of security. The days past due used to trigger IIP are driven by past experience, which shows that once an account reaches the relevant number of days past due, the probability of recovery (other than by raising security as appropriate) is low. For all products there are certain situations where the IIP process is

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accelerated, such as in cases involving bankruptcy, customer fraud and death. IIP is also accelerated for all restructured accounts to 90 days past due (unsecured and automobile finance) and 120 days past due (secured loans) respectively.

Loan write off is again broadly driven by past experience of the point at which further recovery is unlikely. Write off occurs at the same time that IIP is established for all products except mortgage loans, which have not been restructured. The latter is fully impaired after 720 days past due.

The fact that it is not possible to be certain that a loan is impaired until several months after it becomes delinquent means that it is also not possible to be certain which delinquent loans are fully non-performing. The Group has determined that it is more likely than not that a loan is non-performing after 90 days and therefore uses 90 days delinquency as the distinguishing feature between performing and non-performing Retail Client loans. This is however, only an approximate measure and it also means that, for Retail Client portfolios, impaired loans do not equate to non-performing loans, because impairment cannot be generally determined on an individual basis until a later date.

It is inevitable that at the balance sheet date, the non-delinquent portfolio will include a few impaired loans that have not manifested themselves as delinquent. These are known as 'incurred, but not reported' losses. A PIP is raised against these by applying past experience adjusted for current conditions to non-delinquent loans on a portfolio basis.

For further details on Retail see pages 94 to 96.

Corporate and Institutional, Commercial and Private Banking Clients

Loans are classified as impaired where analysis and review indicates that full payment of either interest or principal is questionable, or as soon as payment of interest or principal is 90 days overdue. Impaired accounts are managed by our specialist recovery unit, GSAM, which is separate from our main businesses. Where any amount is considered irrecoverable, an individual impairment provision is raised. This provision is the difference between the loan carrying amount and the present value of estimated future cash flows.

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

Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an impairment provision has been raised, that amount will be written off.

As with Retail Clients, a PIP is held to cover the inherent risk of losses which, although not identified, are known through experience to be present in any loan portfolio.

This is set with reference to historic loss rates and subjective factors such as the economic environment and the trends in key portfolio indicators. The PIP methodology provides for accounts for which an individual impairment provision has not been raised.

For further details on Corporate and Institutional, Commercial and Private Banking Clients see pages 94 to page 96.

Renegotiated and forborne loans

In certain circumstances, the Group may renegotiate client loans.

Loans that are renegotiated for commercial reasons, such as when a client had a credit rating upgrade, are not included as part of renegotiated and forborne loans because they are not indicative of any credit stress.

Loans that are renegotiated primarily to grant extended tenor to a client who is facing some difficulties but who we do not believe is impaired are reported as 'other renegotiated loans'. Loans that are renegotiated on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared to the original terms of the loans, are considered to be subject to forbearance strategies and are disclosed as "Loans subject to forbearance", which is a subset of impaired loans.

Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the bank or a third party (including Government sponsored programmes or a conglomerate of credit institutions) and includes debt restructuring, such as a new repayment schedule, payment deferrals, tenor extensions and interest only payments.

Once a loan is subject to forbearance or is renegotiated, the loan continues to be reported as such, until the loan matures or is otherwise derecognised.

Retail Clients

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

Corporate and Institutional, Commercial and Private Banking Clients

Forbearance and other renegotiations are applied on a case-by-case basis and are not subject to business wide programmes. In some cases, a new loan is granted as part of the restructure and 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

Risk and Capital review continued

client's ability to adhere to the restructured repayment strategy and to identify any events that could result in a deterioration in the client's ability to repay.

If the terms of the renegotiation are such that, where the present value of the new cash flows is lower than the present value of the original cash flows, the loan would be considered to be impaired and at a minimum a discount provision would be raised and shown under Loans subject to Forbearance. These accounts are monitored as described on page 14.

Renegotiated and forbore loans are disclosed by client segments on pages 74 to 77.

Country cross-border risk

Country cross-border risk is the risk that we will be unable to obtain payment from our customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency.

The GRC is responsible for our country cross-border risk limits and delegates the setting and management of those limits to the Group Country Risk function. The business and country chief executive officers manage exposures within these limits and policies. Countries designated as higher risk are subject to increased central monitoring.

Assets which generate country cross-border exposure are those where the main source of repayment or security is derived from a country other than the country in which the asset is booked. These cover a wide range of products including loans and advances, interest-bearing deposits with other banks, trade and other bills, acceptances, amounts receivable under finance leases, derivatives, certificates of deposit and other negotiable paper, investment securities and formal commitments. Cross-border assets also include exposures to local residents denominated in currencies other than the local currency and local currency assets funded by intra-group funding. Cross-border exposure also includes the value of commodity, aircraft and shipping assets owned by the Group that are held in a given country.

Market risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises predominantly from providing clients access to financial markets, facilitation of which entails the Group's taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk related activities is broadly stable. Market risk also arises in the non-trading book from the requirement to hold a large liquid assets buffer of high quality liquid debt securities and from the translation of non-US dollar denominated assets, liabilities and earnings.

The primary categories of market risk for Standard Chartered 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 commodity option implied volatilities; covering energy, precious metals, base metals and agriculture;
- equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

Market risk governance

The Board approves the Group's risk tolerances for market risk.

Subject to the risk tolerances set for market risk the GRC sets Group-level market risk limits and stress loss triggers.

The Market and Traded Credit Risk Committee (MTCRC), under authority ultimately delegated by the GRC, is responsible for setting business and desk level VaR and stress loss triggers for market risk within the levels set by GRC. The MTCRC is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both trading and non-trading books of the Group.

The Market and Traded Credit Risk function (MTCR) approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to a one basis point increase in yields, whereas foreign exchange, commodity and equity sensitivities are measured in terms of the underlying values or amounts involved. Option risks are controlled through revaluation limits on underlying price and volatility shifts, limits on volatility risk and other variables that determine the option's value.

Value at Risk

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

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

We apply two VaR methodologies:

- Historical simulation: involves the revaluation of all existing positions to reflect the effect of historically

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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 an historical observation period of one year is chosen and applied.

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

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

To assess their predictive power, VaR models are back tested against actual results.

See an analysis of VaR and backtesting results in 2014 on pages 106 to 111.

Stress testing

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

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

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

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

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

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

Market risk VaR coverage

Interest rate risk from non-trading book portfolios is transferred to Financial Markets where it is managed by local ALM desks under the supervision of local Asset and Liability Committees (ALCO). ALM deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits.

VaR and stress tests are therefore applied to these non-trading book exposures (except Group Treasury, see below) in the same way as for the trading book, including available-for-sale securities. Securities classed as Loans and Receivables or Held to maturity are not reflected in VaR or stress tests since they are accounted on an amortised cost basis, so market price movements have limited effect on either profit and loss or reserves.

Structural foreign exchange currency risks are managed by Group Treasury, as described below, and are not included within Group VaR. Otherwise, the non-trading book does not run open foreign exchange positions.

Equity risk relating to non-listed Private Equity and Strategic Investments is not included within the VaR. It is separately managed through delegated limits for both investment and divestment, and is also subject to regular review by an investment committee. These are included as Level 3 assets as disclosed in note 15 to the financial statements.

Group Treasury market risk

Group Treasury raises debt and equity capital and the proceeds are invested within the Group as capital or placed with ALM. Interest rate risk arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements. This risk is measured as the impact on net interest income (NII) of an unexpected and instantaneous adverse parallel shift in rates and is monitored over a rolling one-year time horizon. See details in Market risk – Latest figures section.

Group Treasury also manages the structural foreign exchange risk that arises from non-US dollar currency net investments in branches and subsidiaries. The impact of foreign exchange movements is taken to reserves which form part of the capital base. The effect of exchange rate movements on the capital ratio is partially mitigated by the fact that both the value of these investments and the risk weighted assets in those currencies follow broadly the same exchange rate movements. With the approval of CMC, Group Treasury may hedge the net investments if it is anticipated that the capital ratio will be materially affected by exchange rate movements. Changes in the valuation of these positions are taken to reserves. See details in Market risk – Latest figures section.

These risks are monitored and controlled by the Group's Capital Management Committee (CMC).

Derivatives

Derivatives are contracts with characteristics and value derived from underlying financial instruments, interest and exchange rates or indices. They include futures, forwards, swaps and options transactions. Derivatives

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are an important risk management tool for banks and their clients because they can be used to manage market price risk. The market risk of derivatives is managed in essentially the same way as other traded products.

Our derivative transactions are principally in instruments where the mark-to-market values are readily determinable by reference to independent prices and valuation quotes.

We enter into derivative contracts in the normal course of business to meet client requirements and to manage our exposure to fluctuations in market price movements.

Derivatives are carried at fair value and shown in the balance sheet as separate totals of assets and liabilities. Recognition of fair value gains and losses depends on whether the derivatives are classified as trading or held for hedging purposes.

The credit risk arising from all financial derivatives is managed as part of the overall lending limits to financial institutions and corporate clients. This is covered in more detail in the Credit risk section (see page 72).

Hedging

Countries within the Group use futures, forwards, swaps and options transactions primarily to mitigate interest and foreign exchange risk arising from their in-country exposures. The Group also uses futures, forwards and options to hedge foreign exchange and interest rate risk.

In accounting terms under IAS 39, hedges are classified into three types: fair value hedges, predominantly where fixed rates of interest or foreign exchange are exchanged for floating rates; cash flow hedges, predominantly where variable rates of interest or foreign exchange are exchanged for fixed rates; and hedges of net investments in overseas operations translated to the parent company's functional currency, US dollars.

We may also, under certain individually approved circumstances, enter into economic hedges that do not qualify for IAS 39 hedge accounting treatment, and which are accordingly marked to market through the profit and loss account, thereby creating an accounting asymmetry. These are entered into primarily to ensure that residual interest rate and foreign exchange risks are being effectively managed. Current economic hedge relationships include hedging the foreign exchange risk on certain debt issuances and on other monetary instruments held in currencies other than US dollars.

Liquidity risk

Liquidity risk is the risk that we either do not have sufficient financial resources available to meet our obligations as they fall due, or can only access these financial resources at excessive cost.

It is our policy to maintain adequate liquidity at all times, in all geographic locations and for all currencies, and hence to be in a position to meet obligations as they fall due. We manage liquidity risk both on a short-term and structural basis. In the short-term, our focus is on ensuring that the cash flow demands can be met where required. In the medium-term, the focus is on ensuring that the balance sheet remains structurally sound and is aligned to our strategy.

The Group Asset and Liability Committee (GALCO) is the responsible governing body that approves our liquidity management policies. The Liquidity Management Committee (LMC) receives authority from the GALCO and is responsible for setting or delegating authority to set liquidity limits and proposing liquidity risk policies. Liquidity in each country is managed by the country ALCO within pre-defined liquidity limits and in compliance with Group liquidity policies and practices, as well as local regulatory requirements. MTCR and Group Treasury propose and oversee the implementation of policies and other controls relating to the above risks.

We seek to manage our liquidity prudently in all geographical locations and for all currencies. Exceptional market events could impact us adversely, thereby potentially affecting our ability to fulfill our obligations as they fall due. The principal uncertainties for liquidity risk are that customers withdraw their deposits at a substantially faster rate than expected, or that asset repayments are not received on the expected maturity date. To mitigate these uncertainties, we maintain a diverse and largely customer-driven funding base, while our customer loans are mostly of short tenor. In addition we have contingency funding plans including a portfolio of liquid assets that can be realised if a liquidity stress occurs, as well as ready access to wholesale funds under normal market conditions.

Customer assets are as far as possible funded in the same currency. Where mismatches arise, they are controlled by limits in each country on the amount of foreign currency that can be swapped to local currency and vice versa. Such limits are therefore a means of controlling reliance on foreign exchange markets, which minimises the risk that obligations could not be met in the required currency in the event that access to foreign exchange markets becomes restricted. In sizing the limits we consider a range of factors including:

- The size and depth of local FX markets; and
- The local regulatory environment, particularly the presence or risk of imposition of foreign exchange controls.

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Policies and procedures

Our liquidity risk management framework requires limits to be set for prudent liquidity management. There are limits on:

- The local and foreign currency cash flow gaps
- The level of external wholesale funding to ensure that the size of this funding is proportionate to the local market and our local operations
- The level of borrowing from other countries within the Group to contain the risk of contagion from one country to another
- The amount of foreign currency that can be swapped to local currency and vice versa to limit reliance on foreign exchange markets.
- Commitments, both on and off balance sheet, to ensure there are sufficient funds available in the event of drawdown
- The advances to deposits ratio to ensure that commercial advances are funded by stable sources and that customer lending is funded by customer deposits
- The amount of assets that may be funded from other currencies
- The amount of medium term assets that have to be funded by medium term funding

In addition, we prescribe a liquidity stress scenario that includes accelerated withdrawal of deposits over a period of time. Each country has to ensure on a daily basis that cash inflows would exceed outflows under such a scenario.

All limits are reviewed at least annually, and more frequently if required, to ensure that they remain relevant given market conditions and business strategy. Compliance with limits is monitored independently on a regular basis by MTCR and Finance. Limit excesses are escalated and approved under a delegated authority structure and reported to the country ALCO. Excesses are also reported monthly to the LMC which provide further oversight.

We have significant levels of marketable securities, including government securities that can be monetised or pledged as collateral in the event of a liquidity stress. In addition, a Funding Crisis Response and Recovery Plan (FCRRP), reviewed and approved annually, is maintained by Group Treasury. The FCRRP strengthens existing governance processes by providing a broad set of Early Warning Indicators (EWIs), an escalation framework and a set of management actions that could be effectively implemented by the appropriate level of senior management in the event of a liquidity stress. A similar plan is maintained within each major country.

Liquidity management – stress scenarios

The Group conducts a range of liquidity related stress analyses, both for internal and regulatory purposes.

Internally, three stress tests are run routinely: a severe 8 day name specific stress, a 30-day market wide stress and a 90-day combined name specific and market wide stress. Liquidity risks are also considered as part of the

Group's wider periodic scenario analysis, including reverse stress testing. In addition, the Group runs a range of stress tests to meet regulatory requirements, as defined by the PRA and local regulators.

The eight-day stress is specifically designed to determine a minimum quantity of marketable securities that must be held at all times in all countries. This stress is computed daily, and the minimum marketable securities requirement is observed daily. This is intended to ensure that, in the unlikely event of an acute loss of confidence in the Group or any individual entity within it, there is sufficient time to take corrective action. Every country must pass, on a stand-alone basis, with no presumption of Group support. The Group's resilience to market-wide disruption, such as loss of interbank money or foreign exchange markets, is tested using the 30-day market wide stress scenario, and is monitored by country ALCOs.

Finally, the 90-day stress test considers more prolonged stresses that affect markets across a number of the Group's main footprint countries and in which the Group itself may come under some sustained pressure. This pressure may be unwarranted or may be because the Group is inextricably linked with those markets/countries. This stress is managed at a Group rather than individual country level. It tests the adequacy of contingency funding arrangements beyond the marketable securities held to cover the eight-day stress, including the ability to support countries from elsewhere in the Group.

Our country stress testing considers potential currency mismatches between outflows and inflows. Particular focus is paid to mismatches in less liquid currencies and those which are not freely convertible. Mismatches are controlled by management action triggers set by MTCR. Group-wide stress tests also consider the portability of liquidity surpluses between Group entities, taking account of regulatory restrictions on large and intra-group exposures.

Standard Chartered Bank's credit ratings as at December 2014 were AA- negative (Fitch), A+ with negative outlook (S&P) and A1 (Moody's). A downgrade in credit rating would increase derivative collateral requirements and outflows due to rating-linked liabilities. The impact of a 2-notch downgrade results in an estimated outflow of \$2.1 billion.

Operational risk

We define operational risk as the potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, and including legal risk.

As operational risk arises from all activities carried out within the Group, the potential for operational risk events occurring across a large and complex international organisation is a constant challenge. To address this we aim to achieve 'industrial strength' process and control design standards for all activities and benchmark practices against peers, other industries and regulatory requirements.

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Operational Risk Governance

The Group Risk Committee provides oversight of operational risk management across the Group. It is supported by the Global Business Risk Committee, the Group Functions Operational Risk Committee, the Group Financial Crime Risk Committee and the Group Information Management Governance Committee, which oversee operational risk arising from the Global businesses, Group functions, financial crime compliance and information management respectively.

Internal Organisation - Three Lines of Defence

To implement the operational risk management approach in the Group, the Group applies the Three Lines of Defence, as set out in the Risk Management Framework.

The First Line has responsibility for identifying and managing all risks within first line processes as an integral part of First Line responsibilities.

In the Second Line of Defence, Group Operational Risk is responsible for setting and maintaining the standards for operational risk management approach. In addition, the Second Line of Defence comprises both Second Line Risk Control Owners of each operational risk sub-type and Second Line Group Policy Owners.

The Third Line of Defence is the independent assurance provided by the Group Internal Audit (GIA) function, which has no management responsibilities for any of the activities it examines. GIA provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework.

Operational Risk is managed within tolerances aligned to achieve the Board approved Risk Tolerance Statement: The Group aims to control operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise.

In order to comply with this statement the OR management approach includes the following requirements:

- The Group will systematically identify Top Risks and emerging risks with the involvement of Senior Management/Board to define the appropriate course of action including business restrictions
- All material processes will be mapped and owned with appropriate key control standards defined to mitigate risks
- The Group will not miss any opportunity to learn lessons from internal or external events and will implement relevant mitigation actions

The Group will systematically test internal capital adequacy through scenario analysis and stress testing

Risk Classification

Risk Types are the different ways that we may be exposed to loss. Each Risk Type is a grouping of potential losses which are material, and which may arise in different activities or areas of the Group.

The Group uses Risk Types principally as an aid to ensure comprehensive and consistent identification of risks, wherever they may arise. Operational Risk Types are listed in the table below.

Risk Tolerance Approach

OPERATIONAL RISK SUB-TYPES	
External Rules & Regulations	Potential for actual or opportunity loss due to failure to comply with laws or regulations, or as a result of changes in laws or regulations or in their interpretation or application
Liability	Potential for loss or sanction due to a legal claim against any part of the Group or individuals within the Group
Legal enforceability	Potential for loss due to failure to protect legally the Group's interests or from difficulty in enforcing the Group's rights
Damage or loss of physical assets	Potential for loss or damage or denial of use of property or other physical assets
Safety & security	Potential for loss or damage relating to health and or physical security
Internal fraud or dishonesty	Potential for loss due to action by staff which is intended to defraud, or to circumvent the law or company policy
External fraud	Potential for loss due to criminal acts by external parties such as fraud or theft of financial assets
Information Security	Potential for loss due to unauthorized access, use, disclosure, disruption, modification or destruction of information
Processing failure	Potential for loss due to failure of an established process or to a process design weakness
Model	Potential for loss due to a significant discrepancy between the output of credit and market risk measurement models and actual experience.
	Potential for regulatory breach due to a significant discrepancy between the output of client risk scoring, name screening and surveillance detection models and actual experience.

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Operational Risk Management Approach

The Group ensures completeness of its management of operational risk by maintaining a complete Process Universe defined for all client segments, products and functions processes.

The Process Universe is the complete list of end-to-end processes that collectively describe the activities of the Group and is the reference for the application of the operational risk management approach.

This represents all Group activities, the owners of these activities and the risk and control standards that are defined by risk and process owners. It also serves as the foundation for policy delivery as well as risk identification, measurement, management and reporting. The ORF requires:

- 'Industrial strength' processes for all Group activities
- Control tolerances for detection and rectification of defects within a defined time period
- Standardised processes in all countries except for legitimate system or regulatory exceptions
- Gross and residual risk assessments by First Line and approved by Second Line
- Monthly risk and control monitoring.
- Prompt execution of risk treatment actions to closure

The operational risk management approach is being rolled out on a prioritised basis by risk and market as part of the ORF programme. The Group's Very High and High Gross risk processes are being rolled out to all businesses and functions to nine of the largest markets (Singapore, Hong Kong, China, Korea, UAE, United Kingdom, United States, India and Pakistan). This will be completed in the first half of 2015. Progression to all markets and lower risk processes in the Group will take place by end of 2015.

Stress Testing and Scenario Analysis

As part of our operational risk management approach, we conduct regulatory stress-testing and stress-testing by scenario analysis for the Group.

Regulatory stress-testing driven by adverse macroeconomic scenarios is used to determine regulatory capital adequacy. In 2014 we participated in the Bank of England and ICAAP exercises. The exercises included internal judgmental overlays for potential risk of low-frequency, high-severity events occurring during stress conditions, due to collateral management processing failure, fraud and mis-selling risks. The results confirmed the Group's operational risk Pillar I regulatory capital was adequate.

Our stress testing and scenario analysis programme is prioritised to identify concentration of risks across the Group's processes and to consider and assess the potential impact of low-frequency high-severity events that may exceed the Group's risk tolerances. An example of a recent stress test included a "Cyber attack" scenario which was performed following public information on external events regarding Malware attacks on other financial institutions.

Conduct

Conduct of business or 'conduct' is a term that is used in a broad number of ways across the financial services industry. At its broadest, good conduct is the appropriate execution of business, by the Group or any

individual acting on its behalf, in accordance with our strategic intent, risk management principles and risk appetite. More narrowly, it refers to specific regulations designed to achieve fair outcomes for customers and the effective operation of markets;

Good conduct is evidenced through disciplined adherence to our overall framework of systems and controls outlined in the Risk Management Framework and the standards of individual behaviour set out in the Code of Conduct.

Specifically for operational risk:

- External Rules & Regulations classifications defined in the Operational Risk Framework include specific categories of regulation designed to achieve fair outcomes for customers ('Client Conduct') and the effective operation of markets ('Market Conduct'); This ensures that each category of regulation is properly classified and aligned to the Group's systems and control structures. Risk Control Owners are responsible for defining the Group's minimum standards and controls in respect of each category. The Group's policies and standards may frequently exceed the minimum requirements or expectations of regulators
- Conduct is considered in the Group's Top Risks (see Risk profile on page 129). The Group aims to prevent the risks of failure to deliver the conduct of business standards expected by the Group's clients, investors, and markets in which we operate. Many of the Top Risks can be driven by poor conduct so the Group is focused on its control standards around these risks. Additionally there is a specific Top Risk for additional conduct related liability which may arise from failure of our people, processes or clients to live up to the Group's standards. Examples of areas where conduct issues are more acute include Bribery and Corruption and servicing clients across borders.

Reputational risk

Reputational risk is the potential for damage to the Group's franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the Group or its actions. Failures in behaviours or systems may affect stakeholders' perceptions of the Group's commitment to its Here for good brand promise.

Reputational risk could arise from the failure of the Group to effectively mitigate the risks in its businesses including one or more of country, credit, liquidity, market, regulatory, legal, strategic or other operational risk. Damage to the Group's reputation could cause existing clients to reduce or cease to do business with the Group and prospective clients to be reluctant to do business with the Group. All employees are responsible for day to day identification and management of reputational risk. These responsibilities form part of the Group Code of Conduct and are further embedded through values-based performance assessments. Risk Control Owners must identify material reputational risks arising from any business activity or transaction that they control and ensure that these are escalated and controlled in accordance with the Group's Reputational Risk Policy and applicable procedures.

Risk and Capital review continued

Reputational risk may also arise from a failure to comply with environmental and social standards. Our primary environmental and social impacts arise through our relationship with our clients and customers and the financing decisions we take. We have published a series of Position Statements that we apply in the provision of financial services to clients who operate in sectors with specific risks, and for key issues. We have mechanisms in our origination and credit processes to identify and assess environmental and social risks, and a dedicated Environmental and Social Risk Management team that reviews proposed transactions with identified risks.

The GRC provides Group-wide oversight on reputational risk, sets policy and monitors material risks. The Group Head of Corporate Affairs is the overall risk control owner for reputational risk. The BVCC and BRC provide additional oversight of reputational risk on behalf of the Board.

At the business level, the Business Responsibility and Reputational Risk Committee has responsibility for managing reputational risk.

At country level, the Country Head of Corporate Affairs is the risk control owner of reputational risk. It is his or her responsibility to protect our reputation in that market with the support of the Country Management Group. The Head of Corporate Affairs and Country Chief Executive Officer must actively:

- Promote awareness and application of our policies and procedures regarding reputational risk
- Encourage business and functions to take account of our reputation in all decision-making, including dealings with customers and suppliers
- Implement effective in-country reporting systems to ensure they are aware of all potential issues in tandem with respective business committees
- Promote effective, proactive stakeholder management through ongoing engagement.

Pension risk

Pension risk is the potential for loss due to having to meet an actuarially-assessed shortfall in the Group's pension schemes.

The risk assessment is focused on our obligations towards our major pension schemes, ensuring that our funding obligation to these schemes is comfortably within our financial capacity. Pension risk is monitored quarterly.

The Group Pension Risk Committee is the body responsible for governance of pension risk and it receives its authority from GRC.

Standard Chartered Bank

Risk and Capital review continued

Capital management

Standard Chartered Bank is a regulated entity. Capital management and governance as described below applies to the Group's regulated consolidations and entities. **Our approach to capital management is to maintain a strong capital base to support the development of our business and to meet regulatory capital and leverage requirements at all times.**

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

The capital plan takes the following into account:

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

The Group formulates a capital plan with the help of internal models and other quantitative techniques. The Group uses a capital model to assess the capital demand for material risks, and supports this with an internal capital adequacy assessment. Other internal models help to estimate potential future losses arising from credit, market and other risks and using regulatory formulae, the amount of capital required to support them. In addition, the models enable the Group to gain an enhanced understanding of its risk profile, for example by identifying potential concentrations and assessing the impact of portfolio management actions. Stress testing and scenario analysis are an integral part of capital planning, and are used to ensure that the Group's internal capital adequacy assessment considers the impact of extreme but plausible scenarios on its risk profile and capital position. They provide an insight into the potential impact of significant adverse events and how these could be mitigated through appropriate management actions. The capital modelling process is a key part of our management discipline.

A strong governance and process framework is embedded in our capital planning and assessment methodology. The key capital management committees are the Group Asset and Liability Committee (GALCO)

and the Capital Management Committee (CMC). The members of GALCO include the Group Executive Directors of the Board and the Group Chief Risk Officer, with senior attendees from Group Treasury, Finance, Risk and the businesses. GALCO regularly reviews the capital plan and approves capital management policies and guidelines. The CMC oversees the tactical management of the Group's capital position and provides a link to GALCO's strategic management of the Group's capital position. GALCO delegates certain authorities to CMC in relation to capital management.

The Group's capital position, including its relationship to the Group's risk appetite statement, is regularly considered by the Board Risk Committee. At a country level, capital is monitored by the Country Asset and Liability Committee. Appropriate policies are in place governing the transfer of capital within the Group.

The Group's view is that, in light of the uncertain economic environment and continuing uncertainty as to the end state for banks' regulatory capital and other loss absorbency requirements, it is appropriate to remain both strongly capitalised and well above regulatory requirements.

The capital that the Group is required to hold is determined by our balance sheet, off-balance sheet, counterparty and other risk exposures.

Further detail on counterparty and risk exposures is included in the Risk review on pages 48 to 149.

Capital in branches and subsidiaries is maintained on the basis of host regulators' requirements and the Group's assessment of capital requirements under normal and stress conditions. Suitable processes and controls are in place to monitor and manage capital adequacy and ensure compliance with local regulatory requirements in all Group entities. These processes are designed to ensure that we have sufficient capital available to meet local regulatory capital requirements.

Standard Chartered Bank is authorised by the PRA and regulated by the Financial Conduct Authority and the PRA as Standard Chartered Bank (Solo Consolidated). The Group operates through branches and a number of significant subsidiaries including Standard Chartered Bank, Standard Chartered Bank (Hong Kong) Limited and Standard Chartered Bank Korea Limited. These subsidiaries are subject to local regulation and, therefore, may be subject to different rules relating to capital and risk weight requirements and the implementation and phasing of Basel 3. The Group's Pillar 3 Disclosures provide further details on the subsidiaries.

Risk and Capital review continued

Capital ratios

	2014 %
CET1 transitional	10.5
Total capital transitional	16.4

CRD IV Capital base

	Transitional position 2014 \$million
CET1 instruments and reserves	
Capital instruments and the related share premium accounts	21,150
Of which: Share premium accounts	296
Retained earnings ¹	17,811
Accumulated other comprehensive income (and other reserves)	4,217
Non-controlling interests (amount allowed in consolidated CET1)	1,565
Foreseeable dividends net of scrip ²	(1,160)
CET1 capital before regulatory adjustments	43,583
CET1 regulatory adjustments	
Additional value adjustments	(200)
Intangible assets (net of related tax liability)	(5,041)
Deferred tax assets that rely on future profitability	(180)
Fair value reserves related to gains or losses on cash flow hedges	58
Negative amounts resulting from the calculation of expected loss	(1,717)
Gains or losses on liabilities at fair value resulting from changes in own credit	(167)
Defined-benefit pension fund assets	(13)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(9)
Exposure amounts which could qualify for risk weighting	(199)
Of which: securitisation positions	(177)
Of which: free deliveries	(22)
Regulatory adjustments relating to unrealised gains	(469)
Total regulatory adjustments to CET1	(7,937)
CET 1 transitional	35,646
Additional Tier 1 capital (AT1) instruments	2,434
Tier 1 capital	38,080
Tier 2 capital instruments	17,810
Tier 2 regulatory adjustments	(11)
Tier 2 capital	17,799
Total capital transitional	55,879
Total risk-weighted assets³	339,842

The table above summarises the consolidated capital position of the Group. The Group's Pillar 3 Disclosures contain the full prescribed EBA Own Funds template.

¹ Retained earnings include the effect of regulatory consolidation adjustments, and for 2013 include year-end profits

² Foreseeable dividends include the proposed final dividend for 2014. The final dividend is reported net of scrip using 25 per cent scrip dividend assumption

³ The risk-weighted assets are not reviewed by the auditors

Standard Chartered Bank

Report of the directors

Directors' Report

The directors present their report and the audited financial statements of Standard Chartered Bank and its subsidiaries (the 'Group') and Standard Chartered Bank (the 'Company') for the year ended 31 December 2014.

Activities

The activities of the Group are banking and providing other financial services. The Financial Review on pages 22 to 47 contains a review of the business during 2014.

Post balance sheet events

In addition to the post balance sheet event disclosed in note 43 to the accounts, on 8 January 2015 the Company's ultimate parent Standard Chartered PLC announced the retirement of Richard Goulding as Chief Risk Officer and Jan Verplancke as Chief Information Officer and Group Head of Technology and Operations from the Group, and as Directors of the Company. Both Mr Goulding and Mr Verplancke will resign as Directors of the Company during 2015.

On 26 February 2015 Standard Chartered PLC announced that Peter Sands and Jaspal Bindra would be stepping down from the Board in June 2015 and by 30 April 2015 respectively. Mr Sands and Mr Bindra will resign as Directors of the Company when they step down from the Board of Standard Chartered PLC.

Financial instruments

Details of financial instruments are given in note 15 to the accounts.

Results and dividends

The results for the year are given in the income statement on page 158.

Interim dividends totalling \$1,208 million were paid to ordinary shareholders during the year (2013: \$1,839 million). The directors do not recommend the payment of a final dividend (2013: \$nil).

Share capital

Details of the Company's share capital are given in note 34 to the accounts.

Loan capital

Details of the loan capital are given in note 31 to the accounts.

Property, plant and equipment

Details of the property, plant and equipment of the Company are given in note 27 to the accounts.

Directors and their interests

The directors of the Company at the date of this report are:

Mr P A Sands	
Mr S P Bertamini	(resigned 31 March 2014)
Mr J S Bindra	
Mrs T J Clarke	
Mr R F Goulding	
Mr A N Halford	(appointed 1 July 2014)
Mr R H Meddings	(resigned 30 June 2014)
Mr A M G Rees	
Mr V Shankar	
Mr J P M F Verplancke	

None of the directors have a beneficial or non-beneficial interest in the shares of the Company or in any of its subsidiary undertakings.

Details of directors' pay and benefits are disclosed in note 14 to the accounts.

All of the directors as at 31 December 2014, except for Mrs Clarke, Messrs Goulding, and Verplancke are directors of the Company's ultimate holding company, Standard Chartered PLC, and their interests in the share capital of that company are shown in its report and accounts.

Directors' Interests in Standard Chartered PLC Ordinary Shares

Directors	At 1 January 2014 Total interests	At 31 December 2014 Total interests
T J Clarke	59,202	103,670
R F Goulding	116,886	168,040
J P M F Verplancke	80,000	122,837

Standard Chartered Bank

Report of the directors continued

Share Awards

Standard Chartered PLC operates a number of share based arrangements for its directors and employees. Details of these arrangements are included in note 36 to the accounts.

Scheme interests awarded in 2014

Directors	Scheme	Face Value (GBP) ¹	Percentage vesting at threshold	Number of shares	Performance period end date
TJ Clarke	PSA	1,146,645	30%	92,100	31-Dec-17
	DRSA	334,942	100%	26,903	31-Dec-13
RF Goulding	PSA	1,056,121	30%	84,829	31-Dec-17
	DRSA	353,045	100%	28,357	31-Dec-13
JPMF Verplancke	PSA	1,161,734	30%	93,312	31-Dec-17
	DRSA	416,403	100%	33,446	31-Dec-13

¹ Face value calculated based on the prevailing market price of shares which is the higher of (i) the five day average closing price and (ii) the closing price on the day before the grant date. For the performance and deferred share awards granted to directors on 13 March 2014 the price was GBP12.45

Unvested share awards

Directors	Subject to deferral but not performance conditions ¹	Subject to performance conditions ¹
TJ Clarke	52,908	248,610
RF Goulding	59,973	258,109
JPMF Verplancke	66,542	266,035

¹ Includes share interests awarded in 2014

Sharesave

Directors	Grant Date	As at 1 January 2014	Exercise price (pence)	Awarded during the period	Exercised	Lapsed	As at 31 December 2014	Period of exercise
TJ Clarke	04-Oct-10	1,040	1,463	-	-	-	1,040	2015-2016
RF Goulding	04-Oct-11	1,429	1,065	-	-	-	1,429	2016-2017

The details of the share award schemes are included in note 36

Standard Chartered Bank

Report of the directors continued

Going concern

Having made appropriate enquiries, the Board is satisfied that the Company and the Group as a whole have adequate resources to continue operational businesses for the foreseeable future and therefore continued to adopt the going concern basis in preparing the financial statements.

Significant contracts

There were no contracts of significance during the year in which any of the directors were materially interested.

Areas of operation

The Company operates through branches and subsidiaries in Asia, the Middle East, Africa, Europe and the Americas.

Related party transactions

Details of transactions with directors and officers and other related parties are set out in note 44 to the financial statements

Employee Policies and engagement

With more than 90,000 employees representing 133 nationalities across 71 markets, the Group has a number of communication mechanisms that inform employees about matters affecting or of interest to them. A mix of communications channels is used to inform employees of key business activity at a global, regional and business level. The primary channel is iConnect, the Group's intranet which is available to over 96 per cent of employees across 70 markets. This is supported by Group and local newsletters, a single global screensaver, targeted audio calls – for business area or management level, videos and town hall events. Business or time critical information can be sent directly to employee inboxes through a measurable email marketing platform.

This mix ensures that employees receive information promptly regardless of their business area, geography or access to the intranet.

At an individual level, regular team meetings and discussions with line managers enable employees to discuss and clarify any questions they have on news within and performance of the Group. The twice-yearly formal performance review also provides the opportunity to discuss how the employee, their team and business area contributed to the overall performance of the Bank and how any compensation awards relate to this.

For over a decade, our employee engagement survey, which ran annually and had an average response rate of 96 per cent, has been an important way of gathering feedback across the organisation. Our engagement approach, which has helped to create our distinctive culture, has also been recognised externally winning two Gallup awards. In 2014, a new employee engagement survey, branded 'My Voice', was launched globally. The new survey measures the engagement drivers across the Group relating to a variety of business factors, including leadership, strategy and conduct. Participation in My Voice was voluntary, and more than 85 per cent of employees across 68 countries completed the survey. The insight gained is being used to inform action plans that resolve highlighted issues.

Less formal measures of sentiment and engagement include quick polls and comment facilities on the global intranet. In addition, targeted local surveys and focus groups seek views on particular topics or from particular groups of employees. Across the Group, many business areas or project groups facilitate employee forums and message boards, actively seeking opinion and feedback. Combined with over 30 employee networks across 17 countries and numerous champion groups, these insights are invaluable in shaping our thinking and future planning.

In 2014, the Group has refreshed its Group Equal Opportunities, Diversity, Inclusion and Dignity at Work Policy, reinforcing the Group's commitment to providing equality of opportunity and fair treatment in employment, and it does not accept unlawful discrimination in its recruitment and employment policies, terms, procedures, processes and decisions on the grounds of race; colour; nationality; national or ethnic origins; gender; parental status; marital or civil partner status; sexual orientation; gender identity, expression or reassignment; HIV or AIDS status; employment status; flexibility of working arrangements; disability; age; religion; or belief. The Group appoints, trains, develops, rewards and promotes employees on the basis of their merit and ability. If employees become disabled, every endeavour is made to ensure their employment continues, with appropriate training where necessary.

Action may be taken to address disadvantage or under-representation among specific groups, with the aim of ensuring that employment decisions are free from bias.

The Group does not tolerate any bullying or harassment of, discrimination against, or victimisation of staff, clients, or visitors of the Group, whether verbal, written, physical or psychological. All staff have a duty to treat all those with whom they come into contact through work with dignity and respect at all times. This is also enshrined in our Group Code of Conduct, which states that colleagues must be treated fairly and with respect, and that all employees are entitled to a safe working environment that is inclusive and free from discrimination, bullying and harassment.

Treating our colleagues as partners helps our people to deliver on the brand promise, resulting in a positive effect on our business results.

Sharesave is provided to engage employees in the Group's performance and offer them an opportunity for long-term savings and a share in the financial success that they help to create.

Qualifying Third Party Indemnities

Standard Chartered PLC, the Company's ultimate holding company has granted qualifying third party indemnities to the directors of the Company. These indemnities remain in force at the time of this report. The Company itself has not granted any qualifying third party indemnities to the directors.

Standard Chartered Bank

Report of the directors continued

Group Code of Conduct

The Board has adopted a Group Code of Conduct (the 'Code') relating to the lawful and ethical conduct of business and this is supported by the Group's core values. The Code was refreshed in 2013 and has been communicated to all directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates.

Employees are asked to recommit to the code annually, and this was done during November 2014.

Environmental and social risk management

The Board is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. This encompasses risks associated with clients' operations and their potential impact on the environment and local communities. The Board recognises its responsibility to manage these risks and that failure to manage them adequately would have an adverse impact on our business.

The Board receives regular information to identify and assess significant risks and opportunities arising from environmental and social matters. These issues are overseen on behalf of the Board by the Brand, Values and Conduct Committee. The Brand, Values and Conduct Committee reviews the Group's sustainable business priorities, and oversees the Group's development of, and delivery against, public commitments regarding which activities and/or businesses it will or will not accept in alignment with our Here for good brand promise.

Environmental and social risks are explicitly identified in the Group's policies and procedures. We have disclosed a series of 20 sector-specific and thematic Position Statements that apply to the provision of debt, equity and advisory services to all clients. Additionally, we have adopted the Equator Principles that set requirements for identifying, assessing and mitigating the environmental and social impacts associated with the financing of projects and related advisory services.

The Group reports on its environmental and social performance through the Group's Annual Report and Accounts and through the sustainability section of the Group's website.

Environmental impact of our operations

As part of our environmental priorities, we are committed to measuring our operational impact. Utilising an online system, energy, water, paper and waste data is collected from all properties over 10,000 square feet – representing 75 per cent of our total occupied footprint. This data forms the basis of our Greenhouse Gas (GHGs) emission management as well as our drive to reduce energy, water and paper use against set targets. In addition, staff air travel is closely monitored.

Community Investment

We work with our stakeholders to help promote social and economic development across our markets. In 2014, we invested a total of \$64.2 million to support our local communities. This includes cash contributions of \$25.2 million and indirect contributions such as \$23.6 million in employee time. Our community programmes focus on health and education, with youth as a target demographic. Global community programmes include Seeing is Believing, which addresses avoidable blindness; Living with HIV which promotes education and awareness on HIV and AIDS; and Goal which combines sports training with life skills, financial education and workforce development to empower girls. We also promote financial education through training programmes for small businesses and youth. We offer our employees three days paid leave to volunteer. In 2014, staff contributed over 86,900 days to employee volunteering.

HIV and IDS Procedures

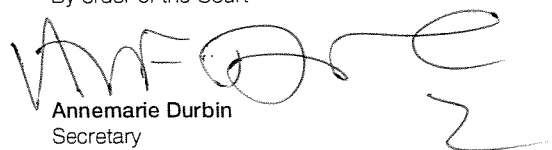
We HIV and AIDS remain a serious challenge across our markets, impacting our employees, their families and their communities. The HIV and AIDS Procedures, as part of the Group Equal Opportunities, Diversity, Inclusion and Dignity at Work Policy, outline our commitment to support our employees. The HIV and AIDS Procedures apply globally to all staff and their families in a manner consistent with existing medical cover.

Auditor

Our auditors, KPMG Audit Plc have instigated an orderly wind down of business. The Court has decided to put KPMG LLP forward to be appointed as auditors and resolution concerning their appointment will be put to the forthcoming Annual General Meeting of the Company.

The directors have taken all necessary steps to make themselves and KPMG Audit Plc aware of any information needed in performing the audit of the 2014 Annual Report and Accounts and as far as each of the directors is aware, there is no relevant audit information of which KPMG Audit Plc is unaware.

By order of the Court



Annemarie Durbin
Secretary
4 March 2015
Company Reference Number: ZC18

Standard Chartered Bank

Statement of directors responsibility

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 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 and prudent
- state whether they have been prepared in accordance with IFRSs as adopted by the EU
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Report of the directors, Strategic 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.

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

By order of the Board



A Halford
Director
4 March 2015

Standard Chartered Bank

Independent Auditor's Report to the members of Standard Chartered Bank

We have audited the financial statements of the Group (Standard Chartered Bank and its subsidiaries) and Bank (Standard Chartered Bank) (together referred to as the 'financial statements') for the year ended 31 December 2014 set out on pages 158 to 277. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the Bank's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 156, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the Bank's financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

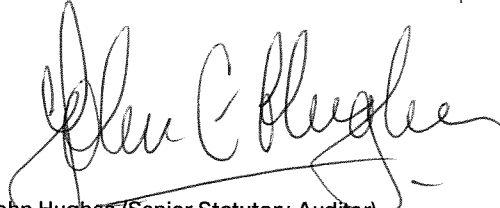
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors which include information presented in the Financial Review that are cross referenced from the Report of Directors, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



John Hughes (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL
4 March 2015

Standard Chartered Bank

Consolidated income statement

For the year ended 31 December 2014

	Notes	2014 \$million	2013 \$million
Interest income	3	16,975	17,588
Interest expense	4	(5,870)	(6,450)
Net interest income		11,105	11,138
Fees and commission income	5	4,661	4,594
Fees and commission expense	5	(511)	(488)
Net trading income	6	1,846	2,489
Other operating income	7	1,101	991
Non-interest income		7,097	7,586
Operating income		18,202	18,724
Staff costs	8	(6,807)	(6,579)
Premises costs	8	(900)	(877)
General administrative expenses	8	(2,697)	(2,036)
Depreciation and amortisation	9	(598)	(733)
Operating expenses		(11,002)	(10,225)
Operating profit before impairment losses and taxation		7,200	8,499
Impairment losses on loans and advances and other credit risk provisions	10	(2,141)	(1,617)
Other impairment			
Goodwill	11	(758)	(1,000)
Other	11	(403)	(129)
Profit from associates and joint ventures		249	226
Profit before taxation		4,147	5,979
Taxation	12	(1,527)	(1,869)
Profit for the year		2,620	4,110
Profit attributable to:			
Non-controlling interests	35	745	894
Parent company shareholders		1,875	3,216
Profit for the year		2,620	4,110

The notes on pages 165 to 277 form an integral part of these financial statements.

Standard Chartered Bank

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	Notes	2014 \$million	2013 \$million
Profit for the year		2,620	4,110
Other comprehensive income:			
Item that will not be reclassified to Income statement:			
Actuarial (losses)/gains on retirement benefit obligations	33	(61)	79
Items that may be reclassified subsequently to Income statement:			
Exchange differences on translation of foreign operations:			
Net losses taken to equity		(1,085)	(1,208)
Net gains / (losses) on net investment hedges		20	(35)
Share of other comprehensive income from associates and joint venture		17	(15)
Available-for-sale investments:			
Net valuation gains taken to equity		503	187
Reclassified to income statement		(423)	(248)
Cash flow hedges:			
Net losses taken to equity		(116)	(83)
Reclassified to income statement		13	6
Taxation relating to components of other comprehensive income	12	(25)	35
Other comprehensive income for the year, net of taxation		(1,157)	(1,282)
Total comprehensive income for the year		1,463	2,828
Attributable to:			
Non-controlling interests	35	734	807
Parent company shareholders		729	2,021
		1,463	2,828

The notes on pages 165 to 277 form an integral part of these financial statements.

Standard Chartered Bank

Consolidated balance sheet

As at 31 December 2014

	Notes	2014 \$million	2013 \$million
Assets			
Cash and balances at central banks	15, 38	97,282	54,534
Financial assets held at fair value through profit or loss	15, 16	32,405	29,176
Derivative financial instruments	15, 17	66,317	62,161
Loans and advances to banks	15, 18	83,885	83,701
Loans and advances to customers	15, 19	284,548	290,584
Investment securities	15, 21	103,923	102,379
Other assets	15, 22	38,525	33,494
Current tax assets		362	234
Prepayments and accrued income		2,620	2,493
Interests in associates and joint ventures	23	1,954	1,767
Goodwill and intangible assets	26	4,782	5,694
Property, plant and equipment	27	6,615	6,903
Deferred tax assets	28	545	558
Total assets		723,763	673,678
Liabilities			
Deposits by banks	15	54,301	43,418
Customer accounts	15	405,353	381,066
Financial liabilities held at fair value through profit or loss	15, 16	22,390	23,030
Derivative financial instruments	15, 17	64,184	62,289
Debt securities in issue	15, 29	53,313	45,939
Other liabilities	15, 30	31,235	27,361
Due to parent companies and other related parties		15,705	16,364
Current tax liabilities		879	1,026
Accruals and deferred income		5,518	4,304
Subordinated liabilities and other borrowed funds	15, 31	21,362	22,147
Deferred tax liabilities	28	199	176
Provisions for liabilities and charges	32	92	104
Retirement benefit obligations	33	413	365
Total liabilities		674,944	627,589
Equity			
Share capital	34	20,854	17,754
Reserves		23,814	24,335
Total parent company shareholders' equity		44,668	42,089
Non-controlling interests	35	4,151	4,000
Total equity		48,819	46,089
Total equity and liabilities		723,763	673,678

The notes on pages 165 to 277 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 4 March 2015 and signed on its behalf by:



P A Sands
Director



A Halford
Director

Standard Chartered Bank

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Share capital	Share premium account	Capital and Capital redemption reserve ¹	Available-for-sale reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Parent company shareholders equity	Non-controlling interests	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January 2013	12,054	1,796	40	487	77	(934)	22,779	36,299	3,581	39,880
Profit for the year	-	-	-	-	-	-	3,216	3,216	894	4,110
Other comprehensive income	-	-	-	(27)	(60)	(1,227)	119 ²	(1,195)	(87)	(1,282)
Distributions	-	-	-	-	-	-	-	-	(273)	(273)
Shares issued, net of expenses	5,700	-	-	-	-	-	-	5,700	-	5,700
Deemed capital contribution ³	-	-	-	-	-	-	282	282	-	282
Share option expense and related taxation	-	-	-	-	-	-	2	2	-	2
Dividends	-	-	-	-	-	-	(1,940)	(1,940)	-	(1,940)
Deemed distribution to parent	-	-	-	-	-	-	(263)	(263)	-	(263)
Other decreases ⁴	-	-	-	-	-	-	(12)	(12)	(115)	(127)
At 31 December 2013	17,754	1,796	40	460	17	(2,161)	24,183	42,089	4,000	46,089
Profit for the year	-	-	-	-	-	-	1,875	1,875	745	2,620
Other comprehensive income	-	-	-	13	(77)	(1,033)	(49) ²	(1,146)	(11)	(1,157)
Distributions	-	-	-	-	-	-	-	-	(295)	(295)
Shares issued, net of expenses	3,100	-	-	-	-	-	-	3,100	-	3,100
Deemed capital contribution ³	-	-	-	-	-	-	280	280	-	280
Share option expense and related taxation	-	-	-	-	-	-	(1)	(1)	-	(1)
Dividends	-	-	-	-	-	-	(1,309)	(1,309)	-	(1,309)
Deemed distribution to parent	-	-	-	-	-	-	(233)	(233)	-	(233)
Other increases/ (decreases) ⁵	-	-	-	-	-	-	13	13	(288)	(275)
At 31 December 2014	20,854	1,796	40	473	(60)	(3,194)	24,759	44,668	4,151	48,819

¹ Includes capital reserve of \$5 million, capital redemption reserve of \$35 million

² Includes actuarial losses, net of taxation and non-controlling interest share, of \$47 million (2013: gain of \$58 million)

³ Comprises deemed capital contribution from parent arising from share based payment of \$280 million (2013: \$282 million)

⁴ Relate mainly to the impact of losing controlling interest in a subsidiary after divesting from the company

⁵ Further details available in note 35

Note 34 includes a description of each reserve.

The notes on pages 165 to 277 form an integral part of these financial statements.

Standard Chartered Bank

Cash flow statement

For the year ended 31 December 2014

	Notes	Group		Company	
		2014 \$million	2013 \$million	2014 \$million	2013 \$million
Cash flows from operating activities					
Profit before taxation		4,147	5,979	1,599	4,233
Adjustments for non-cash items and other adjustments included within income statement	37	4,395	4,215	1,901	486
Change in operating assets	37	(12,551)	(44,526)	(10,427)	(23,683)
Change in operating liabilities	37	58,352	45,602	52,083	14,250
Contributions to defined benefit schemes		(98)	(168)	(41)	(98)
UK and overseas taxes paid		(1,704)	(1,886)	(932)	(979)
Net cash from /(used in) operating activities		52,541	9,216	44,183	(5,791)
Cash flows from investing activities					
Purchase of property, plant and equipment	27	(189)	(205)	(82)	(69)
Disposal of property, plant and equipment		68	156	8	89
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired	23	(64)	(46)	(642)	(1,425)
Disposal and redemption of investment in subsidiaries		-	-	103	205
Purchase of investment securities	21	(195,971)	(142,325)	(59,627)	(49,668)
Disposal and maturity of investment securities	21	191,982	136,926	53,506	48,448
Dividends received from investment in subsidiaries, associates and joint ventures	23	13	5	2,240	991
Net cash used in investing activities		(4,161)	(5,489)	(4,494)	(1,429)
Cash flows from financing activities					
Issue of ordinary and preference share capital, net of expenses		3,100	5,700	3,100	5,700
Interest paid on subordinated liabilities		(1,001)	(1,115)	(902)	(1,009)
Gross proceeds from issue of subordinated liabilities		3,698	2,500	3,698	2,500
Repayment of subordinated liabilities		(3,914)	(2,616)	(3,300)	(2,366)
Repayment to non-controlling interests		(298)	(104)	-	-
Interest paid on senior debts		(135)	(124)	(3)	(16)
Gross proceeds from issue of senior debts		1,531	3,762	-	-
Repayment of senior debts		(2,344)	(3,730)	-	-
Dividends paid to non-controlling interests and preference shareholders		(396)	(374)	(101)	(101)
Dividends paid to ordinary shareholders		(1,208)	(1,839)	(1,208)	(1,839)
Net cash (used in)/from financing activities		(967)	2,060	1,284	2,869
Net increase /(decrease) in cash and cash equivalents		47,413	5,787	40,973	(4,351)
Cash and cash equivalents at beginning of year		84,156	79,518	55,493	60,665
Effect of exchange rate movements on cash and cash equivalents		(1,699)	(1,149)	(1,257)	(821)
Cash and cash equivalents at end of year	38	129,870	84,156	95,209	55,493

The notes on pages 165 to 277 form an integral part of these financial statements.

Standard Chartered Bank

Company balance sheet

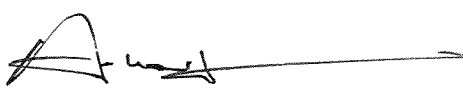
As at 31 December 2014

	Notes	2014 \$million	2013 \$million
Assets			
Cash and balances at central banks	15, 38	82,728	41,272
Financial assets held at fair value through profit or loss	15, 16	22,507	18,600
Derivative financial instruments	15, 17	63,465	60,146
Loans and advances to banks	15, 18	48,689	49,951
Loans and advances to customers	15, 19	126,642	129,785
Investment securities	15, 21	48,993	43,875
Other assets	15, 22	24,767	21,620
Due from subsidiary undertakings and other related parties		19,349	17,520
Current tax assets		69	29
Prepayments and accrued income		1,308	1,133
Investment in subsidiary undertakings	23	12,962	14,763
Investment in joint ventures	23	546	492
Investment in associates	23	43	52
Goodwill and intangible assets	26	1,020	915
Property, plant and equipment	27	474	484
Deferred tax assets	28	367	400
Total assets		453,929	401,037
Liabilities			
Deposits by banks	15	45,708	35,602
Customer accounts	15	178,647	157,499
Financial liabilities held at fair value through profit or loss	15, 16	10,741	10,184
Derivative financial instruments	15, 17	61,509	59,703
Debt securities in issue	15, 29	44,492	36,685
Other liabilities	15, 30	17,972	14,061
Due to subsidiary undertakings and other related parties		37,488	33,096
Current tax liabilities		618	715
Accruals and deferred income		3,494	2,379
Subordinated liabilities and other borrowed funds	15, 31	19,610	19,741
Deferred tax liabilities	28	80	59
Provisions for liabilities and charges	32	120	130
Retirement benefit obligations	33	310	276
Total liabilities		420,789	370,130
Equity			
Share capital	34	20,854	17,754
Reserves		12,286	13,153
Total parent company shareholders' equity		33,140	30,907
Total equity and liabilities		453,929	401,037

The notes on pages 165 to 277 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 4 March 2015 and signed on its behalf by:


P A Sands
Director


A Halford
Director

Standard Chartered Bank

Company statement of changes in equity

For the year ended 31 December 2014

	Share capital	Share premium account	Capital and Capital redemption reserve ¹	Available-for-sale reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January 2013	12,054	1,796	40	169	73	(287)	10,787	24,632
Profit for the year	-	-	-	-	-	-	3,199	3,199
Other comprehensive income	-	-	-	(84)	(50)	(603)	37	(700)
Shares issued, net of expenses	5,700	-	-	-	-	-	-	5,700
Share option expense, net of taxation	-	-	-	-	-	-	2	2
Deemed capital contribution ²	-	-	-	-	-	-	213	213
Deemed distribution to parent	-	-	-	-	-	-	(203)	(203)
Dividends	-	-	-	-	-	-	(1,940)	(1,940)
Other increases	-	-	-	-	-	-	4	4
At 31 December 2013	17,754	1,796	40	85	23	(890)	12,099	30,907
Profit for the year	-	-	-	-	-	-	743	743
Other comprehensive income	-	-	-	69	(79)	(274)	(26)	(310)
Shares issued, net of expenses	3,100	-	-	-	-	-	-	3,100
Share option expense, net of taxation	-	-	-	-	-	-	(1)	(1)
Deemed capital contribution ²	-	-	-	-	-	-	198	198
Deemed distribution to parent	-	-	-	-	-	-	(188)	(188)
Dividends	-	-	-	-	-	-	(1,309)	(1,309)
At 31 December 2014	20,854	1,796	40	154	(56)	(1,164)	11,516	33,140

¹ Includes capital reserve of \$5 million, capital redemption reserve of \$35 million

² Comprises deemed capital distribution from parent arising from share based payments of \$198 million (2013: \$213 million)

Note 34 includes a description of each reserve.

The notes on pages 165 to 277 form an integral part of these financial statements.

Standard Chartered Bank

Notes to the financial statements

1. Accounting policies

(a) Statement of compliance

The Group financial statements consolidate those of Standard Chartered Bank (the Company) and its subsidiaries (together referred to as the Group) and equity account the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

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

In publishing the parent company financial statements together with the Group financial statements, the Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

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

- 'Regulatory compliance, review, request for information and investigations; and 'Risk of fraud and other criminal acts' on pages 132 and 133;
- From the start of the 'Risk Profile' section on page 53 to the end of the 'Pension Risk' section on page 149 excluding:
 - a. Asset backed securities, page 99;
 - b. Mapping of market risk items to the balance sheet, page 111;
 - c. Encumbered assets, page 117; and
 - d. Liquidity Coverage Ratio and Net Stable Funding Ratio, page 116; and
- The CRD IV capital base on page 151

(b) Basis of preparation

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

and the revaluation of financial assets and liabilities (including derivatives) at fair value through profit or loss.

(c) Significant accounting estimates and judgements

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

- Loan loss provisioning (refer to Risk Review on pages 91 to 93)
- Taxation (refer to note 12)
- Fair value of financial instruments (refer to note 15)
- Goodwill impairment (refer to note 26)
- Provisions for liabilities and charges (refer to note 32)
- Retirement benefit obligations (refer to note 33)
- Share based payments (refer to note 36)

(d) Fiduciary activities

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

(e) New accounting standards adopted by the Group

On 1 January 2014, the Group adopted the following amendments to standards and new interpretation.

- Amendment to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* clarifies the requirements for offsetting financial assets and liabilities and addresses inconsistencies noted in current practice when applying the offsetting criteria in IAS 32. These amendments were applied retrospectively and did not have a material impact on these consolidated financial statements.
- Amendment to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* removes the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives have been allocated when there has been no impairment or reversal of impairment of the related CGU.

1. Accounting policies continued

e) New accounting standards adopted by the Group continued

Furthermore, the amendments introduce additional disclosure requirements applicable when the recoverable amount of asset or CGU is measured at FV less costs of disposal. The application of these amendments has had no material impact on these consolidated financial statements.

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement: Novation of Derivatives and Continuation of Hedge Accounting* clarifies that there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendments were applied retrospectively and did not have a material impact on these consolidated financial statements.
- IFRIC 21 *Levies* provides guidance on when to recognise a liability for a levy imposed by a Government. IFRIC 21 identifies the obligating event for the recognition of a liability. If that obligating event occurs over a period of time, the levy is recognised proportionately. If it is a triggered by a minimum threshold, the liability is recognised when that threshold is reached. This interpretation was applied retrospectively and did not have a material impact on these consolidated financial statements.
- There are a number of IFRS improvements that were effective from 1 January 2014. Those changes did not have a significant impact on these consolidated financial statements.

(f) New accounting standards in issue but not yet effective

A number of new standards and amendments to standards and interpretations are effective for periods beginning after 1 January 2015 and have not been applied in preparing these consolidated financial statements. These include:

IFRS 9 *Financial Instruments*

IFRS 9 was issued in July 2014 and has an effective date of 1 January 2018. The standard has not yet been endorsed by the EU. IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and introduce new requirements for the classification and measurement of financial assets and financial liabilities, a new model for recognising loan loss provisions based on expected credit losses and provide for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

Classification and measurement

Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The standard also introduces a 'fair value through other comprehensive income' (FVOCI) measurement category for particular simple debt instruments. The requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39, however, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk and, in particular, the presentation of gains and losses within other comprehensive income.

Impairment

IFRS 9 incorporates an expected loss approach for recognising credit losses. Under this approach expected credit losses or lifetime expected credit losses for all amortised cost and FVOCI debt instruments would be recognised depending on whether or not significant credit deterioration has occurred since origination or acquisition. Where significant deterioration has not occurred, a provision equating to 12 months of expected credit losses would be recognised whereas if there is a significant deterioration in credit risk, lifetime expected credit losses would be recognised.

Hedge accounting

The general hedge accounting model aligns hedge accounting more closely with risk management and establishes a more principle-based approach to hedge accounting. Dynamic hedging of open portfolios is being dealt with as a separate project and until such time as that project is complete, entities can choose between applying the hedge accounting requirements of IFRS 9 or to continue to apply the existing hedge accounting requirements in IAS 39. The revised hedge accounting requirements in IFRS 9 are applied prospectively.

For annual periods beginning before 1 January 2018, an entity may elect, subject to EU endorsement, to early apply only the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss.

The impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 9 on these consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers*

The effective date of IFRS 15 is 1 January 2017 with early adoption permitted. IFRS 15 has not yet been endorsed by the EU.

The standard provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively. Whilst it is expected that a significant proportion of the Group's revenue will be outside the scope of IFRS 15, the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 15 on these consolidated financial statements.

1. Accounting policies continued

(g) IFRS and Hong Kong accounting requirements

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

(h) Prior year restatements

There are no prior year restatements in this account.

The accounting policies set out below have been applied consistently across the Group and to all years presented in these financial statements.

(l) Consolidation

Subsidiaries

Subsidiaries are all entities, including structured entities, which the Group controls. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The assessment of power is based on the groups practical ability to direct the relevant activities of the entity unilaterally for the Groups own benefit and is subject to reassessment if and when one or more of the elements of control change. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are de-consolidated from the date that control ceases, and where any interest in the subsidiary remains, this is remeasured to its fair value and the change in carrying amount is recognised in the income statement. Details of the Group's principal subsidiaries are given in note 23.

Structured entities are consolidated when the substance of the relationship between the Group and the structured entity indicates the Group's power over the structured entity. Details of the Group's use of structured entities are set out in note 24.

Associates and joint arrangements

Joint arrangements are where two or more parties either have rights to the assets, and obligations of the joint arrangement (joint operations) or have rights to the net assets of the joint arrangement (joint venture). The Group evaluates the contractual terms of joint arrangements to determine whether a joint arrangement is a joint operation or a joint venture. At 31 December 2014 the Group did not have any contractual interest in joint operations.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition (net of any accumulated impairment loss). The Group's share of its associates' and joint ventures' post-acquisition profit 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, amongst other factors.

Details of the Group's interest in associates and joint ventures are provided in note 23.

Investment in subsidiaries, associates and joint ventures

In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received prior to 1 January 2009, if any.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group accounts.

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Note 25 provides details on business combinations entered into by the Group during 2014.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill (see note 26 for details on goodwill recognised by the Group). If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the income statement.

Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, adjustments arising from their subsequent finalisation are not reflected in the income statement if (i) they arise within 12 months of the acquisition date (or relate to acquisition completed before 1 January 2013) and (ii) the adjustments arise from better information about conditions existing at the acquisition date (measurement period

1. Accounting policies continued

Business combinations continued

adjustments). Such adjustments are applied as at the date of acquisition and if applicable, prior year amounts are restated. All changes that are not measurement period adjustments are reported in income other than changes in contingent consideration not classified as financial instruments, which are accounted for in accordance with the appropriate accounting policy, and changes in contingent consideration classified as equity, which is not remeasured.

Changes in ownership interest in a subsidiary which do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Where a business combination is achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in the income statement.

Details of the Group's interest in associates and joint ventures are provided in note 23.

(j) Foreign currencies

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

Transactions and balances

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

Foreign currency translation

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or capital repatriated they are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(k) Income recognition

Income from financial instruments

Gains and losses arising from changes in the fair value of financial instruments held at fair value through profit or loss are included in the income statement in the period in which they arise. Contractual interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

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

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

Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

If the financial asset has been reclassified, subsequent increases in the estimates of future cash receipts as a result of increased recoverability are recognised as an adjustment to the effective interest rate from the date of the change in estimate.

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

1. Accounting policies continued

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Dividends on equity instruments are recognised in the income statement within other income when the Group's right to receive payment is established.

Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided or significant act performed. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself, or retained a part at the same effective interest rate as for the other participants. Portfolio and other management advisory fees and service distribution fees are recognised based on the applicable contracts, usually on a time apportionment basis.

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, on demand and overnight balances with central banks (unless restricted) and balances with less than three months maturity from the date of acquisition, including treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

(m) Financial assets and liabilities classification (excluding derivatives)

The Group classifies its financial assets into the following measurement categories: a) financial assets held at fair value through profit or loss; b) loans and receivables; c) held-to-maturity; and d) available-for-sale. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition or, where applicable, at the time of reclassification. Details of financial assets and liabilities held by the Group are provided in notes 15, 16 and 17.

Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis; or
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis; or
- the assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

For certain loans and advances and debt securities with fixed rates of interest, interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. To significantly reduce the accounting mismatch between

assets and liabilities and measurement bases, these loans and advances and debt securities have been designated at fair value through profit or loss. Details of financial assets designated at fair value are disclosed in notes 15 and 16.

The Group has also designated certain financial liabilities at fair value through profit or loss where either the liabilities:

- have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered into with the intention of significantly reducing interest rate risk; or
- are exposed to foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes; or
- have been acquired to fund trading asset portfolios or assets, or where the assets and liabilities are managed, and performance evaluated, on a fair value basis for a documented risk management or investment strategy.

Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost expense recognition. Details of financial liabilities designated at fair value are disclosed in note 15.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

Available-for-sale

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

Further details on the application of these policies is set out in note 15.

1. Accounting policies continued

Financial liabilities held at amortised cost

Financial liabilities, which include borrowings, not classified held at fair value through profit or loss are classified as amortised cost instruments.

Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in the absence of the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to market risks or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and financial assets classified as held-to-maturity and available-for-sale are initially recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers. All financial instruments are initially recognised at fair value, which is normally the transaction price plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement.

The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the net trading income line in the income statement.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to the available-for-sale reserve within equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Financial liabilities are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

In addition to these instruments, the carrying value of a financial instrument carried at amortised cost that is the hedged item in a qualifying fair value hedge relationship is adjusted by the fair value gain or loss attributable to the hedged risk.

Impairment of financial assets

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

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

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

1. Accounting policies continued

Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Further details on collateral held by the Group is discussed in the Risk review on page 68. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process which considers asset type, industry, geographic location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are based on the probability of default inherent within the portfolio of impaired loans or receivables and the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the

amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Further details on the application of these policies is set out in the Risk review on pages 141-142.

Available-for-sale assets

Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is reclassified from equity and recognised in the income statement. A significant or prolonged decline in the fair value of an equity security below its cost is considered, amongst other factors in assessing objective evidence of impairment for equity securities.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Renegotiated loans

Loans whose original terms have been modified including those subject to forbearance strategies are considered renegotiated loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment and the loan is assessed accordingly.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Further details on offsetting are set out in note 15.

Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

1. Accounting policies continued

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets must be reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the income statement over the remaining life of the financial asset, using the effective interest method.

Details of reclassifications are set out in note 15.

Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) remain on the balance sheet; the counterparty liability is included in deposits by banks, or customer accounts, as appropriate. Securities purchased under agreements to resell (reverse-repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

Details of repo and reverse-repo transactions entered into by the Group are provided in note 15.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income'.

(n) Derivative financial instruments and hedge accounting

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond held, are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or (3) hedges of the net investment of a foreign operation (net investment hedges).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

1. Accounting policies continued

The Group and Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Details of the derivative financial instruments held by the Group, including those held for hedge accounting are provided in note 17.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity or derecognition.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is disposed of.

Further details on the application of these policies are set out in note 17.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instruments not qualifying for hedge accounting are recognised immediately in the income statement.

(o) Leases

Where a Group company is the lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the Group is a lessee under finance leases, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in Other liabilities. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

Where a Group company is the lessor

When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax cash flows.

Assets leased to customers under operating leases are included within Property, plant and equipment and depreciated over their useful lives. Rental income on these leased assets is recognised in the income statement on a straight-line basis unless another systematic basis is more representative.

(p) Intangible and tangible fixed assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in Intangible assets. Goodwill on acquisitions of associates is included in Investments in associates. Goodwill included in intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement.

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Notes to the financial statements continued

1. Accounting policies continued

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments (as set out in note 2) as the Group views its reportable segments on a global basis. Note 26 sets out the major cash-generating units to which goodwill has been allocated.

Acquired intangibles

At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (4 to 16 years). At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortised on the basis of expected useful life (three to five years). Costs associated with maintaining software are recognised as an expense as incurred. At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated although it is subject to impairment testing. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	up to 50 years
Leasehold improvements	life of lease, up to 50 years
Equipment and motor vehicles	three to 15 years
Aircraft and Ships	up to 25 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. At each balance sheet date, assets are also assessed for indicators of impairment. In the event that an asset's carrying

amount is determined to be greater than its recoverable amount, the asset is written down immediately to the recoverable amount.

Gains and losses on disposals are included in the income statement.

(q) Taxation

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

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Details of the income statement tax charge is produced in note 12 and of deferred taxation in note 28.

(r) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where a liability arises based on participation in a market at a specified date (such as the UK bank levy), the obligation is recognised in the financial statements on that date and is not accrued over the period.

(s) Employee benefits

Retirement benefit obligations

The Group operates a number of pension and other post-retirement benefit plans around the world, including defined contribution plans and defined benefit plans.

1. Accounting policies continued

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The Group determines the net interest expense on the net defined liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payment. Net interest expense and other expense related to defined benefit plans are recognised in the income statement.

Details of the Group's retirement benefit obligations are provided in note 33.

Share-based compensation

The Group operates equity-settled and cash-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For deferred share awards granted as part of an annual performance award, the expense is recognised over the period from the start of the performance period to the vesting date. For example, the expense for awards granted in 2015 in respect of 2014 performance, which vest in 2015-2017, is recognised as an expense over the period from 1 January 2013 to the vesting dates in 2015-2017. For all other awards, the expense is recognised over period from the date of grant to the vesting date.

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options at the date of grant, which excludes the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At

each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the income statement at the time of cancellation.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards are revalued at each balance sheet date and a liability recognised on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in the income statement until the awards are exercised. Where forfeitures occur prior to vesting that are attributable to factors other than a failure to satisfy market-based performance conditions, the cumulative charge incurred up to the date of forfeiture is credited to the income statement.

The Company records the value of the equity settled awards as a deemed investment in subsidiaries. Any revaluation related to cash-settled awards is recorded as an amount due from subsidiary undertakings.

Details of the Group's share based compensation schemes are set out in note 36.

(t) Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity of the Group and/or of the Company as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity of the Group and/or the Company.

Details of the Group's share capital are set out in note 34.

(u) Assets held for sale

Non-current assets (such as property) and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when: (i) their carrying amounts will be recovered principally through sale; (ii) they are available for sale in their present condition; and (iii) their sale is highly probable.

Immediately before the initial classification as held for sale, the carrying amounts of the assets (or assets and liabilities in the disposal group) are measured in accordance with the applicable accounting policies described above.

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Notes to the financial statements continued

2. Segmental Information

The Group is organised on a worldwide basis for management and reporting purposes into four client segments: Corporate and Institutional, Commercial, Private Banking and Retail. The products offered to these client segments are summarised under 'Income by product' below. The focus is on broadening and deepening the relationship with clients, rather than maximising a particular product line. Hence the Group evaluates segmental performance based on overall profit or loss before taxation (excluding corporate items not allocated) and not individual product profitability. Product revenue information is used as a way of assessing client needs and trends in the market place. The strategies adopted by the client segments need to be adapted to local market and regulatory requirements, which is the responsibility of country management teams. While not the primary driver of the business, country performance is an important part of the Group's structure and is also used to evaluate performance and reward staff. Corporate items not allocated are not aggregated into the client segments because of the one-off nature of these items.

The Group's entity-wide disclosure which includes profit before tax, net interest margin and structure of the Group's deposits comprises geographic areas, classified by the location of the customer, except for Financial Market products which are classified by the location of the dealer.

Transactions between the client segments and geographic areas are carried out on an arm's-length basis. Apart from the entities that have been acquired in the last two years, Group central expenses have been distributed between the client segments and geographic areas in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their average credit risk weighted assets. In the year in which an acquisition is made, the Group does not charge or allocate the benefit of the Group's capital. The distribution of central expenses is phased in over two years, based on the estimate of central management costs associated with the acquisition.

Performance by client segment

	2014						
	Corporate and Institutional	Commercial	Private Banking	Retail	Total reportable Segments	Corporate items not allocated	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Internal income	6	2	(6)	(2)	-	-	-
Net interest income	5,904	727	347	4,127	11,105	-	11,105
Non-interest income ¹	4,477	458	272	1,890	7,097	-	7,097
Operating income	10,387	1,187	613	6,015	18,202	-	18,202
Operating expenses	(5,121)	(743)	(450)	(4,022)	(10,336)	(666)⁴	(11,002)
Operating profit before impairment losses and taxation	5,266	444	163	1,993	7,866	(666)	7,200
Impairment losses on loans and advances and other credit risk provisions	(991)	(212)	-	(938)	(2,141)	-	(2,141)
Other impairment	-	-	-	-	-	-	-
Goodwill ²	-	-	-	-	-	(758)	(758)
Other	(307)	(35)	(16)	(45)	(403)	-	(403)
Profit from associates and joint ventures	199	22	-	28	249	-	249
Profit before taxation	4,167	219	147	1,038	5,571	(1,424)	4,147
Total assets employed	511,037	29,583	26,304	152,132	719,056	4,707	723,763
Loans to customers	157,849	14,651	18,030	97,922	288,452	-	288,452
Total liabilities employed	462,408	32,102	36,387	142,969	673,866	1,078	674,944
Customer accounts	244,731	22,787	29,621	117,050	414,189	-	414,189
Other segment items:							
Capital expenditure ³	2,264	120	44	98	2,526	-	2,526
Depreciation	245	14	4	113	376	-	376
Interests in associates and joint ventures	1,209	406	19	320	1,954	-	1,954
Amortisation of intangible assets	112	13	13	84	222	-	222

¹ Non-interest income includes an own credit adjustment of \$100 million

² Relates to \$726 million and \$32 million goodwill impairment charge in North East Asia and Greater China respectively

³ Includes capital expenditure of \$1,966 million in respect of operating lease assets

⁴ Relates to \$366 million UK Bank Levy and \$300 million for US civil monetary penalty

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

	2013						
	Corporate and Institutional \$million	Commercial \$million	Private Banking \$million	Retail \$million	Total reportable segments \$million	Corporate items not allocated \$million	Total \$million
Internal income	(53)	35	(44)	62	-	-	-
Net interest income	5,857	763	349	4,169	11,138	-	11,138
Non-interest income ¹	4,927	708	280	1,671	7,586	-	7,586
Operating income	10,731	1,506	585	5,902	18,724	-	18,724
Operating expenses	(4,969)	(734)	(409)	(3,878)	(9,990)	(235)⁴	(10,225)
Operating profit before impairment losses and taxation	5,762	772	176	2,024	8,734	(235)	8,499
Impairment losses on loans and advances and other credit risk provisions	(488)	(157)	(8)	(964)	(1,617)	-	(1,617)
Other impairment							
Goodwill impairment ²	-	-	-	-	-	(1,000)	(1,000)
Other impairment	(113)	(13)	-	(3)	(129)	-	(129)
Profit from associates and joint ventures	156	37	2	31	226	-	226
Profit before taxation	5,317	639	170	1,088	7,214	(1,235)	5,979
Total assets employed⁵	456,229	35,786	23,682	152,394	668,091	5,587	673,678
Loans to customers	160,782	17,802	17,159	100,148	295,891	-	295,891
Total liabilities employed	403,961	45,888	38,227	138,311	626,387	1,202	627,589
Customer accounts	211,051	33,705	32,212	114,003	390,971	-	390,971
Other segment items:							
Capital expenditure ³	1,153	77	11	210	1,451	-	1,451
Depreciation	295	11	-	127	433	-	433
Interests in associates and joint ventures	982	417	36	332	1,767	-	1,767
Amortisation of intangible assets	191	14	10	85	300	-	300

¹ Non-interest income includes an own credit adjustment of \$106 million

² Relates to goodwill impairment charge on Korea business in North East Asia

³ Includes capital expenditure of \$874 million in respect of operating lease assets

⁴ Relate to UK Bank Levy and goodwill impairment charge on Korean business

⁵ From full year 2014 reporting, corporate item assets employed excludes intangible assets which is now included in the segmental assets

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

The following table details entity-wide operating income by product:

	2014 \$million	2013 \$million
Lending and Portfolio Management	1,030	1,062
Transaction Banking	3,817	3,900
Trade	1,963	2,063
Cash Management and Custody	1,854	1,837
Financial Markets ¹	3,515	3,950
Corporate Finance	2,364	2,512
Wealth Management	1,705	1,446
Retail Products	4,844	5,032
Cards, Personal Loans and Unsecured Lending	2,577	2,780
Deposits	1,224	1,190
Mortgage & Auto	939	994
Other Retail Products	104	68
Asset and Liability Management	663	546
Principal Finance	264	276
Total operating income	18,202	18,724

¹ Includes \$100 million (2013: \$106 million) benefit relating to an own credit adjustment (OCA)

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

Performance by geographic regions and key countries

Entity-wide information

The Group manages its reportable client segments on a global basis. The Group's operations are based in the eight main geographic regions presented below, information is also provided for key countries the Group operates. The UK is the home country of the Company.

	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Internal income	(28)	(80)	(51)	54	82	93	(6)	(64)	-
Net interest income	3,021	1,243	1,276	2,253	959	993	399	961	11,105
Fees and commissions income, net	1,332	236	298	953	414	413	359	145	4,150
Net trading income	792	10	229	230	242	197	83	63	1,846
- Underlying	698	10	229	233	242	197	83	54	1,746
- Own credit adjustment	94	-	-	(3)	-	-	-	9	100
Other operating income	424	53	111	220	149	138	28	(22)	1,101
Operating income	5,541	1,462	1,863	3,710	1,846	1,834	863	1,083	18,202
Operating expenses¹	(2,921)	(1,186)	(797)	(2,090)	(986)	(995)	(972)	(1,055)	(11,002)
Operating profit before impairment losses and taxation	2,620	276	1,066	1,620	860	839	(109)	28	7,200
Impairment losses on loans and advances and other credit risk provisions	(469)	(394)	(183)	(698)	(89)	(175)	(21)	(112)	(2,141)
Other impairment ²	(174)	(737)	(73)	(86)	(1)	(1)	(1)	(88)	(1,161)
Profit from associates and joint ventures	177	-	-	62	-	10	-	-	249
Profit/(loss) before taxation	2,154	(855)	810	898	770	673	(131)	(172)	4,147
Total assets employed ^{3,4}	213,974	65,134	36,073	160,538	44,387	26,553	92,337	168,205	-
Loans and advances to customers ⁴	89,646	29,582	22,859	78,541	22,775	13,103	10,952	20,994	-
Average interest-earning assets ⁴	175,810	58,492	31,734	127,609	36,589	22,832	66,412	109,742	-
Net interest margins (%)	1.7	2.0	3.9	1.8	2.8	4.8	0.6	0.8	2.0
Capital expenditure ⁵	2,008	40	28	377	12	38	2	21	2,526

¹ Includes \$366 million UK bank levy in Europe and \$300 million civil monetary penalty in Americas

² Includes \$32 million and \$726 million related to goodwill impairment charge in Greater China and North East Asia respectively

³ Includes intra-group assets

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

⁵ Includes capital expenditure in Greater China of \$1,966 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment and software related intangibles including any post-acquisition additions made by the acquired entities

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

Performance by geographic regions and key countries

Entity-wide information

	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Internal income	85	(73)	57	83	96	129	4	(381)	-
Net interest income	2,859	1,310	1,265	2,172	946	990	391	1,205	11,138
Fees and commissions income, net	1,130	255	326	977	416	417	356	229	4,106
Net trading income	788	86	219	592	337	182	95	190	2,489
- Underlying	789	84	219	547	337	182	95	130	2,383
- Own credit adjustment	(1)	2	-	45	-	-	-	60	106
Other operating income	323	58	164	222	62	28	8	126	991
Operating income	5,185	1,636	2,031	4,046	1,857	1,746	854	1,369	18,724
Operating expenses¹	(2,784)	(1,190)	(826)	(2,082)	(960)	(865)	(538)	(980)	(10,225)
Operating profit before impairment losses and taxation	2,401	446	1,205	1,964	897	881	316	389	8,499
Impairment losses on loans and advances and other credit risk provisions	(242)	(427)	(215)	(396)	(47)	(270)	(11)	(9)	(1,617)
Other impairment ²	1	(1,029)	(105)	2	-	-	-	2	(1,129)
Profit from associates and joint ventures	146	-	-	78	-	-	-	2	226
Profit/(loss) before taxation	2,306	(1,010)	885	1,648	850	611	305	384	5,979
Total assets employed ^{3,4}	206,357	67,169	39,706	159,207	42,436	24,897	71,496	132,490	-
Loans and advances to customers ⁴	89,846	30,618	25,608	82,852	23,535	13,122	10,429	19,881	-
Average interest-earning assets ⁴	163,024	57,884	33,575	123,716	35,731	20,068	60,090	88,307	-
Net interest margins (%)	1.8	2.1	3.9	1.8	2.9	5.6	0.7	0.9	2.1
Capital expenditure ⁵	944	28	31	344	11	45	5	43	1,451

¹ \$235 million UK bank levy charge in Europe

² Includes \$1billion goodwill impairment charge on Korea business in North East Asia

³ Includes intra-group assets

⁴ The analysis is based on the location of the customers rather than booking location of the loan

⁵ Includes capital expenditure in Greater China of \$874 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment and software related intangibles including any post-acquisition additions made by the acquired entities

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

Performance by geographic regions and key countries

Entity-wide information

The Group manages its reportable client segments on a global basis. The Group's operations are based in the eight main geographic regions presented below, information is also provided for key countries the Group operates. The UK is the home country of the Company.

	2014						
	Hong Kong	Singapore	Korea	India	UAE	China	UK
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Net interest income	1,915	1,158	1,115	974	610	782	748
Fees and commissions income, net	1,030	577	219	225	263	133	82
Net trading income	699	165	(1)	171	135	(7)	47
- Underlying	606	171	(2)	171	135	(8)	38
- Own credit adjustment	93	(6)	1	-	-	1	9
Other operating income	398	117	52	89	66	13	92
Operating income	4,042	2,017	1,385	1,459	1,074	921	969
Operating expenses	(1,796)	(1,098)	(1,127)	(650)	(572)	(762)	(939)
Operating profit before impairment losses and taxation	2,246	919	258	809	502	159	30
Impairment losses on loans and advances and other credit risk provisions	(272)	(80)	(392)	(171)	(63)	(177)	(108)
Other impairment	(169)	(2)	(737)	(73)	-	-	(88)
Profit from associates and joint ventures	-	(1)	-	-	-	177	-
Profit/(loss) before taxation	1,805	836	(871)	565	439	159	(166)
Total assets employed ^{1, 2}	157,098	120,952	54,637	30,194	28,426	36,383	172,399
Loans and advances to customers ²	61,643	55,830	28,600	19,718	14,358	15,939	18,197
Capital expenditure ³	1,996	355	39	20	2	7	19

¹ Includes intra-group assets

² The analysis is based on the location of the customers rather than booking location of the loan

³ Includes capital expenditure in Hong Kong of \$1,966 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment and software related intangibles including any post-acquisition additions made by the acquired entities

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

Performance by geographic regions and key countries

	2013						
	Hong Kong \$million	Singapore \$million	Korea \$million	India \$million	UAE \$million	China \$million	UK \$million
Net interest income	1,833	1,070	1,198	1,090	651	787	705
Fees and commissions income, net	875	579	236	264	291	129	166
Net trading income	719	308	71	156	232	(14)	160
- Underlying income	719	279	70	156	232	(13)	100
- Own credit adjustment	-	29	1	-	-	(1)	60
Other operating income	291	168	55	147	45	29	80
Operating income	3,718	2,125	1,560	1,657	1,219	931	1,111
Operating expenses	(1,673)	(1,132)	(1,124)	(686)	(574)	(756)	(812)
Operating profit before impairment losses and taxation	2,045	993	436	971	645	175	299
Impairment losses on loans and advances and other credit risk provisions	(135)	(88)	(427)	(195)	(52)	(58)	(6)
Other impairment	(4)	10	(1,029)	(105)	-	4	2
Profit from associates and joint ventures	-	-	-	-	-	146	-
Profit/(loss) before taxation	1,906	915	(1,020)	671	593	267	295
Total assets employed ^{1, 2}	149,349	115,417	55,933	34,477	28,818	35,134	131,820
Loans and advances to customers ²	61,173	57,540	29,760	22,767	15,734	15,489	16,419
Capital expenditure ³	905	320	27	26	3	26	41

¹ Includes intra-group assets

² The analysis is based on the location of the customers rather than booking location of the loan

³ Includes capital expenditure in Hong Kong of \$874 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment and software related intangibles including any post-acquisition additions made by the acquired entities

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

Deposits structure by geographic regions and key countries

The following tables set out the structure of the Group's deposits by principal geographic regions and key countries:

	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Non-interest bearing current and demand accounts	12,670	514	3,201	10,579	7,969	5,826	2,610	2,492	45,861
Interest bearing current accounts and savings deposits	86,110	21,369	2,771	39,067	5,051	2,590	17,345	17,885	192,188
Time deposits	57,735	14,476	8,575	47,583	11,422	3,142	28,231	42,214	213,378
Other deposits	220	462	1,001	3,841	412	146	1,689	10,224	17,995
Total	156,735	36,821	15,548	101,070	24,854	11,704	49,875	72,815	469,422
Deposits by banks	5,200	4,202	338	7,283	2,374	687	16,496	18,653	55,233
Customer accounts	151,535	32,619	15,210	93,787	22,480	11,017	33,379	54,162	414,189
Protected under Government insurance Schemes	26,700	9,309	1,253	12,825	326	2,927	-	69	53,409
Other Accounts	124,835	23,310	13,957	80,962	22,154	8,090	33,379	54,093	360,780
Total	156,735	36,821	15,548	101,070	24,854	11,704	49,875	72,815	469,422
Debt securities in issue:									
Senior debt	1,416	3,919	-	-	-	5	-	166	5,506
Other debt securities	3,569	6,234	388	5,004	-	137	17,325	23,987	56,644
Subordinated liabilities and other borrowed funds	1,342	337	-	-	25	46	-	19,612	21,362
Total	163,062	47,311	15,936	106,074	24,879	11,892	67,200	116,580	552,934

	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Non-interest bearing current and demand accounts	10,022	409	3,091	10,815	9,696	5,465	3,513	2,471	45,482
Interest bearing current accounts and savings deposits	77,075	20,258	2,484	40,253	3,915	2,429	18,173	16,473	181,060
Time deposits	62,479	16,090	9,119	49,198	11,197	3,985	10,825	37,249	200,142
Other deposits	351	1,023	1,366	2,426	181	207	-	3,160	8,714
Total	149,927	37,780	16,060	102,692	24,989	12,086	32,511	59,353	435,398
Deposits by banks	4,652	3,719	542	6,917	1,491	566	17,739	8,801	44,427
Customer accounts	145,275	34,061	15,518	95,775	23,498	11,520	14,772	50,552	390,971
Protected under Government insurance Schemes	25,965	9,834	1,222	13,957	302	1,248	-	59	52,587
Other Accounts	119,310	24,227	14,296	81,818	23,196	10,272	14,772	50,493	338,384
Total	149,927	37,780	16,060	102,692	24,989	12,086	32,511	59,353	435,398
Debt securities in issue:									
Senior debt	2,187	4,094	-	-	53	6	-	189	6,529
Other debt securities	2,848	6,069	46	2,961	-	214	14,450	19,645	46,233
Subordinated liabilities and other borrowed funds	1,696	635	-	-	24	51	-	19,741	22,147
Total	156,658	48,578	16,106	105,653	25,066	12,357	46,961	98,928	510,307

The above tables includes financial instruments held at fair value (see note 15).

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

Deposits structure by geographic regions and key countries

Company

	2014								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Non-interest bearing current and demand accounts	43	434	3,047	6,624	6,558	1,002	2,610	2,333	22,651
Interest bearing current accounts and savings deposits	105	1,480	2,444	19,769	3,618	-	17,345	17,883	62,644
Time deposits	50	3,369	8,548	32,471	11,062	722	28,225	42,213	126,660
Other deposits	1	50	992	3,151	384	-	1,689	10,227	16,494
Total	199	5,333	15,031	62,015	21,622	1,724	49,869	72,656	228,449
Deposits by banks	-	2,415	338	5,621	2,218	302	16,496	18,651	46,041
Customer accounts	199	2,918	14,693	56,394	19,404	1,422	33,373	54,005	182,408
Protected under Government insurance Schemes	7	-	1,253	2,468	326	-	-	69	4,123
Other Accounts	192	2,918	13,440	53,926	19,078	1,422	33,373	53,936	178,285
Total	199	5,333	15,031	62,015	21,622	1,724	49,869	72,656	228,449
Debt securities in issue:									
Senior debt	-	-	-	-	-	-	-	167	167
Other debt securities	-	2,775	307	4,695	-	103	17,012	23,987	48,879
Subordinated liabilities and other borrowed funds	-	-	-	-	-	-	-	19,610	19,610
Total	199	8,108	15,338	66,710	21,622	1,827	66,881	116,420	297,105

	2013								
	Greater China \$million	North East Asia \$million	South Asia \$million	ASEAN \$million	MENAP \$million	Africa \$million	Americas \$million	Europe \$million	Total \$million
Non-interest bearing current and demand accounts	40	359	2,928	7,332	8,388	979	3,513	2,170	25,709
Interest bearing current accounts and savings deposits	239	1,101	2,262	18,674	2,555	425	18,173	16,449	59,878
Time deposits	52	3,994	9,093	32,786	10,750	348	10,825	37,248	105,096
Other deposits	-	481	1,358	1,554	161	-	-	3,160	6,714
Total	331	5,935	15,641	60,346	21,854	1,752	32,511	59,027	197,397
Deposits by banks	-	2,240	542	5,126	1,327	218	17,739	8,774	35,966
Customer accounts	331	3,695	15,099	55,220	20,527	1,534	14,772	50,253	161,431
Protected under Government insurance Schemes	8	-	1,174	2,463	302	-	-	59	4,006
Other Accounts	323	3,695	13,925	52,757	20,225	1,534	14,772	50,194	157,425
Total	331	5,935	15,641	60,346	21,854	1,752	32,511	59,027	197,397
Debt securities in issue:									
Senior debt	-	-	-	-	-	-	-	189	189
Other debt securities	-	2,854	-	2,621	-	202	15,037	19,446	40,160
Subordinated liabilities and other borrowed funds	-	-	-	-	-	-	-	19,741	19,741
Total	331	8,789	15,641	62,967	21,854	1,954	47,548	98,403	257,487

The above tables includes financial instruments held at fair value (see note 15).

Standard Chartered Bank

Notes to the financial statements continued

3. Interest income

	2014 \$million	2013 \$million
Balances at central banks	246	153
Treasury bills	780	881
Loans and advances to banks	1,206	1,082
Loans and advances to customers	12,172	13,105
Listed debt securities	823	715
Unlisted debt securities	1,648	1,559
Accrued on impaired assets (discount unwind)	100	93
	16,975	17,588
Of which from financial instruments held at :		
Amortised cost	14,272	14,898
Available-for-sale	2,373	2,132
Held at fair value through profit or loss	330	558

4. Interest expense

	2014 \$million	2013 \$million
Deposits by banks	396	383
Customer accounts:		
Interest bearing current accounts and savings deposits	1,003	1,008
Time deposits	2,960	3,369
Debt securities in issue	529	663
Subordinated liabilities and other borrowed funds:		
Wholly repayable within five years	74	73
Other	908	954
	5,870	6,450
Of which interest expense on financial instruments held at :		
Amortised cost	5,430	5,856
Held at fair value through profit or loss	440	594

5. Fees and commission

	2014 \$million	2013 \$million
Transaction Banking	1,484	1,465
Financial Markets	353	375
Corporate Finance	454	503
Wealth Management	1,151	952
Retail Products	664	693
Others	44	118
	4,150	4,106

Total fee income arising from financial instruments that are not fair valued through profit or loss is \$1,596 million (2013: \$1,584 million) and arising from trust and other fiduciary activities \$156 million (2013: \$162 million)

Total fee expense arising from financial instruments that are not fair valued through profit or loss is \$ 111 million (2013: \$98 million) and arising from trust and other fiduciary activities \$21 million (2013: \$21 million)

Standard Chartered Bank

Notes to the financial statements continued

6. Net trading income

	2014 \$million	2013 \$million
Gains less losses on instruments held for trading:		
Foreign currency ¹	274	1,126
Trading securities	320	(206)
Interest rate derivatives	1,305	889
Credit and other derivatives	39	633
	1,938	2,442
Gains less losses from fair value hedging:		
Gains less losses from fair value hedged items	202	371
Gains less losses from fair value hedging instruments	(236)	(417)
	(34)	(46)
Gains less losses on instruments designated at fair value:		
Financial assets designated at fair value through profit or loss	(65)	97
Financial liabilities designated at fair value through profit or loss	(834)	172
Own credit adjustment (OCA)	100	106
Derivatives managed with financial instruments designated at fair value through profit or loss	741	(282)
	(58)	93
	1,846	2,489

¹ Includes foreign currency gains and losses arising on the translation of foreign currency monetary assets and liabilities

Gains less losses on instruments held for trading is presented by product type. Gains or losses on certain trading securities are offset by gains or losses within interest rate derivatives and credit and other derivatives.

7. Other operating income

	2014 \$million	2013 \$million
Other operating income includes:		
Gains less losses on disposal of financial instruments:		
Available-for-sale	426	248
Loans and receivables	29	17
Dividend income	96	104
Rental income from operating lease assets	396	485
Gain on disposal of property, plant and equipment	50	102
Receipt of tax refund related income	26	5
Fair value loss on business classified as held for sale	(15)	(49)

Standard Chartered Bank

Notes to the financial statements continued

8. Operating expenses

	2014 \$million	2013 \$million
Staff costs:		
Wages and salaries	5,011	4,976
Social security costs	168	160
Other pension costs (note 33)	333	336
Share based payment costs (note 36)	280	282
Other staff costs	1,015	825
	6,807	6,579

Variable compensation is included within wages and salaries. Further details on director's remuneration are disclosed in note 14. Other staff costs primarily include redundancy, training, and travel costs.

The following tables summarise the number of employees within the Group and Company

	2014		
Group	Business	Support Services	Total
At 31 December	49,158	41,055	90,213
Average for the year	47,881	39,972	87,853

	2013		
	Business	Support Services	Total
At 31 December	46,892	39,748	86,640
Average for the year	48,625	39,632	88,257

	2014		
Company	Business	Support Services	Total
At 31 December	13,109	11,536	24,645
Average for the year	12,898	11,578	24,476

	2013		
	Business	Support Services	Total
At 31 December	13,221	11,963	25,184
Average for the year	14,380	12,299	26,679

Transactions with directors, officers and other related parties are disclosed in note 44.

Standard Chartered Bank

Notes to the financial statements continued

8. Operating Expenses continued

Premises and equipment expenses:

	2014	2013
	\$million	\$million
Rental of premises	454	440
Other premises and equipment costs	422	415
Rental of computers and equipment	24	22
	900	877

General administrative expenses:

	2014	2013
	\$million	\$million
UK bank levy ¹	366	235
Civil monetary penalty ²	300	-
Other general administrative expenses	2,031	1,801
	2,697	2,036

¹ The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting

The rate of the levy for 2014 is 0.156 per cent for chargeable short term liabilities, with a lower rate of 0.078 per cent generally applied to chargeable equity and long term liabilities (i.e. liabilities with a remaining maturity greater than one year)

² In August 2014, Standard Chartered reached a settlement with the New York Department of Financial Services (DFS) regarding deficiencies in its anti-money laundering transaction surveillance system at the New York branch

Standard Chartered Bank

Notes to the financial statements continued

8. Operating Expenses continued

Auditor's remuneration

Auditor's remuneration in relation to the Group statutory audit amounts to \$3.9 million (2013: \$3.7 million) and is included within other general administration expenses. The following fees were payable by the Group to their principal auditor, KPMG Audit Plc and its associates (together 'KPMG'):

	2014 \$million	2013 \$million
Audit fees for the Group statutory audit:		
Fees relating to the current year	3.9	3.7
Fees payable to KPMG for other services provided to the Group:		
Audit of Standard Chartered Bank subsidiaries, pursuant to legislation		
Fees relating to the current year	10.8	10.5
Total audit and audit related fees	14.7	14.2
Other services pursuant to legislation	3.1	2.6
Tax services	0.5	1.1
Services relating to corporate finance transactions	-	-
All other services	0.5	0.7
Total fees payable	18.8	18.6

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG Audit Plc for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered Bank. It excludes amounts payable for the audit of Standard Chartered Bank's subsidiaries and amounts payable to KPMG Audit Plc's associates. These amounts have been included in 'Fees payable to KPMG for other services provided to the Group'.
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings, including comfort letters and interim reviews.
- Tax services include tax compliance services and tax advisory services.
- Services related to corporate finance transactions include fees payable to KPMG for transaction related work irrespective of whether the Group is vendor or purchaser, such as acquisition due diligence and long-form reports.
- All other services include other assurance and advisory services such as translation services, ad-hoc accounting advice, reporting accountants work on capital raising and review of financial models.

Expenses incurred during the provision of services and which have been reimbursed by the Group are included within auditor's remuneration.

In addition to the above, KPMG estimate they have been paid fees less than \$0.2 million (2013: less than \$0.1 million) by parties other than the Group but where the Group is connected with the contracting party and therefore may be involved in appointing KPMG. These fees arise from services such as the audit of the Group's pension schemes.

Fees payable to KPMG for non-audit services for Standard Chartered Bank are not separately disclosed because such fees are disclosed on a consolidated basis for the Group.

Standard Chartered Bank

Notes to the financial statements continued

9. Depreciation and amortisation

	2014 \$million	2013 \$million
Premises	105	108
Equipment:		
Operating lease assets	176	206
Others	95	119
Intangibles:		
Software	165	228
Acquired on business combinations	57	72
	598	733

During the year, the Group revised the useful life of certain technology assets from three years to five years. The revisions were accounted for prospectively as a change in accounting estimate and as a result, the current financial year depreciation charges of the Group for these assets decreased by \$121million.

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

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

	2014 \$million	2013 \$million
Net charge against profit on loans and advances:		
Individual impairment charge	2,096	1,597
Portfolio impairment charge	38	15
	2,134	1,612
Provisions related to credit commitments	6	-
Impairment charge relating to debt securities classified as loans and receivables	1	5
Total impairment losses and other credit risk provisions on loans and advances	2,141	1,617

An analysis of impairment provisions on loans and advances by geography and client segment is set out within the Risk and Capital Review section.

11. Other impairment

	2014 \$million	2013 \$million
Impairment losses on available-for-sale financial assets:		
- Debt securities	109	54
- Equity shares	47	90
	156	144
Impairment of investment in associates	97	-
Impairment of goodwill (See note 26)	758	1,000
Impairment of acquired intangible assets (See note 26)	8	-
Impairment of commodity assets	139	-
Other	9	14
	1,167	1,158
Recovery of impairment on disposal of equity instruments ¹	(6)	(29)
	1,161	1,129

¹ Relates to private equity instruments sold during the year which had impairment provisions raised against them in prior years

12. Taxation

Determining the Group's taxation charge for the year involves a degree of estimation and judgement.

Analysis of taxation charge in the year:

	2014 \$million	2013 \$million
The charge for taxation based upon the profits for the year comprises:		
Current tax:		
United Kingdom corporation tax at 21.5 per cent (2013: 23.25 per cent):		
Current tax on income for the year	183	137
Adjustments in respect of prior years (including double taxation relief)	(130)	2
Double taxation relief	(8)	(9)
Foreign tax:		
Current tax on income for the year	1,455	1,594
Adjustments in respect of prior years	(29)	(37)
	1,471	1,687
Deferred tax:		
Origination/reversal of temporary differences	(25)	167
Adjustments in respect of prior years	81	15
	56	182
Tax on profits on ordinary activities	1,527	1,869
Effective tax rate	36.8%	31.3%

The UK corporation tax rate was reduced from 23 per cent to 21 per cent with an effective date of 1 April 2014, giving a blended rate of 21.5 per cent for the year.

Foreign taxation includes taxation on Hong Kong profits of \$207 million (2013: \$242 million) provided at a rate of 16.5 per cent (2013: 16.5 per cent) on the profits assessable in Hong Kong. Deferred taxation includes origination/reversal of temporary differences in Hong Kong profits of \$4 million (2013: \$1 million) provided at a rate of 16.5 per cent (2013: 16.5 per cent) on the profits assessable in Hong Kong.

The taxation charge for the year is higher than the blended rate of corporation tax in the United Kingdom, 21.5 per cent (2013: 23.25 per cent). The differences are explained below:

	2014 \$million	2013 \$million
Profit on ordinary activities before taxation	4,147	5,979
Tax at 21.5 per cent (2013: 23.25 per cent)	892	1,390
Effects of:		
Tax free income	(244)	(244)
Lower tax rates on overseas earnings	(140)	(329)
Higher tax rates on overseas earnings	492	480
Adjustments to tax charge in respect of prior years	(78)	(20)
Goodwill impairment	163	232
Non-deductible expenses	521	429
Other items	(79)	(69)
Tax on profits on ordinary activities	1,527	1,869

Standard Chartered Bank

Notes to the financial statements continued

12. Taxation continued

	2014			2013		
	Current Tax \$million	Deferred Tax \$million	Total \$million	Current Tax \$million	Deferred Tax \$million	Total \$million
Tax recognised in other comprehensive income						
Available-for-sale assets	(16)	(53)	(69)	6	39	45
Cash flow hedges	-	31	31	-	11	11
Retirement benefit obligations	-	13	13	-	(21)	(21)
	(16)	(9)	(25)	6	29	35
Other tax recognised in equity						
Share based payments	1	(2)	(1)	3	(1)	2
Total tax (charge)/credit recognised in equity	(15)	(11)	(26)	9	28	37

13. Dividends

Ordinary equity shares	2014	2013
Interim dividend per ordinary share (cents)	6.80	14.00
Interim dividends declared and paid during the year (\$million)	1,208	1,839
Preference shares	2014 \$million	2013 \$million
Non-cumulative redeemable preference shares:		
- 8.125 per cent preference shares of \$5 each ^{1,3}	-	75
- 7.014 per cent preference shares of \$5 each ²	53	53
- 6.409 per cent preference shares of \$5 each ²	48	48

¹ Dividends on these preference shares are treated as interest expense and accrued accordingly

² Dividends on those preference shares classified as equity are recorded in the period in which they are declared

³ These preference shares were redeemed on 27 November 2013

Standard Chartered Bank

Notes to the financial statements continued

14. Remuneration of Directors

Remuneration of directors is shown below.

Directors	Salary		Fixed Pay Allowance		Benefits		Total variable compensation (Upfront and deferred share awards)		Vesting of performance shares		Buy-out award		Pension		Total	
	\$million		\$million		\$million		\$million		\$million		\$million		\$million		\$million	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
P A Sands	1.83	1.68	1.10	-	0.29	0.30	-	2.50	0.39	1.49	-	-	1.50	0.87	5.11	6.84
A M G Rees	1.51	1.15	1.00	-	0.18	0.12	-	6.50	0.31	1.19	-	-	3.95	0.52	6.95	9.48
A N Halford	0.76	-	0.38	-	0.05	-	0.87	-	-	-	1.88	-	0.30	-	4.24	-
J S Bindra	0.84	0.84	0.58	-	0.93	0.99	-	1.40	0.20	0.71	-	-	0.41	0.48	2.96	4.42
V Shankar	0.87	0.87	0.58	-	0.65	0.53	-	1.49	0.15	0.54	-	-	0.35	0.35	2.60	3.78
T Clarke	0.83	0.73	0.58	-	0.06	0.05	0.66	0.93	0.12	0.43	-	-	0.69	0.36	2.93	2.50
R Goulding	0.91	0.86	0.58	-	0.04	0.04	0.50	0.98	0.15	0.60	-	-	0.27	0.26	2.45	2.74
J Verplancke	0.82	0.81	0.58	-	0.60	0.73	0.66	1.15	0.15	0.52	-	-	0.25	0.24	3.06	3.45
S P Bertamini	0.25	1.00	-	-	0.35	1.25	-	1.25	0.21	0.80	-	-	0.10	0.40	0.91	4.70
R H Meddings	0.66	1.25	-	-	0.13	0.33	-	1.73	0.27	1.01	-	-	0.40	0.64	1.46	4.96

1. Tim Miller resigned from the Court with effect from 31 March 2013.

2. Andy Halford joined the Court on 1 July 2014. The earnings disclosed include the period between when he joined the Group on 16 June to 1 July 2014.

3. Steve Bertamini resigned from the Court with effect from 31 March 2014.

4. Richard Meddings resigned from the Court with effect from 30 June 2014.

Additional information on the remuneration elements in the above single total figure table

Base salaries of directors

Director	Base salary from 1 January 2014	Base salary from 1 April 2014 (or date of appointment)
	\$million	\$million
P A Sands	1.77	1.85
A M G Rees	1.21	1.61
A N Halford	-	1.40
J S Bindra	0.84	0.84
V Shankar	0.87	0.87
T J Clarke	0.77	0.83
R F Goulding	0.91	0.91
J P M F Verplancke	0.82	0.82
S P Bertamini	1.00	1.00
R H Meddings	1.32	1.32

Standard Chartered Bank

Notes to the financial statements continued

14. Remuneration of Directors continued

Fixed pay allowance

The number of shares allocated is determined based on the monetary value of the allowance and the prevailing market price of Standard Chartered PLC ("the Group") shares on the date of allocation.

Benefits

All directors received private medical cover, life assurance, ill-health income protection, and an allowance in respect of taxation advice and a car and, for some of the directors, the use of a company vehicle and driver for business purposes.

In 2013, Peter Sands, Mike Rees, Tracy Clarke, Richard Goulding and Richard Meddings used a Group car service and/or had spouse travel expense benefits, which were taxable in the UK in the 2012/13 and 2013/14 tax years, and the Group paid the tax on these benefits. Some Group directors previously had home security installed and some maintenance costs in respect of Richard Meddings' home security were incurred, that were paid for by the Group. The benefits figures shown for each director have been restated from the 2013 figures (\$225,000, \$101,000, \$33,000, \$34,000 and \$104,000, \$83,000 respectively) to show the correct value of these benefits (and associated tax costs). The value of these Group car service, spouse travel expense and home security benefits (including applicable tax) was \$75,586, \$13,670, \$19,468, \$1,905 and \$226,357, respectively, in 2013 and \$68,578, \$51,730, \$23,933, \$nil and \$73,793, respectively, in 2014.

In 2013, V Shankar's also received financial planning and additional international mobility benefits and his benefits figure has been restated from the 2013 figure (\$524,845) to show the correct value of these benefits. In 2014, Jaspal Bindra, V Shankar, Jan Verplanke and Steve Bertamini received an accommodation allowance (of \$752,643, \$492,785, \$156,312 and \$317,360 respectively) as they are undertaking responsibilities in an international location and, in line with market practice, received certain expatriate benefits. Steve Bertamini received allowances to cover the cost of accommodation and education of dependent children. The Group covered the cost of the additional tax and social security on his salary and benefits, known as tax equalisation, being \$790,265. In 2013, there was a typographic error in Steve's benefits figure which has been restated from the 2013 figure (\$1,242,000).

Buy-out award for Andy Halford

In June 2014, Andy Halford joined the Group and became a director of the Court. As part of Andy's remuneration arrangements, he received a buy-out award in respect of awards from his previous employer which he forfeited when he joined the Group. Part of this award will be satisfied through a transfer of shares in June 2015 with a value of \$1.88 million (less income tax and employees' national insurance costs) subject to Andy remaining an employee of the Group, and not being under notice, on that date. These shares will not be subject to performance conditions as this part of the buy-out replaced awards close to vesting with a relatively high degree of certainty as to the outcome and quantum of vesting.

Total variable compensation

The directors' TVC is delivered in shares with 16 per cent vesting immediately and 34 per cent being deferred and vesting over three years. Together these comprise the TVC upfront and deferred share awards which are disclosed in the single table. The balance of the TVC award in respect of 2014 performance (50 per cent of the TVC awards) is granted in underpin and performance share awards, which are subject to long-term performance measures and the Group's claw-back policy. Any value realised from such awards will be shown in the single figure table disclosure for the year in which they vest.

Performance shares

The value of the performance shares which vested as a result of the performance period that ended in 2014 is estimated based on projected Group performance and the average share price for the final three months of 2014 (£9.88).

Pension

Peter Sands, Mike Rees, Tracy Clarke and Richard Meddings are contractually entitled to participate in a defined benefit pension plan, with a headline entitlement of 1/30th of base salary for each year of service and, in the case of Tracy Clarke, this is a 1/60th.

Jaspal Bindra elected in 2013 to give up his future defined benefit pension accrual and replace it with an individually costed pension allowance (of 49 per cent of base salary). Jaspal's pension benefit is now payable in cash.

Steve Bertamini, Andy Halford and V Shankar received cash allowances of 40 per cent of their base salary. Steve elected to receive a proportion of this in a US defined contribution pension plan.

Richard Goulding and Jan Verplanke receive a defined contribution of 30 per cent of their base salary.

The Group's approved defined benefit scheme is not open to new joiners but existing members continue to accrue additional rights. This arrangement is supplemented by the Group's unfunded unapproved plan for our longer serving directors and senior employees. Peter Sands, Mike Rees, Tracy Clarke and Richard Meddings (for as long as he is an employee) continue to participate in both of these arrangements and their prospective defined benefits entitlement as at 31 December 2014 are detailed below.

Standard Chartered Bank

Notes to the financial statements continued

14. Remuneration of Directors continued

Director	Rights as at 31 December 2014
	\$million
P A Sands	\$0.69
A M G Rees	\$0.77
J S Bindra	\$0.30
T Clarke	\$0.36
R H Meddings	\$0.61

Compensation for loss of office and payments to former Directors

Following his retirement from the Court in March 2013, Tim Miller remained employed by the Group until 30 June 2014. He received \$432,000 in salary and \$586,000 in benefits (including pension benefit) during the year. On his retirement, he also received an amount of \$490,000 under his retirement arrangements for pay in lieu of notice and outplacement services.

Following their retirement from the Court, Richard Meddings and Steve Bertamini each received the following payments, on a monthly basis:

- Richard Meddings: from 1 July 2014 to 31 December 2014 received base salary of \$659,000 and benefits and pension of \$530,000, plus appropriate professional legal fees of \$11,000 incurred by him in respect of finalising his termination arrangements.
- Steve Bertamini: from 1 April 2014 to 31 December 2014 received base salary of \$750,000 and benefits and pension of \$1,334,000, plus appropriate professional legal fees of \$21,000 incurred by him in respect of finalising his termination arrangements.

When Steve joined the Group in 2008 he received an award to replace forfeited deferred compensation from his previous employer. This award took the form of a deferred compensation arrangement, under which \$6,500,000 was allocated into an interest-bearing account for Steve to invest at his discretion, which vested in three tranches (in 2010, 2012 and 2014). In accordance with the terms of the award the final tranche of this award (\$2,065,000) was paid during the year.

In addition, the Group's remuneration committee exercised its discretion in accordance with the rules of the share plan rules and determined that both former directors should be treated as good leavers and as such be allowed to retain any unvested share awards.

Other disclosures

The remuneration policy and practices applying to the Code Staff of the Bank are the same as those applied by the SC PLC Group which are set out in the SC PLC Group's 2014 Directors' remuneration report on pages 170 to 209.

Further information on the remuneration for those directors who are also executive directors of the SC PLC Group can be found in the SC PLC Group's 2014 Directors' remuneration report on pages 175 to 176.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments

Classification

The accounting policies in note 1 describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The Group's classification of its financial assets and liabilities is summarised in the following tables.

Group

Assets	Notes	Assets at fair value				Assets at amortised cost			Total
		Trading	Derivatives held for hedging	Designated at fair value through profit or loss	Available-for-sale	Loans and receivables	Held-to-maturity	Non-financial assets	
		\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Cash and balances at central banks		-	-	-	-	97,282	-	-	97,282
Financial assets held at fair value through profit or loss									
Loans and advances to banks ¹		3,368	-	242	-	-	-	-	3,610
Loans and advances to customers ¹		2,833	-	1,071	-	-	-	-	3,904
Treasury bills and other eligible bills	16	1,720	-	92	-	-	-	-	1,812
Debt securities	16	17,735	-	-	-	-	-	-	17,735
Equity shares	16	4,462	-	882	-	-	-	-	5,344
		30,118	-	2,287	-	-	-	-	32,405
Derivative financial instruments	17	65,546	771	-	-	-	-	-	66,317
Loans and advances to banks ¹	18	-	-	-	-	83,885	-	-	83,885
Loans and advances to customers ¹	19	-	-	-	-	284,548	-	-	284,548
Investment securities									
Treasury bills and other eligible bills	21	-	-	-	24,073	-	16	-	24,089
Debt securities	21	-	-	-	74,937	2,753	122	-	77,812
Equity shares	21	-	-	-	2,022	-	-	-	2,022
		-	-	-	101,032	2,753	138	-	103,923
Other assets	22	-	-	-	-	30,590	-	7,935	38,525
Total at 31 December 2014		95,664	771	2,287	101,032	499,058	138	7,935	706,885
Cash and balances at central banks		-	-	-	-	54,534	-	-	54,534
Financial assets held at fair value through profit or loss									
Loans and advances to banks ¹		2,221	-	246	-	-	-	-	2,467
Loans and advances to customers ¹		4,411	-	896	-	-	-	-	5,307
Treasury bills and other eligible bills	16	5,161	-	-	-	-	-	-	5,161
Debt securities	16	12,407	-	292	-	-	-	-	12,699
Equity shares	16	2,773	-	769	-	-	-	-	3,542
		26,973	-	2,203	-	-	-	-	29,176
Derivative financial instruments	17	60,124	2,037	-	-	-	-	-	62,161
Loans and advances to banks ¹	18	-	-	-	-	83,701	-	-	83,701
Loans and advances to customers ¹	19	-	-	-	-	290,584	-	-	290,584
Investment securities									
Treasury bills and other eligible bills	21	-	-	-	26,246	-	-	-	26,246
Debt securities	21	-	-	-	70,545	2,676	-	-	73,221
Equity shares	21	-	-	-	2,912	-	-	-	2,912
		-	-	-	99,703	2,676	-	-	102,379
Other assets	22	-	-	-	-	27,435	-	6,059	33,494
Total at 31 December 2013		87,097	2,037	2,203	99,703	458,930	-	6,059	656,029

¹ Further analysed in Risk and capital review on pages 53 to 96.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Classification continued

Group

Liabilities	Notes	Liabilities at fair value			Amortised cost	Non-financial liabilities	Total
		Trading	Derivatives held for hedging	Designated at fair value through profit or loss			
		\$million	\$million	\$million	\$million	\$million	\$million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		-	-	932	-	-	932
Customer accounts		-	-	8,836	-	-	8,836
Debt securities in issue		-	-	8,837	-	-	8,837
Short positions		3,785	-	-	-	-	3,785
		3,785	-	18,605	-	-	22,390
Derivative financial instruments	17	63,245	939	-	-	-	64,184
Deposits by banks		-	-	-	54,301	-	54,301
Customer accounts		-	-	-	405,353	-	405,353
Debt securities in issue	29	-	-	-	53,313	-	53,313
Other liabilities	30	-	-	-	30,085	1,150	31,235
Subordinated liabilities and other borrowed funds	31	-	-	-	21,362	-	21,362
Total at 31 December 2014		67,030	939	18,605	564,414	1,150	652,138
Financial liabilities held at fair value through profit or loss							
Deposits by banks		-	-	1,009	-	-	1,009
Customer accounts		-	-	9,905	-	-	9,905
Debt securities in issue		-	-	6,823	-	-	6,823
Short positions		5,293	-	-	-	-	5,293
		5,293	-	17,737	-	-	23,030
Derivative financial instruments	17	61,375	914	-	-	-	62,289
Deposits by banks		-	-	-	43,418	-	43,418
Customer accounts		-	-	-	381,066	-	381,066
Debt securities in issue	29	-	-	-	45,939	-	45,939
Other liabilities	30	-	-	-	26,011	1,350	27,361
Subordinated liabilities and other borrowed funds	31	-	-	-	22,147	-	22,147
Total at 31 December 2013		66,668	914	17,737	518,581	1,350	605,250

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Classification continued

Company

		Assets at fair value				Assets at amortised cost				
		Trading	Derivatives	Designated	Available-	Loans and	Held-to-	Non-	Total	
Assets	Notes	\$million	held for	at fair value	for-sale	receivables	maturity	financial	\$million	
		\$million	hedging	through	\$million	\$million	\$million	assets	\$million	
			\$million	profit or loss						
				\$million						
Cash and balances at central banks		-	-	-	-	82,728	-	-	82,728	
Financial assets held at fair value through profit or loss										
Loans and advances to banks ¹		3,368	-	242	-	-	-	-	3,610	
Loans and advances to customers ¹		2,626	-	948	-	-	-	-	3,574	
Treasury bills and other eligible bills	16	769	-	-	-	-	-	-	769	
Debt securities	16	10,439	-	-	-	-	-	-	10,439	
Equity shares	16	3,949	-	166	-	-	-	-	4,115	
		21,151	-	1,356	-	-	-	-	22,507	
Derivative financial instruments	17	62,318	1,147	-	-	-	-	-	63,465	
Loans and advances to banks ¹	18	-	-	-	-	48,689	-	-	48,689	
Loans and advances to customers ¹	19	-	-	-	-	126,642	-	-	126,642	
Investment securities										
Treasury bills and other eligible bills	21	-	-	-	7,429	-	16	-	7,445	
Debt securities	21	-	-	-	39,722	921	122	-	40,765	
Equity shares	21	-	-	-	783	-	-	-	783	
		-	-	-	47,934	921	138	-	48,993	
Other assets	22	-	-	-	-	20,196	-	4,571	24,767	
Total at 31 December 2014		83,469	1,147	1,356	47,934	279,176	138	4,571	417,791	
Cash and balances at central banks		-	-	-	-	41,272	-	-	41,272	
Financial assets held at fair value through profit or loss										
Loans and advances to banks ¹		2,221	-	246	-	-	-	-	2,467	
Loans and advances to customers ¹		3,897	-	825	-	-	-	-	4,722	
Treasury bills and other eligible bills	16	2,276	-	-	-	-	-	-	2,276	
Debt securities	16	6,543	-	-	-	-	-	-	6,543	
Equity shares	16	2,544	-	48	-	-	-	-	2,592	
		17,481	-	1,119	-	-	-	-	18,600	
Derivative financial instruments	17	58,401	1,745	-	-	-	-	-	60,146	
Loans and advances to banks ¹	18	-	-	-	-	49,951	-	-	49,951	
Loans and advances to customers ¹	19	-	-	-	-	129,785	-	-	129,785	
Investment securities										
Treasury bills and other eligible bills	21	-	-	-	6,037	-	-	-	6,037	
Debt securities	21	-	-	-	35,242	1,801	-	-	37,043	
Equity shares	21	-	-	-	795	-	-	-	795	
		-	-	-	42,074	1,801	-	-	43,875	
Other assets	22	-	-	-	-	17,525	-	4,095	21,620	
Total at 31 December 2013		75,882	1,745	1,119	42,074	240,334	-	4,095	365,249	

¹ Further analysed in Risk and Capital Review on pages 53 to 96.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Classification continued

Company

		Liabilities at fair value					
		Trading	Derivatives held for hedging	Designated at fair value through profit or loss	Amortised cost	Non-financial liabilities	Total
Liabilities	Notes	\$million	\$million	\$million	\$million	\$million	\$million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		-	-	333	-	-	333
Customer accounts		-	-	3,761	-	-	3,761
Debt securities in issue		-	-	4,554	-	-	4,554
Short positions		2,093	-	-	-	-	2,093
		2,093	-	8,648	-	-	10,741
Derivative financial instruments	17	60,727	782	-	-	-	61,509
Deposits by banks		-	-	-	45,708	-	45,708
Customer accounts		-	-	-	178,647	-	178,647
Debt securities in issue	29	-	-	-	44,492	-	44,492
Other liabilities	30	-	-	-	17,709	263	17,972
Subordinated liabilities and other borrowed funds	31	-	-	-	19,610	-	19,610
Total at 31 December 2014		62,820	782	8,648	306,166	263	378,679

Financial liabilities held at fair value through profit or loss

Deposits by banks		-	-	364	-	-	364
Customer accounts		-	-	3,932	-	-	3,932
Debt securities in issue		-	-	3,664	-	-	3,664
Short positions		2,224	-	-	-	-	2,224
		2,224	-	7,960	-	-	10,184
Derivative financial instruments	17	59,090	613	-	-	-	59,703
Deposits by banks		-	-	-	35,602	-	35,602
Customer accounts		-	-	-	157,499	-	157,499
Debt securities in issue	29	-	-	-	36,685	-	36,685
Other liabilities	30	-	-	-	13,704	357	14,061
Subordinated liabilities and other borrowed funds	31	-	-	-	19,741	-	19,741
Total at 31 December 2013		61,314	613	7,960	263,231	357	333,475

Valuation of financial instruments

All financial instruments are initially recognised at fair value on the date of recognition as described within the accounting policies in note 1. Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments held by the Group. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs.

Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison to instruments with characteristics similar to those of the instruments held by the Group.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Classification continued

Valuation control framework

The Valuation Control function is responsible for independent price verification, oversight of fair value adjustments and escalation of valuation issues. Independent price verification is the process of ensuring that the valuations incorporated into the financial statements are validated independent of the Business area responsible for the product. The Valuation Control function has oversight of the fair value adjustments to ensure the financial instruments are priced to exit. These are key controls in ensuring the material accuracy of the valuations incorporated in the financial statements. In inactive markets, direct observation of a traded price may not be possible. The market data used for price verification may include those sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. Valuation Control performs a semi-annual review of the suitability of the market data used for price testing. Price verification uses independently sourced data that is deemed most representative of the market in which the instruments are traded. To determine the quality of the market data inputs, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are taken into consideration.

Formal committees for the business clusters, consisting of representatives from Group Market Risk, Product Control, Valuation Control and the Business meet monthly to discuss and approve the valuations of the inventory. The Principal Finance valuation committee meetings are held on a quarterly basis. The business cluster valuation committees fall under the Valuation Benchmarks Committee (VBC) as part the of the valuation governance structure.

Valuation hierarchy

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the observability of the significant inputs used to determine the fair values.

Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Group recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 valuations are those where either the instrument is traded in a market that is not considered to be active or valuation models are used to determine fair value and where these models use inputs that are based significantly on observable market data.

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Directly or indirectly observable inputs other than unadjusted quoted prices included within level 1 that are observable	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)
Types of financial assets:	Actively traded government and other securities Listed equities Listed derivative instruments Investments in publicly traded mutual funds with listed market prices	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives Asset backed securities	Asset backed securities Private equity investments Highly structured OTC derivatives with unobservable inputs Illiquid or highly structured corporate bonds with unobservable inputs Illiquid loans and advances
Types of financial liabilities:	Listed derivative instruments	OTC derivatives Structured deposits Credit structured debt securities in issue	Highly structured OTC derivatives with unobservable inputs. Illiquid or highly structured debt securities in issue with unobservable inputs

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2014.

Group

	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
Assets				
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	-	3,610	-	3,610
Loans and advances to customers	-	3,264	640	3,904
Treasury bills and other eligible bills	1,578	234	-	1,812
Debt securities	8,466	8,874	395	17,735
Of which:				
Government bonds	8,158	1,519	-	9,677
Issued by corporates other than financial institutions	84	2,861	187	3,132
Issued by financial institutions	224	4,494	208	4,926
Equity shares	4,754	-	590	5,344
Derivative financial instruments	759	64,983	575	66,317
Of which:				
Foreign exchange	40	44,136	379	44,555
Interest rate	-	15,169	47	15,216
Commodity	719	4,983	-	5,702
Credit	-	420	20	440
Equity and stock index	-	275	129	404
Investment securities				
Treasury bills and other eligible bills	20,895	3,178	-	24,073
Debt securities	30,696	43,881	360	74,937
Of which:				
Government bonds	16,321	6,053	66	22,440
Issued by corporates other than financial institutions	9,790	9,713	289	19,792
Issued by financial institutions	4,585	28,115	5	32,705
Equity shares	1,249	6	767	2,022
At 31 December 2014	68,397	128,030	3,327	199,754
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	932	-	932
Customer accounts	-	8,835	1	8,836
Debt securities in issues	-	8,629	208	8,837
Short positions	3,267	518	-	3,785
Derivative financial instruments	863	63,025	296	64,184
Of which:				
Foreign exchange	102	45,156	240	45,498
Interest rate	-	14,205	16	14,221
Commodity	761	2,161	-	2,922
Credit	-	955	10	965
Equity and stock index	-	548	30	578
At 31 December 2014	4,130	81,939	505	86,574

There are no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during the year.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2013.

Group

	Level 1	Level 2	Level 3	Total
	\$million	\$million	\$million	\$million
Assets				
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	244	2,223	-	2,467
Loans and advances to customers	-	4,587	720	5,307
Treasury bills and other eligible bills	4,904	257	-	5,161
Debt securities	6,596	5,944	159	12,699
Of which:				
Government bonds	6,396	1,220	-	7,616
Issued by corporates other than financial institutions	79	3,211	159	3,449
Issued by financial institutions	121	1,513	-	1,634
Equity shares	2,797	-	745	3,542
Derivative financial instruments	323	61,240	598	62,161
Of which:				
Foreign exchange	56	42,301	366	42,723
Interest rate	-	16,013	53	16,066
Commodity	267	2,104	-	2,371
Credit	-	573	13	586
Equity and stock index	-	249	166	415
Investment securities				
Treasury bills and other eligible bills	22,701	3,526	19	26,246
Debt securities	24,447	45,490	608	70,545
Of which:				
Government bonds	14,515	5,451	64	20,030
Issued by corporates other than financial institutions	6,480	7,311	493	14,284
Issued by financial institutions	3,452	32,728	51	36,231
Equity shares	1,635	8	1,269	2,912
At 31 December 2013	63,647	123,275	4,118	191,040
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	1,009	-	1,009
Customer accounts	-	9,897	8	9,905
Debt securities in issues	7	6,777	39	6,823
Short positions	4,917	376	-	5,293
Derivative financial instruments	420	61,428	441	62,289
Of which:				
Foreign exchange	84	42,791	315	43,190
Interest rate	-	15,863	24	15,887
Commodity	336	1,500	-	1,836
Credit	-	874	-	874
Equity and stock index	-	400	102	502
At 31 December 2013	5,344	79,487	488	85,319

There are no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during the year.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments continued

The tables below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2014.

Company

	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
Assets				
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	-	3,610	-	3,610
Loans and advances to customers	-	2,934	640	3,574
Treasury bills and other eligible bills	625	144	-	769
Debt securities	3,109	6,936	394	10,439
Of which:				
Government bonds	3,005	1,336	-	4,341
Issued by corporates other than financial institutions	83	1,683	186	1,952
Issued by financial institutions	21	3,917	208	4,146
Equity shares	4,115	-	-	4,115
Derivative financial instruments	772	62,179	514	63,465
Of which:				
Foreign exchange	53	42,094	365	42,512
Interest rate	-	14,226	42	14,268
Commodity	719	4,975	-	5,694
Credit	-	454	20	474
Equity and stock index	-	430	87	517
Investment securities				
Treasury bills and other eligible bills	5,916	1,513	-	7,429
Debt securities	16,806	22,754	162	39,722
Of which:				
Government bonds	5,168	5,270	-	10,438
Issued by corporates other than financial institutions	8,783	4,393	157	13,333
Issued by financial institutions	2,855	13,091	5	15,951
Equity shares	673	13	97	783
At 31 December 2014	32,016	100,083	1,807	133,906
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	333	-	333
Customer accounts	-	3,761	-	3,761
Debt securities in issues	-	4,460	94	4,554
Short positions	1,575	518	-	2,093
Derivative financial instruments	834	60,403	272	61,509
Of which:				
Foreign exchange	73	43,711	242	44,026
Interest rate	-	12,970	4	12,974
Commodity	761	2,172	-	2,933
Credit	-	931	10	941
Equity and stock index	-	619	16	635
At 31 December 2014	2,409	69,475	366	72,250

There are no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during the year.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments continued

The tables below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2013.

Company

	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
Assets				
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	246	2,221	-	2,467
Loans and advances to customers	-	4,002	720	4,722
Treasury bills and other eligible bills	2,240	36	-	2,276
Debt securities	2,619	3,754	170	6,543
Of which:				
Government bonds	2,536	1,026	-	3,562
Issued by corporates other than financial institutions	78	1,922	170	2,170
Issued by financial institutions	5	806	-	811
Equity shares	2,592	-	-	2,592
Derivative financial instruments	324	59,286	536	60,146
Of which:				
Foreign exchange	57	40,858	366	41,281
Interest rate	-	15,340	47	15,387
Commodity	267	2,096	-	2,363
Credit	-	549	13	562
Equity and stock index	-	443	110	553
Investment securities				
Treasury bills and other eligible bills	4,666	1,371	-	6,037
Debt securities	12,090	22,833	319	35,242
Of which:				
Government bonds	4,154	5,794	-	9,948
Issued by corporates other than financial institutions	5,850	2,895	268	9,013
Issued by financial institutions	2,086	14,144	51	16,281
Equity shares	688	2	105	795
At 31 December 2013	25,465	93,505	1,850	120,820
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	364	-	364
Customer accounts	-	3,932	-	3,932
Debt securities in issues	-	3,625	39	3,664
Short positions	1,843	381	-	2,224
Derivative financial instruments	418	58,908	377	59,703
Of which:				
Foreign exchange	82	41,517	319	41,918
Interest rate	-	14,584	9	14,593
Commodity	336	1,497	-	1,833
Credit	-	842	-	842
Equity and stock index	-	468	49	517
At 31 December 2013	2,261	67,210	416	69,887

There are no significant transfers of financial assets and liabilities measured at fair value between Level 1 and Level 2 during the year.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation techniques

Loans and advances

These include loans in the global syndications underwriting book which are not syndicated yet. These loans are generally bilateral in nature and their valuation is primarily based on recent trades or proxies, i.e. comparable loans with similar credit grade, sector, etc. Products are classified as Level 2 in cases where observable credit spreads applicable to those products are available. Where there are no recent transactions and reliable comparable loans to proxy from, the valuation of these loans is based on unobservable inputs resulting in them being classified as Level 3.

Debt securities - Asset backed securities

Due to the lack of liquidity in the market and the prolonged period of time under which many securities have not traded, obtaining external prices is not a strong enough measure to determine whether an asset has an observable price or not. Therefore, once external pricing has been verified, an assessment is made whether each security is traded with significant liquidity based on its credit rating and sector. If a security is of high credit rating and is traded in a liquid sector, it will be classified as Level 2, otherwise it will be classified as Level 3. Where third party pricing is not available, the valuation of the security will be estimated from market standard cash flow models with input parameter assumptions which include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type, and credit ratings. These securities are also classified as Level 3.

Other debt securities

These debt securities include convertible bonds, corporate bonds, credit and structured notes. Where quoted prices are available through pricing vendors, brokers or observable trading activities from liquid markets, these are classified as Level 2. Where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product, these are classified as Level 3. The valuation of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

Equity shares - Private Equity

The majority of private equity investments are valued based on earning multiples - Price-to-Earnings (P/E) or Enterprise Value to Earning Before Income Tax, Depreciation and Amortisation (EV/EBITDA) ratios - of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. In circumstances where an investment does not have direct comparables or where the multiples for the comparable companies cannot be sourced from reliable external sources, alternate valuation techniques (for example, discounted cash flow models), which use predominantly unobservable inputs or level 3 inputs, may be applied. Even though earning multiples for the comparable listed companies can be sourced from third party sources (for example, Bloomberg), and those inputs can be deemed Level 2 inputs, all unlisted investments (excluding those where observable inputs are available, for example, OTC prices) are classified as Level 3 on the grounds 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. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. These unobservable correlation parameters could only be implied from the market, through methods such as historical analysis and comparison to historical levels or benchmark data.

Debt securities on issue

These debt securities relate to structured notes issued by the Group. These positions are classified as Level 2 where independent market data is available through pricing vendors and brokers. Where such liquid external prices are not available, valuation of these debt securities are implied using input parameters such as bond spreads and credit spreads are classified as Level 3. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Fair value adjustments

When establishing the exit price of a financial instrument using a valuation technique, the Group considers adjustments to the modelled price which market participants would make when pricing that instrument. In total, the Group has made \$432 million (2013: \$421 million) of valuation adjustments in determining fair value for financial assets and financial liabilities classified as Level 2 or 3 financial instruments. The main adjustments are described below:

	2014	2013
	\$million	\$million
Valuation adjustments		
Bid-offer	66	69
Credit ¹	160	187
Model	14	15
Funding Valuation Adjustments	111	84
Others (including Day 1)	81	66
Total	432	421

¹ Includes own debit valuation adjustments on derivatives

Bid Offer Valuation Adjustments

Where market parameters are marked on a mid market basis in the revaluation systems, a bid offer valuation adjustment is required to quantify the expected cost of neutralising the Business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. The methodology to calculate the bid-offer adjustment for a derivative portfolio involves netting between long and short positions and the grouping of risk by strike and tenor based on the hedging strategy. Where long positions are marked to bid and short positions marked to offer in the systems, e.g. for cash securities, no bid offer valuation adjustments are required.

Credit Adjustments

The Group makes a credit adjustment (CA) against derivative products. CA is an estimate of the adjustment to fair value to account for the possibility that the counterparty may default and the Group would not receive the full market value of the transactions. AIRB models are used to calculate the Probabilities of Default (PD) and the Loss Given Default (LGD) which, together with the results of the exposure simulation engine, generates a view of expected losses. Collateral positions are taken in to account for the calculation of CA.

Own Credit Adjustments

With the adoption of IFRS 13, the Group calculates own credit adjustments to reflect changes in its own credit standing. The Group's own credit adjustments are calculated on its derivative liabilities and issued debt designated at fair value, including structured notes. The Group's own credit adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. The Group's own credit adjustments will reverse over time as its liabilities mature.

For derivative liabilities, an own credit adjustment is determined by applying the Group's probability of default to the Group's negative expected exposure against the counterparty. The Group's probability of default and loss expected in the event of default is derived based on internally assessed credit ratings and market standard recovery levels. The expected exposure is modelled based on simulation methodology and is generated through simulation of underlying risk factors over the life of the deal booked against the particular counterparty. This simulation methodology incorporates the collateral posted by the Group and the effects of master netting agreements. The methodology used to determine an own credit adjustment on derivative liabilities is consistent with the methodology used to determine counterparty credit adjustment (CA) on derivative assets.

For issued debt and structured notes designated at fair value, an own credit adjustment is determined by discounting the contractual cash flows using a yield curve adjusted for market observed secondary senior debt issuance spreads above average interbank rates.

Model Valuation Adjustments

Valuation models may have pricing deficiencies or limitations that require a valuation adjustment. These pricing deficiencies or limitations arise due to the choice, implementation and calibration of the pricing model.

Funding Valuation Adjustments

In general, uncollateralised derivatives are discounted on the assumption that the bank is able to fund at Libor. However, bank's funding costs will differ with reference to Libor by a funding spread. Funding valuation adjustment accounts for the impact of this funding spread in the valuation of derivatives. Funding Valuation Adjustment is reserved as part of Day One Profit and Loss review process and released over the life of the deal.

Day One Profit and Loss

A financial instrument is initially recognised at fair value, which is generally its transaction price. In cases where the value obtained from the relevant valuation model differs from the transaction price, we record the asset or liability based on our valuation model, but do not recognize that initial difference in profit and loss unless the inputs to the valuation model are observable.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Level 3 movement tables

Financial assets

Group

	Held at fair value through profit or loss				Investment securities			Total
	Loans and advances to customers	Debt securities	Equity shares	Derivative financial instruments	Treasury bills	Debt securities	Equity shares	
Assets	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January 2014	720	159	745	598	19	608	1,269	4,118
Total (losses)/gains recognised in income statement	(181)	7	(62)	(12)	-	(10)	185	(73)
Total losses recognised in other comprehensive income	-	-	-	-	-	(66)	(134)	(200)
Purchases	192	237	318	92	-	17	229	1,085
Sales	(231)	(2)	(219)	(6)	-	(83)	(798)	(1,339)
Settlements	(61)	(19)	-	(107)	-	(34)	-	(221)
Transfers out	(6)	(3)	(192)	(3)	(19)	(127)	-	(350)
Transfers in	207	16	-	13	-	55	16	307
At 31 December 2014	640	395	590	575	-	360	767	3,327
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2014	(154)	5	55	29	-	(37)	(16)	(118)

Transfers in during the year primarily relate to investment in structured notes, corporate debt securities and loans and advances where the valuation parameters become unobservable during the year.

Transfers out during the year primarily relate to certain equity loans and advances and corporate debt securities where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2 financial assets.

Financial assets

Group

	Held at fair value through profit or loss				Investment securities			Total
	Loans and advances to customers	Debt securities	Equity shares	Derivative financial instruments	Treasury bills	Debt securities	Equity shares	
Assets	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January 2013	910	176	1,125	486	58	396	1,958	5,109
Total (losses)/gains recognised in income statement	(89)	63	66	37	-	(18)	49	108
Total losses recognised in other comprehensive income	-	-	-	-	-	(23)	(26)	(49)
Purchases	-	18	265	86	-	6	131	506
Sales	-	(30)	(711)	(11)	(36)	(59)	(818)	(1,665)
Settlements	(103)	(38)	-	(50)	(3)	(100)	-	(294)
Transfers out	-	(44)	-	(1)	-	(56)	(25)	(126)
Transfers in	2	14	-	51	-	462	-	529
At 31 December 2013	720	159	745	598	19	608	1,269	4,118
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2013	(86)	3	16	24	-	-	3	(40)

Transfers in during the year primarily relate to investment in structured notes, corporate debt securities and loans and advances where the valuation parameters become unobservable during the year.

Transfers out during the year primarily relate to certain equity loans and advances and corporate debt securities where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2 financial assets.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Level 3 movement tables continued

Company

	Held at fair value through profit or loss				Investment securities			Total
	Loans and advances to customers	Debt securities	Equity shares	Derivative financial instruments	Treasury bills	Debt securities	Equity shares	
Assets	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January 2014	720	170	-	536	-	319	105	1,850
Total (losses)/gains recognised in income statement	(181)	3	-	(16)	-	(44)	-	(238)
Total losses recognised in other comprehensive income	-	-	-	-	-	(40)	(2)	(42)
Purchases	192	238	-	68	-	8	3	509
Sales	(231)	(16)	-	(6)	-	(4)	(8)	(265)
Settlements	(61)	-	-	(79)	-	(78)	-	(218)
Transfers out	(6)	(1)	-	-	-	-	-	(7)
Transfers in	207	-	-	11	-	1	(1)	218
At 31 December 2014	640	394	-	514	-	162	97	1,807
Total (losses) / gains recognised in the income statement relating to assets held at 31 December 2014	(154)	2	-	2	-	(37)	-	(187)

Transfers in during the year primarily relate to investment in structured notes, corporate debt securities and loans and advances where the valuation parameters become unobservable during the year.

Transfers out during the year primarily relate to certain equity loans and advances and corporate debt securities where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2 financial assets.

Company

	Held at fair value through profit or loss				Investment securities			Total
	Loans and advances to customers	Debt securities	Equity shares	Derivative financial instruments	Treasury bills	Debt securities	Equity shares	
Assets	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January 2013	910	172	-	434	-	355	77	1,948
Total (losses)/gains recognised in income statement	(89)	-	-	26	-	-	(1)	(64)
Total losses recognised in other comprehensive income	-	-	-	-	-	(29)	15	(14)
Purchases	-	32	-	86	-	11	14	143
Sales	-	(30)	-	(11)	-	(91)	-	(132)
Settlements	(103)	(19)	-	(50)	-	(2)	-	(174)
Transfers out	-	-	-	-	-	(56)	-	(56)
Transfers in	2	15	-	51	-	131	-	199
At 31 December 2013	720	170	-	536	-	319	105	1,850
Total (losses) / gains recognised in the income statement relating to assets held at 31 December 2013	(86)	2	-	12	-	-	-	(72)

Transfers in during the year primarily relate to investment in structured notes, corporate debt securities and loans and advances where the valuation parameters become unobservable during the year.

Transfers out during the year primarily relate to certain equity loans and advances and corporate debt securities where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2 financial assets.

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Notes to the financial statements continued

15. Financial instruments continued

Level 3 movement tables continued

Financial liabilities

Group

	2014				2013			
	Customer Accounts	Debt securities in issue	Derivative financial instruments	Total	Customer Accounts	Debt securities in issue	Derivative financial instruments	Total
Liabilities	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January	8	39	441	488	-	114	563	677
Total (gains)/losses recognised in income statement	-	3	(17)	(14)	-	3	54	57
Total losses recognised in other comprehensive income	-	-	-	-	-	-	1	1
Issues	-	159	24	183	9	506	-	515
Settlements	(7)	(24)	(150)	(181)	(3)	(490)	(144)	(637)
Transfers out	-	-	-	-	-	(99)	(30)	(129)
Transfers in	-	31	(2)	29	2	5	(3)	4
At 31 December	1	208	296	505	8	39	441	488
Total (gains) / losses recognised in the income statement relating to liabilities held at 31 December	-	5	29	34	-	4	37	41

Transfers in during the year primarily relate to certain financial instruments for which parameters became unobservable during the year.

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to Level 2 financial liabilities.

Company

	2014				2013			
	Customer Accounts	Debt securities in issue	Derivative financial instruments	Total	Customer Accounts	Debt securities in issue	Derivative financial instruments	Total
Liabilities	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January	-	39	377	416	-	114	420	534
Total gains recognised in income statement	-	-	(27)	(27)	-	3	41	44
Issues	-	79	13	92	3	506	2	511
Settlements	-	(24)	(107)	(131)	(3)	(490)	(93)	(586)
Transfers out	-	-	-	-	-	(99)	-	(99)
Transfers in	-	-	16	16	-	5	7	12
At 31 December	-	94	272	366	-	39	377	416
Total losses / (gains) recognised in the income statement relating to liabilities held at 31 December	-	1	-	1	-	(4)	-	(4)

Transfers in during the year primarily relate to certain financial instruments for which parameters became unobservable during the year.

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to Level 2 financial liabilities.

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Notes to the financial statements continued

15. Financial instruments continued

The following tables present the Group's primary level 3 financial instruments which are held at fair value. The table also present the valuation techniques used to measure the fair value of those financial instruments, the significant unobservable inputs, and the range of values for those inputs and the weighted average of those inputs:

Instrument	Value at 31 December 2014		Principal valuation technique	Significant unobservable inputs	Range ¹	Weighted average ²
	Assets \$million	Liabilities \$million				
Loans and advances to customers	640	-	Comparable pricing	Yield	4.1% to 25.2%	13.4%
			Comparable pricing	Recovery rates	54.0% to 66.0%	60%
Debt securities	373	-	Comparable pricing	Yield	2.9% to 76.8%	8.7%
Asset backed securities	316		Discounted cash flows	Yield	3.1% to 3.7%	3.4%
			Discounted cash flows	Discount Margin	14.0 to 17.1%	15.5%
Government bonds	66	-	Discounted cash flows	Yield	2.4% to 13.3%	4.7%
Customer Accounts	-	1				
Debt securities in issue	-	208	Internal pricing model	Equity correlation	35.0% to 97.0%	N/A
			Discounted cash flow	Credit spreads	1.0% to 4.0%	3.5%
Derivative financial instruments:						
Foreign exchange	379	240	Option pricing model	Foreign exchange option implied volatility	1.0% to 14.6%	6.2%
Interest rate	47	16	Discounted cash flows	Interest rate curves	0.1% to 11.4%	4.7%
			Spread option model	Interest rate correlation	97.9% to 98.3%	98.1%
Credit	20	10	Discounted cash flows	Credit spreads	0.1% to 4.0%	2.2%
			Option pricing model	Bond price volatility	24.0%	24.0%
Equity	129	30	Internal pricing model	Equity correlation	35.0% to 98.0%	N/A
Equity shares	1,357	-	Comparable pricing	EV/EBITDA multiples	12.2x to 27.0x	17.3x
(includes private equity investments)				P/E multiples	13.0x to 25.8x	24.2x
				Liquidity discount	10.0% to 30.0%	17.2%
Total	3,327	505				

¹ The ranges of values shown in the above table represent the highest and lowest levels used in the valuation of the Group's Level 3 financial instruments as at 31 December 2014. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments

² Weighted average for non-derivative financial instruments have been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

The following section describes the significant unobservable inputs identified in the valuation technique table.

Proxy pricing

Proxy pricing refers to the method where valuation is done by calculating an implied yield from the price of a similar comparable observable instrument. The comparable instrument for a private equity investment is a comparable listed company. The comparable instrument in case of bonds is a similar comparable but observable bond.

This may involve adjusting the yield to derive a value for the unobservable instrument.

EV/EBITDA ratio multiples

This is the ratio of Enterprise Value (EV) to Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). EV is the aggregate market capitalisation and debt minus the cash and cash equivalents. An increase in EV/EBITDA multiple in isolation will result in a favourable movement in the fair value of the unlisted firm.

P/E and P/B multiples

Price Earnings multiple is the ratio of the Market Capitalisation to the Net Income after tax. Price to Book multiple is the ratio of the Market Capitalisation to the Book Value. The multiples are determined from multiples of listed comparables, which are observable. An increase in P/E multiple or P/B multiple will result in a favourable movement in the fair value of the unlisted firm.

Yield

Yield is the interest rate that is used to discount the future cash-flows in a discounted cash-flow model.

Correlation

Correlation is the measure of how movement in one variable influences the movement in another variable. Credit correlation generally refers to the factor that describes the relationship between the probability of individual entities to default on obligations and the joint probability of multiple entities to default on obligations. Similarly, equity correlation is the correlation between two equity instruments. An interest rate correlation refers to the correlation between two swap rates. FX correlation represents the correlation between two different exchange rates.

Liquidity discounts in the Valuation of Unlisted Investments

A liquidity discount is primarily applied to the valuation of unlisted investments to reflect the fact that these stocks are not actively traded. An increase in liquidity discount in isolation will result in unfavourable movement in the fair value of the unlisted firm.

Volatility

Volatility represents an estimate of how much a particular instrument, parameter or Index will change in value over time. Volatilities are generally implied from the observed option prices. For certain instruments, volatility may change with strike and maturity profile of the option.

Credit spreads

Credit Spreads represent the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Sensitivities in respect of the fair values of Level 3 assets and liabilities

Group

	Held at fair value through profit or loss			Available-for-sale		
	Net exposure	Favourable Changes	Unfavourable Changes	Net exposure	Favourable Changes	Unfavourable Changes
At 31 December 2014	\$million	\$million	\$million	\$million	\$million	\$million
Debt securities	395	404	385	360	382	337
Equity shares	590	649	531	767	844	690
Loan and advances	639	661	620	-	-	-
Derivative financial Instruments	279	334	222	-	-	-
Debt securities in issue	(208)	(203)	(214)	-	-	-
Total	1,695	1,845	1,544	1,127	1,226	1,027

	Held at fair value through profit or loss			Available-for-sale		
	Net exposure	Favourable Changes	Unfavourable Changes	Net exposure	Favourable Changes	Unfavourable Changes
At 31 December 2013	\$million	\$million	\$million	\$million	\$million	\$million
Debt securities	159	162	156	608	628	587
Equity shares	745	820	671	1,269	1,396	1,142
Treasury bills and other eligible bills	-	-	-	19	19	19
Loan and advances	712	738	687	-	-	-
Derivative financial Instruments	157	269	111	-	-	-
Debt securities in issue	(39)	(39)	(39)	-	-	-
Total	1,734	1,950	1,586	1,896	2,043	1,748

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Notes to the financial statements continued

15. Financial instruments continued

Sensitivities in respect of the fair values of level 3 assets and liabilities continued

Company

	Held at fair value through profit or loss			Available-for-sale		
	Net exposure	Favourable Changes	Unfavourable Changes	Net exposure	Favourable Changes	Unfavourable Changes
At 31 December 2014	\$million	\$million	\$million	\$million	\$million	\$million
Debt securities	394	402	384	162	178	146
Equity shares	-	-	-	97	106	87
Treasury bills and other eligible bills	-	-	-	-	-	-
Loan and advances	640	661	620	-	-	-
Derivative financial Instruments	242	287	191	-	-	-
Debt securities in issue	(94)	(90)	(96)	-	-	-
Total	1,182	1,260	1,099	259	284	233

	Held at fair value through profit or loss			Available-for-sale		
	Net exposure	Favourable Changes	Unfavourable Changes	Net exposure	Favourable Changes	Unfavourable Changes
At 31 December 2013	\$million	\$million	\$million	\$million	\$million	\$million
Debt securities	170	173	166	319	399	299
Equity shares	-	-	-	105	116	74
Treasury bills and other eligible bills	-	-	-	-	-	-
Loan and advances	720	749	698	-	-	-
Derivative financial Instruments	159	273	112	-	-	-
Debt securities in issue	(39)	(39)	(39)	-	-	-
Total	1,010	1,156	937	424	515	373

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments measured cost on a recurring basis

The following table summarises the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. The fair values in the table below may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

Group

		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
	\$million	\$million	\$million	\$million	\$million
Assets					
Cash and balances at central banks ¹	97,282	-	97,282	-	97,282
Loans and advances to banks	83,885	-	83,838	180	84,018
Loans and advances to customers	284,548	-	5,450	278,254	283,704
Investment securities	2,891	-	2,901	28	2,929
Other assets ¹	30,590	-	30,590	-	30,590
At 31 December 2014	499,196	-	220,061	278,462	498,523
Liabilities					
Deposits by banks	54,301	-	54,301	-	54,301
Customer accounts	405,353	-	405,879	-	405,879
Debt securities in issue	53,313	482	52,682	-	53,164
Subordinated liabilities and other borrowed funds	21,362	9,213	11,939	-	21,152
Other liabilities ¹	30,085	-	30,085	-	30,085
At 31 December 2014	564,414	9,695	554,886	-	564,581

		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
	\$million	\$million	\$million	\$million	\$million
Assets					
Cash and balances at central banks ¹	54,534	-	54,534	-	54,534
Loans and advances to banks	83,701	2	83,407	177	83,586
Loans and advances to customers	290,584	-	3,626	286,727	290,353
Investment securities	2,676	-	2,661	73	2,734
Other assets ¹	27,435	-	27,267	167	27,434
At 31 December 2013	458,930	2	171,495	287,144	458,641
Liabilities					
Deposits by banks	43,418	12	43,406	-	43,418
Customer accounts	381,066	682	380,610	-	381,292
Debt securities in issue	45,939	365	45,673	-	46,038
Subordinated liabilities and other borrowed funds	22,147	19,238	2,512	-	21,750
Other liabilities ¹	26,011	201	25,809	8	26,018
At 31 December 2013	518,581	20,498	498,010	8	518,516

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

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Company

		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
	\$million	\$million	\$million	\$million	\$million
Assets					
Cash and balances at central banks ¹	82,728	-	82,728	-	82,728
Loans and advances to banks	48,689	-	48,928	16	48,944
Loans and advances to customers	126,642	-	1,977	124,726	126,703
Investment securities	1,059	-	1,035	-	1,035
Other assets ¹	20,196	-	20,195	-	20,195
At 31 December 2014	279,314	-	154,863	124,742	279,605
Liabilities					
Deposits by banks	45,708	-	45,744	-	45,744
Customer accounts	178,647	-	179,505	-	179,505
Debt securities in issue	44,492	166	44,316	-	44,482
Subordinated liabilities and other borrowed funds	19,610	9,213	10,058	-	19,271
Other liabilities ¹	17,709	-	17,709	-	17,709
At 31 December 2014	306,166	9,379	297,332	-	306,711

	Carrying value		Level 1	Level 2	Level 3	Total
	\$million		\$million	\$million	\$million	\$million
Assets						
Cash and balances at central banks ¹	41,272		-	41,272	-	41,272
Loans and advances to banks	49,951		-	49,889	13	49,902
Loans and advances to customers	129,785		3	5,680	124,177	129,860
Investment securities	1,801		-	1,351	-	1,351
Other assets	17,525		-	17,525	-	17,525
At 31 December 2013	240,334	-	3	115,717	124,190	239,910
Liabilities						
Deposits by banks	35,602		-	35,602	-	35,602
Customer accounts	157,499		-	157,951	-	157,951
Debt securities in issue	36,685		189	37,113	-	37,302
Subordinated liabilities and other borrowed funds	19,741		19,210	-	-	19,210
Other liabilities	13,704		-	13,732	8	13,740
At 31 December 2013	263,231	-	19,399	244,398	8	263,805

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

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Reclassification of financial assets

In 2008 the Group and Company reclassified certain non-derivative financial assets classified as held for trading into the available-for-sale ('AFS') category as these were no longer considered to be held for the purpose of selling or repurchasing in the near term. At the time of transfer, the Group identified the rare circumstances permitting such a transfer as the impact of the credit crisis in financial markets, particularly from the beginning of 2008, which significantly impacted the liquidity in certain markets. The Group also reclassified certain eligible financial assets from trading and available-for-sale categories to loans and receivables where the Group had the intent and ability to hold the reclassified assets for the foreseeable future or until maturity. There have been no reclassifications since 2008.

The following tables provide details of the remaining balance of assets reclassified during 2008:

Group and Company

			If assets had not been reclassified, fair value gains from 1 January to 31 December 2014 which would have been recognised within				
	Carrying amount at 31 December 2014	Fair value at 31 December 2014	Income	AFS reserve	Income recognised in income statement	Effective interest rate at date of reclassification	Estimated amounts of expected cash flows
For assets reclassified:	\$million	\$million	\$million	\$million	\$million	%	\$million
From trading to AFS	38	38	2 ¹	-	1	8.7	54
From trading to loans and receivables	99	95	2	-	7	6.0	108
From AFS to loans and receivables	243	260	-	6	25	5.5	162
	380	393	4	6	33		
Of which asset backed securities:							
reclassified to available-for-sale	38	38	2 ¹	-	1		
reclassified to loans and receivables	316	334	2	6	29		

¹ Post-reclassification, this is recognised within the available-for-sale reserve.

			If assets had not been reclassified, fair value gains from 1 January to 31 December 2013 which would have been recognised within				
	Carrying amount at 31 December 2013	Fair value at 31 December 2013	Income	AFS reserve	Income recognised in income statement	Effective interest rate at date of reclassification	Estimated amounts of expected cash flows
For assets reclassified:							
From trading to AFS	46	46	5 ¹	-	6	8.8	123
From trading to loans and receivables	183	179	20	-	12	6.0	214
From AFS to loans and receivables	486	520	-	12	21	5.5	626
	715	745	25	12	39		
Of which asset backed securities:							
reclassified to available-for-sale	46	46	7 ¹	-	6		
reclassified to loans and receivables	614	647	12	20	33		

¹ Post-reclassification, this is recognised within the available-for-sale reserve

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

The Group enters into collateralised repurchase agreements (repos) and securities borrowing and lending transactions. These transactions typically entitle the Group and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos continue to be recognised on the balance sheet as the Group retains substantially the associated risk and rewards of the securities. The counterparty liability is included in deposits by banks or customer accounts, as appropriate. Assets sold under repurchase agreements are considered encumbered as the group cannot pledge these to obtain funding.

The table below sets out the financial assets provided by the Group as collateral for repurchase transactions:

	Fair value through profit and loss	Available for sale	Loans and receivables	Total
	\$million	\$million	\$million	\$million
Collateral pledged against repurchase agreements				
On balance sheet				
Treasury bills and other eligible bills	342	90	-	432
Debt securities	1,375	1,787	-	3,162
Off balance sheet				
Repledged collateral received	-	-	14,326	14,326
At 31 December 2014	1,717	1,877	14,326	17,920
Balance sheet liabilities - Repurchase agreements				
Deposits by banks				9,984
Customer accounts				6,324
At 31 December 2014				16,308

	Fair value through profit and loss	Available for sale	Loans and receivables	Total
	\$million	\$million	\$million	\$million
Collateral pledged against repurchase agreements				
On balance sheet				
Treasury bills and other eligible bills	391	256	-	647
Debt securities	1,706	1,163	-	2,869
Off balance sheet				
Repledged collateral received	257	-	1,547	1,804
At 31 December 2013	2,354	1,419	1,547	5,320
Balance sheet liabilities - Repurchase agreements				
Deposits by banks				4,330
Customer accounts				1,732
At 31 December 2013				6,062

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Notes to the financial statements continued

15. Financial instruments continued

Reverse repurchase agreements

The Group also undertakes reverse repurchase (reverse repo) lending agreements with counterparties typically financial institutions in exchange for collateral. Reverse repo agreements entitle the Group to have recourse to assets similar to those received as collateral in the event of a default. In addition the Group also obtains collateral on terms that permit the Group to repledge or resell the collateral to others. The Group does not recognise the securities bought under reverse repos as collateral on its balance sheet as the Group is not substantially entitled to the risks and rewards associated with those assets and instead recognises the lending as loans and advances to banks or customers, as appropriate. The Group's reverse repos at 31 December 2014 and 31 December 2013 are set out in the table below:

Balance sheet assets - Reverse repurchase agreements

	2014 \$million	2013 \$million
Loans and advances to banks	18,435	12,887
Loans and advances to customers	11,421	4,538
	29,856	17,425

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	2014 \$million	2013 \$million
Securities and collateral received (at fair value)	33,742	17,835
Securities and collateral which can be repledged or sold (at fair value)	27,910	15,906
Thereof repledged/transferred to others for financing activities, to satisfy commitments under short sale transactions or liabilities under sale and repurchase agreements (at fair value)	14,326	1,804

Securitisation transactions

The Group has also entered into a number of securitisation transactions where the underlying loans and advances have been transferred to Structured Entities (SEs) that are fully consolidated by the Group. As a result, the Group continues to recognise the assets on its balance sheet, together with the associated liability instruments issued by the special purpose entities. The holders of the liability instruments have recourse only to the assets transferred to the SE. Further details of SE are in note 24.

The following table sets out the carrying value and fair value of the assets transferred and the carrying value and fair value of the associated liabilities at 31 December 2014 and 2013 respectively.

	2014		2013	
	Carrying value \$million	Fair value \$million	Carrying value \$million	Fair value \$million
Loan and advances to customers ¹	31	31	779	778
Securitisation liability - reported as debt securities in issue ¹	29	29	502	502
Net	2	2	277	276

¹In 2014 the group liquidated its SE's in Korea and as a result significantly reduced its securitisation position

The Group did not undertake any transactions that required the recognition of an asset representing continuing involvement in financial assets.

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Notes to the financial statements continued

15. Financial instruments continued

Transfers where financial assets are not derecognised - Company

Repurchase transactions

The Company enters into collateralised repurchase agreements (repos) and securities borrowing and lending transactions. These transactions typically entitle the Company and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos continue to be recognised on the balance sheet as the Group retains substantially the associated risk and rewards of these securities. The counterparty liability is included in deposits by banks or customer accounts, as appropriate.

	Fair value through profit and loss	Available for sale	Loans and receivables	Total
	\$million	\$million	\$million	\$million
Collateral pledged against repurchase agreements				
On balance sheet				
Treasury bills and other eligible bills	342	27	-	369
Debt securities	1,233	1,189	-	2,422
Off balance sheet				
Repledged collateral received	-	-	14,295	14,295
At 31 December 2014	1,575	1,216	14,295	17,086

Balance sheet liabilities - Repurchase agreements

Deposits by banks	9,220
Customer accounts	6,301
At 31 December 2014	15,521

	Fair value through profit and loss	Available for sale	Loans and receivables	Total
	\$million	\$million	\$million	\$million
Collateral pledged against repurchase agreements				
On balance sheet				
Treasury bills and other eligible bills	391	139	-	530
Debt securities	1,706	341	-	2,047
Off balance sheet				
Repledged collateral received	257	-	1,416	1,673
At 31 December 2013	2,354	480	1,416	4,250

Balance sheet liabilities - Repurchase agreements

Deposits by banks	3,453
Customer accounts	1,712
At 31 December 2013	5,165

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Reverse repurchase agreements

The Company also undertakes reverse repurchase transactions as set out in the table below:

Balance sheet assets - Reverse repurchase agreements

	2014 \$million	2013 \$million
Loans and advances to banks	14,079	9,238
Loans and advances to customers	10,317	3,647
	24,396	12,885

Under reverse repurchase and securities borrowing arrangements, the Company obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	2014 \$million	2013 \$million
Securities and collateral received (at fair value)	28,109	13,221
Securities and collateral which can be repledged or sold (at fair value)	23,861	13,178
Thereof repledged/transferred to others for financing activities, to satisfy commitments under short sale transactions or liabilities under sale and repurchase agreements (at fair value)	14,295	1,673

Securitisation transactions

The Company has also entered into a number of securitisation transactions where the underlying loans and advances have been transferred to Structured Entities (SEs) that are fully consolidated by the Company. As a result, the Company continues to recognise the assets on its balance sheet, together with the associated liability instruments issued by the special purpose entities. The holders of the liability instruments have recourse only to the assets transferred to the SE.

The following table sets out the carrying value and fair value of the assets transferred and the carrying value and fair value of the associated liabilities at 31 December 2014 and 2013 respectively.

	2014		2013	
	Carrying value \$million	Fair value \$million	Carrying value \$million	Fair value \$million
Loans and advances to customers	31	31	779	778
Securitisation liability - represented as debt securities in issue	29	29	502	502
Net	2	2	277	276

The Company did not undertake any transactions that required the recognition of an asset representing continuing involvement in financial assets.

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Notes to the financial statements continued

15. Financial instruments continued

Offsetting of financial instruments

Impact of offset in the balance sheet

In accordance with IAS 32 Financial Instruments: Presentation the Group is permitted to offset assets and liabilities and present these net on the Group's balance sheet, only if there is a legally enforceable right to set off and the Group intends to settle on a net basis or realise the asset and liability simultaneously.

Amounts not offset in the balance sheet

In practice the Group is able to offset assets and liabilities which do not meet the IAS 32 netting criteria set out above. Such arrangements include master netting arrangements for derivatives and global master repurchase agreements for repurchase and reverse repurchase transactions. These agreements generally allow that all outstanding transactions with a particular counterparty can be offset but only in the event of default or other predetermined events.

In addition the Group also receives and pledges readily realisable collateral for derivative transactions to cover net exposure in the event of a default. Under repurchase and reverse repurchase agreements the Group pledges (legally sell) and obtain (legally purchase) respectively, highly liquid assets which can be sold in the event of a default.

The following tables set out the following:

Impact of netting on the balance sheet – This comprises derivative transactions settled through an enforceable netting agreement where we have the intent and ability to settle net and which are offset on the balance sheet.

Related amounts not offset in the balance sheet. This comprises

- Financial instruments not offset in the balance sheet, but covered by an enforceable netting arrangement. This comprises master netting arrangements held against derivative financial instruments and excludes the effect of over collateralisation
- Financial collateral – This comprises cash collateral pledged and received for derivative financial instruments and collateral bought and sold for reverse repurchase and repurchase agreements respectively and excludes the effect of over collateralisation.

Group	On-balance sheet netting			Related amount not offset in the balance sheet		
	Gross amounts of recognised financial instruments	Impact of offset in the balance sheet	Net amounts of financial instruments presented in the balance sheet	Financial instruments	Financial collateral	Net amount
	\$million	\$million	\$million	\$million	\$million	\$million
Assets						
Derivative financial instruments	74,755	(8,438)	66,317	(43,735)	(7,005)	15,577
Reverse repurchase agreements	29,856	-	29,856	-	-	29,856
At 31 December 2014	104,611	(8,438)	96,173	(43,735)	(7,005)	45,433
Liabilities						
Derivative financial instruments	72,622	(8,438)	64,184	(43,735)	(10,311)	10,138
Sale and purchase liabilities	16,308	-	16,308	-	-	16,308
At 31 December 2014	88,930	(8,438)	80,492	(43,735)	(10,311)	26,446

	On-balance sheet netting			Related amount not offset in the balance sheet		
	Gross amounts of recognised financial instruments	Impact of offset in the balance sheet	Net amounts of financial instruments presented in the balance sheet	Financial instruments	Financial collateral	Net amount
	\$million	\$million	\$million	\$million	\$million	\$million
Assets						
Derivative financial instruments	67,728	(5,567)	62,161	(46,242)	(5,147)	10,772
Reverse repurchase agreements	17,425	-	17,425	-	(17,425)	-
At 31 December 2013	85,153	(5,567)	79,586	(46,242)	(22,572)	10,772
Liabilities						
Derivative financial instruments	67,856	(5,567)	62,289	(46,242)	(9,240)	6,807
Sale and purchase liabilities	6,062	-	6,062	-	(6,062)	-
At 31 December 2013	73,918	(5,567)	68,351	(46,242)	(15,302)	6,807

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Notes to the financial statements continued

15. Financial instruments continued

Offsetting of financial instruments

Company	On-balance sheet netting			Related amount not offset in the balance sheet		
	Gross amounts of recognised financial instruments	Impact of offset in the balance sheet	Net amounts of financial instruments presented in the balance sheet	Financial instruments	Financial collateral	Net amount
	\$million	\$million	\$million	\$million	\$million	\$million
Assets						
Derivative financial instruments	71,903	(8,438)	63,465	(43,452)	(6,618)	13,395
Reverse repurchase agreements	24,396	-	24,396	-	-	24,396
At 31 December 2014	96,299	(8,438)	87,861	(43,452)	(6,618)	37,791
Liabilities						
Derivative financial instruments	69,947	(8,438)	61,509	(43,452)	(10,010)	8,047
Sale and purchase liabilities	15,521	-	15,521	-	-	15,521
At 31 December 2014	85,468	(8,438)	77,030	(43,452)	(10,010)	23,568

	On-balance sheet netting			Related amount not offset in the balance sheet		
	Gross amounts of recognised financial instruments	Impact of offset in the balance sheet	Net amounts of financial instruments presented in the balance sheet	Financial instruments	Financial collateral	Net amount
	\$million	\$million	\$million	\$million	\$million	\$million
Assets						
Derivative financial instruments	65,713	(5,567)	60,146	(42,393)	(4,773)	12,980
Reverse repurchase agreements	12,885	-	12,885	-	(12,885)	-
At 31 December 2013	78,598	(5,567)	73,031	(42,393)	(17,658)	12,980
Liabilities						
Derivative financial instruments	65,270	(5,567)	59,703	(42,393)	(8,954)	8,356
Sale and purchase liabilities	5,165	-	5,165	-	(5,165)	-
At 31 December 2013	70,435	(5,567)	64,868	(42,393)	(14,119)	8,356

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Notes to the financial statements continued

16. Financial instruments held at fair value through profit or loss

Loans and advances held at fair value through profit and loss

The maximum exposure to credit risk for loans designated at fair value through profit or loss was \$1,313 million (2013: \$1,142 million) for the Group and \$1,190 million (2013: \$1,071 million) for the Company.

The net fair value gain on loans and advances to customers designated at fair value through profit or loss was \$78 million (2013: gain of \$3 million). Of this, \$nil million (2013: \$nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was \$3 million (2013: \$3 million).

The changes in fair value attributable to credit risk has been determined by comparing fair value movements in risk-free bonds with similar maturities to the changes in fair value of loans designated at fair value through profit or loss.

Debt securities, equity shares and treasury bills held at fair value through profit or loss

Group	2014			
	Debt Securities \$million	Equity Shares \$million	Treasury bills \$million	Total \$million
Issued by public bodies:				
Government securities	9,677			
Other public sector securities	141			
	9,818			
Issued by banks:				
Certificates of deposit	2,975			
Other debt securities	1,222			
	4,197			
Issued by corporate entities and other issuers:				
Other debt securities	3,720			
Total debt securities	17,735			
Of which:				
Listed on a recognised UK exchange	126	71	-	197
Listed elsewhere	7,419	3,876	572	11,867
Unlisted	10,190	1,397	1,240	12,827
	17,735	5,344	1,812	24,891
Market value of listed securities	7,545	3,948	572	12,065

	2013			
	Debt Securities \$million	Equity Shares \$million	Treasury bills \$million	Total \$million
Issued by public bodies:				
Government securities	7,763			
Other public sector securities	76			
	7,839			
Issued by banks:				
Certificates of deposit	292			
Other debt securities	457			
	749			
Issued by corporate entities and other issuers:				
Other debt securities	4,111			
Total debt securities	12,699			
Of which:				
Listed on a recognised UK exchange	144	21	-	165
Listed elsewhere	8,017	2,741	1,646	12,404
Unlisted	4,538	780	3,515	8,833
	12,699	3,542	5,161	21,402
Market value of listed securities	8,161	2,762	1,646	12,569

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Notes to the financial statements continued

16. Financial instruments held at fair value through profit or loss continued

Financial assets held at fair value through profit or loss continued

Company	2014			
	Debt Securities \$million	Equity Shares \$million	Treasury bills \$million	Total \$million
Issued by public bodies:				
Government securities	4,342			
Other public sector securities	140			
	4,482			
Issued by banks:				
Certificates of deposit	2,439			
Other debt securities	966			
	3,405			
Issued by corporate entities and other issuers:				
Other debt securities	2,552			
Total debt securities	10,439			
Of which:				
Listed on a recognised UK exchange	119	-	-	119
Listed elsewhere	3,366	3,235	268	6,869
Unlisted	6,954	880	501	8,335
	10,439	4,115	769	15,323
Market value of listed securities	3,485	3,235	268	6,988

Company	2013			
	Debt Securities \$million	Equity Shares \$million	Treasury bills \$million	Total \$million
Issued by public bodies:				
Government securities	3,556			
Other public sector securities	72			
	3,628			
Issued by banks:				
Certificates of deposit	64			
Other debt securities	341			
	405			
Issued by corporate entities and other issuers:				
Other debt securities	2,510			
Total debt securities	6,543			
Of which:				
Listed on a recognised UK exchange	144	20	-	164
Listed elsewhere	3,798	2,524	1,211	7,533
Unlisted	2,601	48	1,065	3,714
	6,543	2,592	2,276	11,411
Market value of listed securities	3,942	2,544	1,211	7,697

The net fair value loss on liabilities designated at fair value through profit or loss was \$734 million for the year (2013: net gain of \$278 million). Of this, amount includes \$100 million gain (2013: \$106 million gain) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was a gain of \$196 million (2013: \$96 million). The change in fair value attributable to credit risk was determined by comparing fair value movements in risk-free debt instruments with similar maturities, to the changes in fair value of liabilities designated at fair value through profit or loss.

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Notes to the financial statements continued

17. Derivative financial instruments

The tables below analyse the notional principal amounts and the positive and negative fair values of the Group's and Company's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

Group

	2014			2013		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
Total derivatives						
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	1,611,476	19,265	20,648	1,303,103	17,214	17,490
Currency swaps and options	1,603,073	25,290	24,850	1,099,374	25,209	25,529
Exchange traded futures and options	300	-	-	340	-	-
	3,214,849	44,555	45,498	2,402,817	42,423	43,019
Interest rate derivative contracts:						
Swaps	2,276,183	14,338	13,402	1,984,701	15,595	15,414
Forward rate agreements and options	186,796	878	819	236,646	771	644
Exchange traded futures and options	1,313,920	-	-	694,212	-	-
	3,776,899	15,216	14,221	2,915,559	16,366	16,058
Credit derivative contracts	32,055	440	965	40,981	586	875
Equity and stock index options	16,585	404	578	15,684	415	501
Commodity derivative contracts	130,058	5,702	2,922	162,858	2,371	1,836
Total derivatives	7,170,446	66,317	64,184	5,537,899	62,161	62,289

Company

	2014			2013		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets \$million	Liabilities \$million
Total derivatives						
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	1,679,517	19,438	20,864	1,396,517	17,891	19,048
Currency swaps and options	1,509,455	23,074	23,162	1,017,313	23,390	22,870
Exchange traded futures and options	-	-	-	-	-	-
	3,188,972	42,512	44,026	2,413,830	41,281	41,918
Interest rate derivative contracts:						
Swaps	2,120,523	13,448	12,223	1,838,021	14,680	14,014
Forward rate agreements and options	182,172	820	751	230,455	707	579
Exchange traded futures and options	1,312,427	-	-	692,059	-	-
	3,615,122	14,268	12,974	2,760,535	15,387	14,593
Credit derivative contracts	31,154	474	941	40,369	562	842
Equity and stock index options	17,686	517	635	17,372	553	517
Commodity derivative contracts	130,112	5,694	2,933	159,105	2,363	1,833
Total derivatives	6,983,046	63,465	61,509	5,391,211	60,146	59,703

The Group and Company limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business. Details of the amounts available for offset as set out in note 15 at pages 221 and 222

The Derivatives and Hedging sections of the Risk and Capital Review on pages 112 explain the Group's risk management of derivative contracts and application of hedging.

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Notes to the financial statements continued

17. Derivative financial instruments continued

Derivatives held for hedging

Hedge accounting is applied to derivatives and hedged items when the criteria under IAS 39 have been met. The tables below list the types of derivatives that the Group and Company hold for hedge accounting.

Group

	2014			2013		
	Notional principal amounts	Assets	Liabilities	Notional principal amounts	Assets	Liabilities
	\$million	\$million	\$million	\$million	\$million	\$million
Derivatives designated as fair value hedges:						
Interest rate swaps	37,496	500	359	41,598	756	589
Forward foreign exchange contracts	12	1	-	199	7	-
Currency swaps	15,731	124	390	22,026	1,190	169
	53,239	625	749	63,823	1,953	758
Derivatives designated as cash flow hedges:						
Interest rate swaps	9,465	5	17	20,564	22	19
Forward foreign exchange contracts	2,206	4	75	2,150	42	38
Currency swaps	6,524	62	98	7,169	20	15
	18,195	71	190	29,883	84	72
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	1,098	75	-	981	-	84
Total derivatives held for hedging	72,532	771	939	94,687	2,037	914

Company

	2014			2013		
	Notional principal amounts	Assets	Liabilities	Notional principal amounts	Assets	Liabilities
	\$million	\$million	\$million	\$million	\$million	\$million
Derivatives designated as fair value hedges:						
Interest rate swaps	41,935	664	218	23,809	958	199
Currency swaps	14,405	343	471	8,211	682	236
Forward foreign exchange contracts	-	-	-	227	2	1
	56,340	1,007	689	32,247	1,642	436
Derivatives designated as cash flow hedges:						
Interest rate swaps	3,399	5	1	12,966	7	-
Forward foreign exchange contracts	-	-	-	397	-	5
Currency swaps	4,677	60	92	4,095	96	88
	8,076	65	93	17,458	103	93
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	1,098	75	-	981	-	84
Total derivatives held for hedging	65,514	1,147	782	50,686	1,745	613

17. Derivative financial instruments continued

Fair value hedges

The swaps exchange fixed rates for floating rates on funding to match floating rates received on assets, or exchange fixed rates on assets to match the floating rates paid on funding.

For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss. In respect of fair value hedges, net loss arising on the hedging instruments during the year were \$236 million (2013: loss of \$417 million) compared to net gains arising on the hedged items of \$202 million (2013: gain of \$371 million). For the Company, net gains arising on fair value hedging instruments were \$78 million (2013: gains of \$563 million) compared to net losses arising on the hedged items of \$57 million (2013: losses of \$508 million).

Cash flow hedges

The Group uses interest rate swaps to manage the variability in future cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts, currency swaps and options to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies.

Gains and losses arising on the effective portion of the hedges are deferred in equity until the variability on the cash flow affects profit and loss, at which time the gains or losses are transferred to profit and loss.

Group	2014	2013
	\$million	\$million
Losses reclassified from reserves to income statement	(13)	(6)
Losses recognised in operating costs	(13)	(5)
Losses recognised in net income	-	(1)

Company	2014	2013
	\$million	\$million
Losses reclassified from reserves to income statement	(10)	(2)
Losses recognised in operating costs	(13)	(5)
Gains recognised in net income	3	3

Standard Chartered Bank

Notes to the financial statements continued

17. Derivative financial instruments continued

The Group has hedged the following cash flows which are expected to impact the income statement in the following periods:

	2014						Total
	Less than one year \$million	One to two years \$million	Two to three years \$million	Three to four years \$million	Four to five years \$million	Over five years \$million	
Forecast receivable cash flows	65	49	33	9	2	-	158
Forecast payable cash flows	(10)	(11)	(11)	(4)	(1)	-	(37)
	55	38	22	5	1	-	121

	2013						Total
	Less than one year \$million	One to two years \$million	Two to three years \$million	Three to four years \$million	Four to five years \$million	Over five years \$million	
Forecast receivable cash flows	143	66	23	9	1	-	242
Forecast payable cash flows	(9)	(9)	(11)	(8)	(3)	-	(40)
	134	57	12	1	(2)	-	202

The Company has hedged the following cash flows which are expected to impact the income statement in the following periods:

	2014						Total
	Less than one year \$million	One to two years \$million	Two to three years \$million	Three to four years \$million	Four to five years \$million	Over five years \$million	
Forecast receivable cash flows	43	32	18	8	2	-	103
Forecast payable cash flows	(9)	(10)	(11)	(4)	(1)	-	(35)
	34	22	7	4	1	-	68

	2013						Total
	Less than one year \$million	One to two years \$million	Two to three years \$million	Three to four years \$million	Four to five years \$million	Over five years \$million	
Forecast receivable cash flows	128	46	19	9	1	-	203
Forecast payable cash flows	(8)	(8)	(10)	(8)	(3)	-	(37)
	120	38	9	1	(2)	-	166

Net investment hedges

The Group uses a combination of foreign exchange contracts and non-derivative financial assets to manage the variability in future exchange rates on its net investments in foreign currencies. Gains and losses arising on the effective portion of the hedges are deferred in equity until the net investment is disposed off. During the year, \$nil million (2013: \$nil million) was recognised in the Income statement in respect of ineffectiveness arising on net investment hedges.

Standard Chartered Bank

Notes to the financial statements continued

18. Loans and advances to banks

	Group		Company	
	2014 ¹	2013 ¹	2014	2013
	\$million	\$million	\$million	\$million
Loans and advances to banks	87,596	86,270	52,322	52,441
Individual impairment provision	(99)	(100)	(22)	(22)
Portfolio impairment provision	(2)	(2)	(1)	(1)
	87,495	86,168	52,299	52,418
Of which: loans and advances held at fair value through profit or loss (note 15)	(3,610)	(2,467)	(3,610)	(2,467)
	83,885	83,701	48,689	49,951

¹ Loans and advances to banks (net of provisions) of totalling \$260 million (2013: \$102 million) has been reclassified and disclosed as held for sale in note 22

Analysis of loans and advances to banks by geography are set out in the Risk and Capital Review section.

19. Loans and advances to customers

	Group		Company	
	2014 ¹	2013 ¹	2014	2013
	\$million	\$million	\$million	\$million
Loans and advances to customers	292,424	299,336	132,436	136,359
Individual impairment provision	(3,276)	(2,749)	(1,861)	(1,582)
Portfolio impairment provision	(696)	(696)	(359)	(270)
	288,452	295,891	130,216	134,507
Of which: loans and advances held at fair value through profit or loss (note 15)	(3,904)	(5,307)	(3,574)	(4,722)
	284,548	290,584	126,642	129,785

¹ Loans and advances to customers (net of provision) of totalling \$2.7 billion (2013: \$1.4 billion) has been reclassified and disclosed as held for sale in note 22

The Group has outstanding residential mortgage loans to Korea residents of \$13 billion (2013: \$12.6 billion) and Hong Kong residents of \$26 billion (2013: \$23.3 billion).

Analysis of loans and advances to customer by geography and client segment and related impairment provisions are set out within the Risk and Capital Review section on pages 57 to 96.

Standard Chartered Bank

Notes to the financial statements continued

20. Assets leased to customers

Finance leases and instalment credit

	Group		Company	
	2014	2013	2014	2013
	\$million	\$million	\$million	\$million
Finance leases	302	395	164	142
Instalment credit agreements	907	1,945	276	1,031
	1,209	2,340	440	1,173

The above assets are included within loans and advances to customers. The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to \$324 million (2013: \$667 million) for the Group and \$219 million (2013: \$603 million) for the Company.

	Group		Company	
	2014	2013	2014	2013
	\$million	\$million	\$million	\$million
Minimum lease receivables under finance leases falling due:				
Within one year	46	72	40	45
Later than one year and less than five years	204	199	54	52
After five years	137	214	137	98
	387	485	231	195
Interest income relating to future periods	(85)	(90)	(67)	(53)
Present value of finance lease receivables	302	395	164	142
Of which:				
Falls due within one year	35	59	30	37
Falls due later than one year and less than five years	167	166	34	36
Falls due after five years	100	170	100	69

Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft and ships which are included within property, plant and equipment in note 27. At 31 December 2014, these assets had a net book value of \$4,713 million (2013: \$4,897 million) in the Group.

	Group	
	2014	2013
	\$million	\$million
Minimum lease receivables under operating leases falling due:		
Within one year	661	528
Later than one year and less than five years	1,972	1,459
After five years	2,145	1,667
	4,778	3,654

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Notes to the financial statements continued

21. Investment securities

Group	2014					
	Debt securities			Equity shares	Treasury bills	Total
	Held-to-maturity	Available-for-sale	Loans and receivables			
	\$million	\$million	\$million	\$million	\$million	\$million
Issued by public bodies:						
Government securities	62	28,296	-			
Other public sector securities	-	926	11			
	62	29,222	11			
Issued by banks:						
Certificates of deposit	-	6,236	-			
Other debt securities	-	23,155	17			
	-	29,391	17			
Issued by corporate entities and other issuers:						
Other debt securities	60	16,324	2,725			
Total debt securities	122	74,937	2,753			
Of which:						
Listed on a recognised UK exchange	-	8,971	96 ¹	256	-	9,323
Listed elsewhere	-	27,580	505 ¹	974	10,898	39,957
Unlisted	122	38,386	2,152	792	13,191	54,643
	122	74,937	2,753	2,022	24,089	103,923
Market value of listed securities	-	36,551	601	1,230	10,898	49,280

Group	2013					
	Debt securities			Equity shares	Treasury bills	Total
	Held-to-maturity	Available-for-sale	Loans and receivables			
	\$million	\$million	\$million	\$million	\$million	\$million
Issued by public bodies:						
Government securities	-	26,111	-			
Other public sector securities	-	928	-			
	-	27,039	-			
Issued by banks:						
Certificates of deposit	-	6,476	-			
Other debt securities	-	24,897	42			
	-	31,373	42			
Issued by corporate entities and other issuers:						
Other debt securities	-	12,133	2,634			
Total debt securities	-	70,545	2,676			
Of which:						
Listed on a recognised UK exchange	-	5,563	113 ¹	65	-	5,741
Listed elsewhere	-	26,091	619 ¹	1,545	10,480	38,735
Unlisted	-	38,891	1,944	1,302	15,766	57,903
	-	70,545	2,676	2,912	26,246	102,379
Market value of listed securities	-	31,654	731	1,610	10,480	44,475

¹ These debt securities listed or registered on a recognised UK exchange or elsewhere, are thinly traded or the market for these securities are illiquid
Equity shares largely comprise investment in corporates.

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Notes to the financial statements continued

21. Investment securities continued

Company	2014					
	Debt securities			Equity shares \$million	Treasury bills \$million	Total \$million
	Held-to-maturity \$million	Available-for-sale \$million	Loans and receivables \$million			
Issued by public bodies:						
Government securities	62	9,284	-			
Other public sector securities	-	103	11			
	62	9,387	11			
Issued by banks:						
Certificates of deposit	-	3,421	-			
Other debt securities	-	15,095	17			
	-	18,516	17			
Issued by corporate entities and other issuers:						
Other debt securities	60	11,819	893			
Total debt securities	122	39,722	921			
Of which:						
Listed on a recognised UK exchange	-	7,792	15 ¹	33	-	7,840
Listed elsewhere	-	13,735	71 ¹	653	3,016	17,475
Unlisted	122	18,195	835	97	4,429	23,678
	122	39,722	921	783	7,445	48,993
Market value of listed securities	-	21,527	86	686	3,016	25,315
Company	2013					
	Debt securities			Equity shares \$million	Treasury bills \$million	Total \$million
	Held-to-maturity \$million	Available-for-sale \$million	Loans and receivables \$million			
Issued by public bodies:						
Government securities	-	8,750	-			
Other public sector securities	-	43	-			
	-	8,793	-			
Issued by banks:						
Certificates of deposit	-	1,424	-			
Other debt securities	-	15,738	39			
	-	17,162	39			
Issued by corporate entities and other issuers:						
Other debt securities	-	9,287	1,762			
Total debt securities	-	35,242	1,801			
Of which:						
Listed on a recognised UK exchange	-	4,107	12 ¹	53	-	4,172
Listed elsewhere	-	11,886	17 ¹	636	2,186	14,725
Unlisted	-	19,249	1,772	106	3,851	24,978
	-	35,242	1,801	795	6,037	43,875
Market value of listed securities	-	15,993	27	689	2,186	18,895

¹ These debt securities listed or registered on a recognised UK exchange or elsewhere, are thinly traded or the market for these securities are illiquid
Equity shares largely comprise investment in corporates.

Standard Chartered Bank

Notes to the financial statements continued

21. Investment securities continued

The change in the carrying amount of investment securities comprised:

Group	2014				2013			
	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million
At 1 January	73,221	2,912	26,246	102,379	69,207	3,278	26,740	99,225
Exchange translation differences	(2,412)	(4)	(695)	(3,111)	(1,834)	(9)	(563)	(2,406)
Additions	135,921	140	59,910	195,971	92,971	(183)	49,537	142,325
Maturities and disposals	(129,182)	(1,119)	(61,681)	(191,982)	(86,936)	(316)	(49,674)	(136,926)
Transfers to asset held for sale	(18)	(1)	(1)	(20)	(4)	-	(2)	(6)
Impairment, net of recoveries on disposals	(119)	(42)	-	(161)	(60)	(61)	-	(121)
Changes in fair value (including the effect of fair value hedging)	478	136	23	637	(91)	203	(29)	83
Amortisation of discounts and premiums	(77)	-	287	210	(32)	-	237	205
At 31 December	77,812	2,022	24,089	103,923	73,221	2,912	26,246	102,379

The analysis of unamortised premiums and unamortised discounts on debt securities and income on equity shares held for investment purposes is provided below:

	2014 \$million	2013 \$million
Debt securities:		
Unamortised premiums	381	604
Unamortised discounts	229	425
Income from listed equity shares	77	67
Income from unlisted equity shares	19	37

Standard Chartered Bank

Notes to the financial statements continued

21. Investment securities continued

Company	2014				2013			
	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million
At 1 January	37,043	795	6,037	43,875	34,053	757	8,805	43,615
Exchange translation differences	(1,158)	(3)	(191)	(1,352)	(807)	(4)	(347)	(1,158)
Additions	41,479	3	18,145	59,627	38,203	14	11,451	49,668
Maturities and disposals	(36,821)	(9)	(16,676)	(53,506)	(34,392)	(1)	(14,055)	(48,448)
Impairment, net of recoveries on disposals	(52)	-	-	(52)	(6)	-	-	(6)
Changes in fair value (including the effect of fair value hedging)	309	(3)	3	309	(7)	29	2	24
Amortisation of discounts and premiums	(35)	-	127	92	(1)	-	181	180
At 31 December	40,765	783	7,445	48,993	37,043	795	6,037	43,875

The analysis of unamortised premiums and unamortised discounts on debt securities and income on equity shares held for investment purposes is provided below:

	2014 \$million	2013 \$million
Debt securities:		
Unamortised premiums	258	442
Unamortised discounts	98	328
Income from listed equity shares	62	58
Income from unlisted equity shares	2	2

The following table sets out the movement in the allowance of impairment provisions for investment securities classified as loans and receivables.

	Group		Company	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million
At 1 January	25	27	23	23
Exchange translation differences	-	(1)	-	(1)
Amounts written off	(1)	(5)	-	(4)
Impairment charge/ (release)	1	5	(2)	6
At 31 December	25	26	21	24

Standard Chartered Bank

Notes to the financial statements continued

22. Other assets

	Group		Company	
	2014	2013	2014	2013
	\$million	\$million	\$million	\$million
Financial assets held at amortised cost (note 15)				
Hong Kong SAR Government certificates of indebtedness (note 30) ¹	4,738	4,460	-	-
Cash collateral	10,311	9,240	10,010	8,954
Acceptances and Endorsements	5,212	5,501	3,259	2,773
Unsettled trades and other financial assets	10,329	8,234	6,927	5,798
	30,590	27,435	20,196	17,525
Non-financial assets				
Commodities	4,432	3,965	4,432	3,965
Assets held for sale ²	3,237	1,623	3	47
Other assets	266	471	136	83
	38,525	33,494	24,767	21,620

¹ The Hong Kong SAR government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued

² Includes the disposal groups held for sale as discussed below

The disposal groups below have been presented as held for sale following the approval of the Group management and the transactions are expected to complete in 2015. These consist of Standard Chartered Capital (Korea) Company Limited, Standard Chartered Savings Bank Korea Company Limited, Shenzhen Prime Credit Limited (SZPC), Prime Credit Limited (PCL), Standard Chartered Bank SAL, Standard Chartered Leasing Company Limited, Standard Chartered Modarba and Standard Chartered Services (Pvt) Limited.

The assets and liabilities of the disposal groups were remeasured to the lower of carrying amount and fair value less costs to sell, this resulted in a total fair value loss of \$64 million (\$49 million reported in 2013 and \$15 million in 2014).

	SZPC and PCL	Businesses held for sale in Korea ³	Others	Total
	\$million	\$million	\$million	\$million
Assets				
Cash and balances at central banks	2	8	16	26
Financial assets held at fair value through profit and loss	-	73	-	73
Loans and advances to banks	38	218	4	260
Loans and advances to customers (net impairment provision of \$78 million)	1,615	971	146	2,732
Investment securities	-	2	19	21
Deferred tax assets	6	-	1	7
Other assets	13	-	1	14
Prepayments and accrued income	3	14	3	20
Goodwill and Intangible assets	68	-	-	68
Property, plant and equipment	7	3	1	11
Total assets	1,752	1,289	191	3,232
Liabilities				
Deposits by banks	132	-	7	139
Customer accounts	104	248	76	428
Current tax liabilities	2	-	-	2
Other liabilities	24	16	31	71
Subordinated liabilities and other borrowed funds	-	-	58	58
Deferred tax liabilities	-	11	1	12
Total liabilities	262	275	173	710
Due (to)/ from Group Undertakings	(1,127)	(879)	8	(1,998)

³ Includes Standard Chartered Savings Company Limited and Standard Chartered Capital (Korea) Company Limited. The businesses were presented as held for sale in 2014 but due to developments beyond management's control the disposal of these businesses was not completed. On 19 January 2015 the sale of Standard Chartered Savings Bank Korea Company Limited was completed (see note 43) and the other transaction is expected to complete in 2015

The assets reported here are Level 3 except for cash and balances at central banks (Level 2) and financial assets held at fair value through profit and loss (Level 2). The net liabilities due to Group undertakings will be transferred to the acquirers on completion of the sale.

Standard Chartered Bank

Notes to the financial statements continued

23. Investments in subsidiary undertakings, joint ventures and associates

Investment in subsidiary undertakings

	2014 \$million	2013 \$million
At 1 January	14,763	13,571
Additions	580	1,425
Disposals and liquidation	(103)	(205)
Impairment	(2,278)	(28)
At 31 December	12,962	14,763

At 31 December 2014, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital %
Standard Chartered Bank Korea Limited, Korea	Korea	100
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	98.99
Standard Chartered Bank (Taiwan) Limited, Taiwan	Taiwan	100
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	51 ¹
Standard Chartered Bank (China) Limited, China	China	100
Standard Chartered Bank (Singapore) Limited, Singapore	Singapore	100
Standard Chartered Bank (Thai) Public Company Limited, Thailand	Thailand	99.99
Standard Chartered Bank Nigeria Limited, Nigeria	Nigeria	100
Standard Chartered Bank Kenya Limited, Kenya	Kenya	74.3
Standard Chartered Private Equity Limited, Hong Kong	Hong Kong	100

¹49 per cent is held by Standard Chartered Holdings Limited, the Group's parent company.

A complete list of subsidiary and associated undertakings will be attached to the next Standard Chartered Bank annual return to the Registrar of Companies.

The Group does not have any material non-controlling interests in any of its subsidiaries, except 25.7 per cent non-controlling interests amounting to \$106 million (2013: \$98million) on Standard Chartered Bank Kenya Limited which contributes 2.4 per cent of the Group's Operating Profit and 0.4per cent of the Group's assets.

Whilst the Group's subsidiaries are subject to local statutory capital and liquidity requirements in relation to foreign exchange remittance, these restrictions arise in the normal course of business and do not significantly restrict the Group's ability to access or use assets and settle liabilities of the Group.

Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory framework within the banking subsidiaries operate. These frameworks require banking operations to keep certain levels of regulatory capital and liquid assets, limit their exposure and comply with other required ratios. These restrictions are summarised below:

Regulatory and liquidity requirements

The Group's subsidiaries are required to maintain minimum capital, leverage ratio, liquidity and exposure ratio thereby restricting the ability of these subsidiaries to distribute cash or other assets to the parent company.

The subsidiaries are also required to maintain balances with central banks and other regulatory authorities in the countries they operate. At December 2014, the total cash and balances with central bank was \$97 billion (2013: \$55 billion) of which \$10 billion (2013: \$10 billion) is restricted. See liquid asset disclosure on page 114 to 116.

Standard Chartered Bank

Notes to the financial statements continued

23. Investments in subsidiary undertakings, joint ventures and associates continued

Investment in subsidiary undertakings

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 balance sheet of the group's subsidiaries are not available for transfer around the Group. See encumbered assets disclosure on page 117. In addition the securitised assets disclosed in note 15 on page 218 have legal restrictions.

Interests in joint ventures

The Group and Company have a 44.56 per cent (2013: 44.56 per cent) interest through a joint venture company which holds a majority investment in PT Bank Permata Tbk (Permata), in Indonesia. Permata provides financial services to consumer and commercial segment.

	Group		Company	
	2014	2013	2014	2013
	\$million	\$million	\$million	\$million
At 1 January	656	731	492	489
Translation	(14)	(152)	-	-
Additions	55	9	54	3
Share of profits	59	73	-	-
Disposals	(9)	-	-	-
Dividends received	(6)	-	-	-
Share of AFS and other reserves	2	(5)	-	-
At 31 December	743	656	546	492

The Company accounts for its investments in joint ventures at cost.

Standard Chartered Bank

Notes to the financial statements continued

23. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in joint ventures continued

The following table sets out the summarised financial statements of the Group's joint ventures prior to the Group's share of the joint ventures being applied:

	2014 \$million	2013 \$million
Current assets	9,651	7,875
Long-term assets	5,270	5,808
Total assets	14,921	13,683
Current liabilities	(9,677)	(7,257)
Long-term liabilities	(3,858)	(5,242)
Total liabilities	(13,535)	(12,499)
Net assets	1,386	1,184
Operating Income	626	650
Of which:		
Interest income	1,313	1,147
Interest expense	(855)	(655)
Expenses	(454)	(434)
Impairment	(2)	-
Operating profit	170	216
Tax	(38)	(53)
Profit after tax	132	163

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	1,534	1,833
Current financial liabilities (excluding trade and other payables and provisions)	(9,677)	(7,257)
Non-current financial liabilities (excluding trade and other payables and provisions)	(2,559)	(4,050)
Other comprehensive income for the year	7	(33)
Total comprehensive income for the year	139	130
Dividends received from the joint venture during the year	(6)	-

Long-term assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

Reconciliation of the net assets above to the carrying amount of the investments in joint ventures recognised in the consolidated financial statements:

	2014 \$million	2013 \$million
Net assets of the joint ventures	1,386	1,184
Proportion of the Group's ownership interest in the joint venture	617	529
Notional goodwill	126	127
Carrying amount of the Group's interest in joint ventures	743	656

Standard Chartered Bank

Notes to the financial statements continued

23. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in associates

	Group		Company	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million
At 1 January	1,111	953	52	45
Translation	(10)	10	-	-
Additions	9	10	8	7
Share of profits	190	153	-	1
Dividends received	(7)	(5)	-	(1)
Share of AFS and other reserves	15	(10)	-	-
Impairment	(97)	-	(17)	-
At 31 December	1,211	1,111	43	52

The Group's principal associates are:

Associates	Nature of activities	Main areas of operation	Group interest in ordinary share capital %
China Bohai Bank	Banking Operations	China	19.99
Asia Commercial Bank (ACB)	Banking Operations	Vietnam	15.00

The investments in ACB and China Bohai Bank are less than 20 per cent but both ACB and China Bohai Bank are considered to be associates because of the significant influence the Group is able to exercise over the management of these companies and their financial and operating policies. Significant influence is evidenced largely through the interchange of management personnel and the provision of expertise. The group applied the equity method of accounting for investments in associates. The reporting dates of these associates are within three months of the Group's reporting date, (the reporting dates of China Bohai Bank and ACB are 30 November 2014 and 30 September 2014, respectively). The fair value of ACB was \$101 million at 31 December 2014 (2013:\$104 million)

Standard Chartered Bank

Notes to the financial statements continued

23. Investments in subsidiary undertakings, joint ventures and associates continued

The following table sets out the summarised financial statements of Asia Commercial Bank and China Bohai Bank prior to the Group's share of the associates being applied:

	Asia Commercial Bank		China Bohai Bank	
	2014	2013	2014	2013
	\$million	\$million	\$million	\$million
Current assets	3,369	3,395	45,992	49,184
Long-term assets	5,011	4,213	60,618	39,295
Total assets	8,380	7,608	106,610	88,479
Current liabilities	(7,640)	(6,829)	(81,593)	(67,740)
Long-term liabilities	(156)	(172)	(20,078)	(16,739)
Total liabilities	(7,796)	(7,001)	(101,671)	(84,479)
Net assets	584	607	4,939	4,000
Operating Income	258	262	2,503	1,993
Of which:				
Interest income	652	778	5,875	4,306
Interest expense	(449)	(538)	(3,712)	(2,694)
Expenses	(173)	(196)	(1,051)	(810)
Impairment	(56)	(14)	(326)	(212)
Operating profit	29	52	1,126	971
Tax	(4)	(14)	(241)	(238)
Profit after tax	25	38	885	733
The above amounts of assets and liabilities include the following:				
Current financial liabilities (excluding trade and other payables and provisions)	(7,485)	(6,829)	(80,703)	(67,740)
Non-current financial liabilities (excluding trade and other payables and provisions)	(156)	(172)	(20,078)	(16,739)
Other comprehensive income for the year	-	-	(35)	-
Total comprehensive income for the year	25	38	850	733
Dividends received from the associate during the year	(5)	(4)	-	-

Reconciliation of the above summarised financial information to the carrying amount of the investments in associates recognised in the consolidated financial statements:

	2014	2013	2014	2013
	\$million	\$million	\$million	\$million
Net assets of the associate	584	607	4,939	4,000
Proportion of the Group's ownership interest in the associate	88	91	987	800
Goodwill (net of impairment)	81	161	-	-
Other adjustments	5	5	-	-
Carrying amount of the Group's interest in the associate	174	257	987	800

Long-term assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

Standard Chartered Bank

Notes to the financial statements continued

24. Structured entities

The Group uses structured entities (SE) in the normal course of business across a variety of activities. A SE typically has restricted activities, together with a narrow and well-defined objective and are predominately thinly capitalised, with a reliance on debt financing for support. This note provides further details on those SEs that are consolidated into the Group as well as details on unconsolidated SEs in which the Group has a variable interest. A variable interest is categorised as a return that is subject to change based on performance and could result in either income or losses to the Group and includes debt and equity interests, commitments, guarantees, derivative financial instruments and certain fees.

Interests in consolidated structured entities

In accordance with the Group's accounting policies discussed in note 1, a SE is consolidated into the Group's financial statements where the Group controls the SE.

Most of the Group's consolidated SEs are in respect of the Group's aircraft and ship leasing business. Typically the Group will create a SE to manage a particular asset or portfolio of assets that are operating leases in nature. The Group also consolidates structured entities utilised in its securitisation transactions. In addition to securitisation and aircraft leasing, the Group will create structured entities to manage returns and capital

In determining whether to consolidate a SE to which assets have been transferred, the Group takes into account its ability to direct the relevant activities of the SE which is evidenced though a unilateral right to liquidate the SE, investment in a substantial proportion of the securities issued by the SE or where the Group holds specific subordinate securities that embody certain controlling rights.

The following table presents the total assets for SEs consolidated by the Group, split by transaction type:

	2014	2013
	Total Assets	Total Assets
	\$million	\$million
Securitisation	31	779
Aircraft and ship leasing	4,713	4,897
Structured finance	1,963	1,326
Total	6,707	7,002

Interests in unconsolidated structured entities

The main types of activities for which the Group utilises unconsolidated SEs cover synthetic credit default swaps for portfolio management purposes, managed investment funds (including specialised principal finance funds) and structured finance.

For the purposes of portfolio management, the Group purchased credit protection via synthetic credit default swaps from note-issuing SEs. The referenced assets remain on the Group's balance sheet as they are not assigned to these SEs. The Group continues to own or hold all of the risks and returns relating to these assets. The credit protection obtained from the regulatory-compliant securitisation only serves to protect the Group against losses upon the occurrence of eligible credit events and the underlying assets are not de-recognised from the Group balance sheet. The Group's exposure arises from (a) the capitalised start-up costs in respect of the swap vehicles and (b) interest in the first loss notes and investment in a minimal portion of the mezzanine notes issued by the note issuing SEs. The proceeds of the notes issuance are typically held as cash collateral in Issuer's account operated by a Trustee or invested in AAA-rated Government-backed securities to collateralise the SE's swap obligations to the Group, and to repay the principal to investors at maturity. The SEs reimburse the Group on actual losses incurred, through the use of the cash collateral or realisation of the collateral security. Correspondingly, the SEs write down the notes issued by an equal amount of the losses incurred, in reverse order of seniority. All funding is committed for the life of these vehicles and the Group has no indirect exposure in respect of the vehicles' liquidity position.

The Group's exposure to Principal Finance Funds represents committed or invested capital in unleveraged investment funds, primarily investing in pan-Asian infrastructure and real estate.

Structured finance comprises interests in transactions that the Group or, more usually, a customer has structured, using one or more SEs, which provide beneficial arrangements for customers. The Group's exposure primarily represents the provision of funding to these structures as a financial intermediary, for which it receives a lender's return. The transactions largely relate to the provision of aircraft leasing and ship finance.

The Group also has holdings of asset backed securities which are generally held in a structured entity. Further details of the Group's holdings of assets backed securities are set out on page 99 of the Risk and Capital Review section of this report.

The Group has reputational risk in respect of certain portfolio management vehicles and investment funds either because the Group is the arranger and lead manager or because the SEs have Standard Chartered branding.

Standard Chartered Bank

Notes to the financial statements continued

24. Structured entities continued

The following table presents the carrying amount of the assets and liabilities recognised in the financial statements relating to variable interests held in unconsolidated SEs, the maximum exposure to loss relating to those interests and the total assets of the SEs. Maximum exposure to loss is primarily limited to the carrying amount of the Group's on balance sheet exposure to the SE. For derivatives, the maximum exposure to loss represents the on-balance sheet valuation and not the notional amount. For commitments and guarantees the maximum exposure to loss is the notional amount of potential future losses.

The following table presents the Group's interests in unconsolidated structured entities by balance sheet caption, together with the total assets of the related entities.

	2014					2013				
	Principal finance funds	Portfolio management vehicles	Structured finance	Asset- backed securities	Total	Principal finance funds	Portfolio management vehicles	Structured finance	Asset- backed securities	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Balance sheet - assets										
Financial assets held at fair value through profit or loss	142	-	-	282	424	213	-	-	158	371
Loans and advances to customers	38	-	-	-	38	31.00	-	-	-	31
Investment securities - Debt securities (AFS)	25	-	-	8,548	8,573	26	-	-	5,202	5,228
Investment securities - Debt securities (Loans and receivables)	-	-	-	1,350	1,350	-	-	-	1,196	1,196
Other assets	192	-	282	-	474	204	-	-	-	204
Total assets	397	-	282	10,180	10,859	474	-	-	6,556	7,030
Balance sheet - liabilities										
Other liabilities	-	-	256	-	256	-	-	4	-	4
Total liabilities	-	-	256	-	256	-	-	4	-	4
Off balance sheet										
Capital commitment	225	-	-	-	225	225	-	-	-	225
Financial guarantees	-	1,262	-	-	1,262	-	1,280	-	-	1,280
Total Assets of SE	1,885	1,262	283	365,076	368,506	1,653	1,280	-	457,447	460,380

25. Business Combinations

2014 acquisitions

Group

There were no acquisitions in the year.

2013 acquisitions

Group

On 2 December 2013 the Group completed the acquisition of the South African custody and trustee business of Absa Bank for a consideration of \$36m recognising goodwill of \$16m. The net assets acquired primarily comprised customer relationships that have been recognised as intangibles assets of the Group. Goodwill arising on the acquisition is attributable to the synergies expected to arise from their integration with the Group. The primary reason for this acquisition is to enhance capability.

Standard Chartered Bank

Notes to the financial statements continued

26. Goodwill and intangible assets

Group

	2014				2013			
	Goodwill \$million	Acquired intangibles \$million	Software \$million	Total \$million	Goodwill \$million	Acquired intangibles \$million	Software \$million	Total \$million
Cost								
At 1 January	4,795	911	1,102	6,808	5,966	891	922	7,779
Exchange translation differences	(120)	(18)	(67)	(205)	(187)	(15)	(15)	(217)
Acquisitions	-	-	-	-	16	35	-	51
Additions	-	-	371	371	-	-	372	372
Disposals	(12)	(20)	(1)	(33)	-	-	-	-
Amounts written off	(758)	(96)	(58)	(912)	(1,000)	-	(175)	(1,175)
Held for sale	(68)	-	-	(68)	-	-	-	-
Other movements	(37)	-	-	(37)	-	-	(2)	(2)
At 31 December	3,800	777	1,347	5,924	4,795	911	1,102	6,808
Provision for amortisation								
At 1 January	-	728	386	1,114	-	662	330	992
Exchange translation differences	-	(17)	(23)	(40)	-	(6)	1	(5)
Amortisation	-	57	165	222	-	72	228	300
Impairment Charge	-	8	8	16	-	-	(173)	(173)
Disposals	-	(17)	(1)	(18)	-	-	-	-
Amounts written off	-	(94)	(58)	(152)	-	-	-	-
At 31 December	-	665	477	1,142	-	728	386	1,114
Net book value	3,800	112	870	4,782	4,795	183	716	5,694

At 1 January 2013, the net book value was: goodwill, \$5,966 million; acquired intangibles, \$229 million; and software, \$592 million. At 31 December 2014, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to \$1,827 million (2013: \$1,069 million), of which \$758 million was recognised in 2014 relating to goodwill held against Korea and the Corporate Advisory cash generating units.

Company

	2014				2013			
	Goodwill \$million	Acquired intangibles \$million	Software \$million	Total \$million	Goodwill \$million	Acquired intangibles \$million	Software \$million	Total \$million
Cost								
At 1 January	272	160	846	1,278	487	129	741	1,357
Exchange translation differences	(2)	(4)	(48)	(54)	(8)	(5)	(25)	(38)
Acquisitions	-	-	-	-	16	36	-	52
Additions	-	-	322	322	-	-	289	289
Disposals	-	-	(1)	(1)	(223)	-	-	(223)
Amounts written off	-	(87)	(41)	(128)	-	-	(159)	(159)
Other movements	-	-	(41)	(41)	-	-	-	-
At 31 December	270	69	1,037	1,376	272	160	846	1,278
Provision for amortisation								
At 1 January	-	117	246	363	-	100	226	326
Exchange translation differences	-	(3)	(14)	(17)	-	(2)	(8)	(10)
Amortisation	-	7	123	130	-	19	187	206
Impairment charge	-	-	8	8	-	-	-	-
Amounts written off	-	(87)	(41)	(128)	-	-	(159)	(159)
At 31 December	-	34	322	356	-	117	246	363
Net book value	270	35	715	1,020	272	43	600	915

At 1 January 2013, the net book value was: goodwill, \$487 million; acquired intangibles, \$29 million; and software, \$515 million.

Standard Chartered Bank

Notes to the financial statements continued

26. Goodwill and intangible assets continued

	Group		Company	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million
Acquired intangibles comprise:				
Core deposits	8	9	-	-
Customer relationships	75	118	26	43
Brand names	19	54	-	-
Licences	10	2	9	-
Net book value	112	183	35	43

Group

Acquired intangibles primarily comprise those recognised as part of the acquisitions of Union Bank (now amalgamated into Standard Chartered Bank (Pakistan) Limited), Hsinchu (now amalgamated into Standard Chartered Bank (Taiwan) Limited), Pembroke, Harrison Lovegrove, American Express Bank and the custody business in Africa. The acquired intangibles are amortised over periods from four years to a maximum of 16 years.

Testing of goodwill for impairment

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing goodwill is allocated at the date of acquisition to a cash-generating unit (CGU), and the table below sets out the goodwill allocated to each CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amounts for all the CGUs were measured based on value-in-use. The key assumptions used in determining the recoverable amounts are set out below and are solely estimates for the purposes of assessing impairment of acquired goodwill.

	2014			2013		
	Goodwill \$million	Pre-tax discount rate per cent	Long-term forecast GDP growth rates per cent	Goodwill \$million	Pre-tax discount rate per cent	Long-term forecast GDP growth rates per cent
Cash Generating Unit						
Korean business	-	-	-	794	16.5	3.9
Pakistan business	261	21.6	4.6	249	25.9	4.4
Taiwan business	1,238	14.0	4.3	1,313	18.6	4.4
Credit card and personal loan - Asia, India & MENAP	494	12.0	4.0	494	15.8	1.4
India business	318	16.9	6.5	324	17.7	6.5
MENAP business	368	21.0	4.2	368	19.1	4.1
Thailand business	313	13.5	4.5	315	16.4	4.7
Financial Institutions and Private Banking Business	396	11.6	4.0	396	14.5	1.4
Corporate advisory business	30	12.0	4.0	75	15.8	1.4
Consumer banking business in Singapore	211	11.7	3.7	221	11.2	3.8
Other	171	12.0-14.6	4.0-5.2	246	12.4-15.8	1.4-7.4
	3,800			4,795		

Standard Chartered Bank

Notes to the financial statements continued

26. Goodwill and intangible assets continued

Methodology for determining value-in-use

The calculation of value-in-use for each CGU is based on cash flow projections over a 20 year period, including a terminal value which is determined based on long-term earnings multiple consistent with available market data. These cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the CGU as set out in the table above.

The cash flow projections are based on budgets and forecasts approved by management covering one year, except for Taiwan, Thailand and Pakistan CGUs, where management forecasts cover a total of four years to 2018 and 5 years to 2014 for the Korea CGU. Management forecasts project growth rates greater than long-term GDP rates but which are in line with past performance as adjusted to reflect the current economic climate. For the period after management approved forecasts, the cash flows are extrapolated forward using steady long-term forecast GDP growth rates appropriate to the CGU.

Outcome of impairment assessment

The Group performed its annual impairment assessment on the level of goodwill assigned to the Group's CGU as a result of its consideration of reduced expectation for future cash flows and fluctuations in the discount rate. Based on this analysis, the carrying amount was assessed as exceeding the recoverable value by \$726 million for the Korea and \$32 million for the Corporate Advisory business CGU which was recognised as an impairment charge. The pre-tax discount rate applied to the Korea CGU was 16.3 per cent and 12.0 per cent in respect of the corporate advisory business CGU.

At 31 December 2014, the results of our annual assessment review indicated that there is no other goodwill impairment to be recognised. The Group also believes that a reasonable possible change in any of the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

It continues to be possible that certain scenarios could be constructed where a combination of a material change in the discount rate coupled with a reduction in current business plan forecasts or the GDP growth rate, would potentially result in the carrying amount of the goodwill exceeding the recoverable amount in the future.

Company

Acquired intangibles primarily comprise those recognised as part of the acquisitions of American Express Bank, GE Money and GE Singapore.

Significant items of goodwill arising on acquisitions have been allocated to the following cash generating units for the purposes of impairment testing:

Cash Generating Unit	Goodwill	
	2014	2013
	\$million	\$million
Financial Institutions and Private Banking Business	148	148
Other	122	124
	270	272

All recoverable amounts were measured based on value in use.

The key assumptions and approach to determining value-in-use calculations, as set out above, are solely estimates for the purposes of assessing impairment on acquired goodwill. The calculation for each unit uses cash flow projections based on budgets and forecasts approved by management covering one year. These are then extrapolated for periods of up to a further 19 years using steady long term growth forecast GDP growth rates and as terminal value determined based on long term earnings multiples.

Where these rates are different from available market data on long term rates, that fact is stated above. The cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the cash generating unit. Management believes that a reasonable possible change in any of the key assumptions on which recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

Standard Chartered Bank

Notes to the financial statements continued

27. Property, plant and equipment

Group	2014				2013			
	Premises \$million	Equipment \$million	Operating lease assets \$million	Total \$million	Premises \$million	Equipment \$million	Operating lease assets \$million	Total \$million
Cost or valuation								
At 1 January	2,391	797	5,465	8,653	2,544	818	4,809	8,171
Exchange translation differences	(68)	(29)	-	(97)	(44)	(29)	-	(73)
Additions	72	117	1,966	2,155	77	128	874	1,079
Disposals and fully depreciated assets written off	(48)	(80)	(2,384)	(2,512)	(124)	(117)	(218)	(459)
Transfers to assets held for re-sale	(17)	-	-	(17)	(62)	(3)	-	(65)
At 31 December	2,330	805	5,047	8,182	2,391	797	5,465	8,653
Depreciation								
Accumulated at 1 January	600	582	568	1,750	565	599	387	1,551
Exchange translation differences	(16)	(20)	-	(36)	(6)	(21)	-	(27)
Charge for the year	105	95	176	376	108	119	206	433
Attributable to assets sold or written off	(37)	(76)	(410)	(523)	(67)	(115)	(25)	(207)
Accumulated at 31 December	652	581	334	1,567	600	582	568	1,750
Net book amount at 31 December	1,678	224	4,713	6,615	1,791	215	4,897	6,903

At 1 January 2013, the net book value was: premises, \$1,979 million; equipment, \$219 million and operating lease assets, \$4,422 million.

Assets held under finance leases have a net book value of \$142 million (2013: \$151 million) with minimum lease payments of \$7 million (2013: \$9 million) before and after future finance charges.

Company	2014			2013		
	Premises \$million	Equipment \$million	Total \$million	Premises \$million	Equipment \$million	Total \$million
Cost or valuation						
At 1 January	520	248	768	639	289	928
Exchange translation differences	(24)	(4)	(28)	(36)	(15)	(51)
Additions	50	32	82	15	54	69
Disposals and fully depreciated assets written off	(4)	(20)	(24)	(40)	(72)	(112)
Transfers to assets held for re-sale	(2)	-	(2)	(58)	(8)	(66)
At 31 December	540	256	796	520	248	768
Depreciation						
Accumulated at 1 January	126	158	284	123	179	302
Exchange translation differences	(4)	(13)	(17)	(4)	(9)	(13)
Charge for the year	35	39	74	34	57	91
Attributable to assets sold or written off	(1)	(18)	(19)	(27)	(69)	(96)
Accumulated at 31 December	156	166	322	126	158	284
Net book amount at 31 December	384	90	474	394	90	484

At 1 January 2013, the net book value was; premises \$516 million; and equipment \$110 million.

Assets held under finance leases have a net book value of \$146 million (2013: \$160 million) with minimum lease payments of \$4 million (2013: \$6 million) before and after future finance charges.

Standard Chartered Bank

Notes to the financial statements continued

28. Deferred tax

Group

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

	At 1 January 2014	Exchange & other adjustments	Acquisitions/ disposals	Charge/ (credit) to profit	Charge/ (credit) to equity	At 31 December 2014
	\$million	\$million	\$million	\$million	\$million	\$million
Deferred taxation comprises:						
Accelerated tax depreciation	194	(117)	-	79	-	156
Impairment provisions on loans and advances	(230)	5	-	(89)	-	(314)
Tax losses carried forward	(422)	85	-	81	-	(256)
Available-for-sale assets	33	(1)	-	-	53	85
Cash flow hedges	2	-	-	-	(31)	(29)
Retirement benefit obligations	(72)	1	-	5	(13)	(79)
Share based payments	(71)	-	-	27	2	(42)
Other temporary differences	184	(4)	-	(47)	-	133
Net deferred tax assets	(382)	(31)	-	56	11	(346)

	At 1 January 2013	Exchange & other adjustments	Acquisitions/ disposals	Charge/ (credit) to profit	Charge/ (credit) to equity	At 31 December 2013
	\$million	\$million	\$million	\$million	\$million	\$million
Deferred taxation comprises:						
Accelerated tax depreciation	128	(28)	-	94	-	194
Impairment provisions on loans and advances	(154)	11	-	(87)	-	(230)
Tax losses carried forward	(476)	11	-	43	-	(422)
Available-for-sale assets	86	(9)	-	(5)	(39)	33
Premises revaluation	-	-	-	-	-	-
Cash flow hedges	17	(1)	-	(3)	(11)	2
Retirement benefit obligations	(105)	2	-	10	21	(72)
Share based payments	(80)	-	-	8	1	(71)
Other temporary differences	69	(14)	7	122	-	184
Net deferred tax assets	(515)	(28)	7	182	(28)	(382)

Deferred taxation comprises assets and liabilities as follows:

	2014			2013		
	Total \$million	Asset \$million	Liability \$million	Total \$million	Asset \$million	Liability \$million
Deferred taxation comprises:						
Accelerated tax depreciation	156	1	155	194	(27)	221
Impairment provisions on loans and advances	(314)	(365)	51	(230)	(219)	(11)
Tax losses carried forward	(256)	(203)	(53)	(422)	(311)	(111)
Available-for-sale assets	85	48	37	33	18	15
Cash flow hedges	(29)	(28)	(1)	2	2	-
Retirement benefit obligations	(79)	(74)	(5)	(72)	(70)	(2)
Share based payments	(42)	(38)	(4)	(71)	(63)	(8)
Other temporary differences	133	114	19	184	112	72
	(346)	(545)	199	(382)	(558)	176

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

Standard Chartered Bank

Notes to the financial statements continued

28. Deferred tax continued

Company

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the reporting period:

	At 1 January 2014	Exchange & other adjustments	Acquisitions	Charge/ (credit) to profit	Charge/ (credit) to equity	At 31 December 2014
	\$million	\$million	\$million	\$million	\$million	\$million
Deferred taxation comprises:						
Accelerated tax depreciation	41	(4)	-	39	-	76
Impairment provisions on loans and advances	(271)	9	-	(96)	-	(358)
Tax losses carried forward	(224)	4	-	110	-	(110)
Available-for-sale assets	20	-	-	-	21	41
Cash flow hedges	7	(1)	-	-	(35)	(29)
Retirement benefit obligations	(54)	1	-	3	(10)	(60)
Share based payments	(38)	-	-	16	2	(20)
Other temporary differences	178	(5)	-	-	-	173
Net deferred tax assets	(341)	4	-	72	(22)	(287)

	At 1 January 2013	Exchange & other adjustments	Acquisitions	Charge/ (credit) to profit	Charge/ (credit) to equity	At 31 December 2013
	\$million	\$million	\$million	\$million	\$million	\$million
Deferred taxation comprises:						
Accelerated tax depreciation	12	(6)	-	35	-	41
Impairment provisions on loans and advances	(230)	22	-	(63)	-	(271)
Tax losses carried forward	(303)	9	-	70	-	(224)
Available-for-sale assets	38	-	-	(5)	(13)	20
Cash flow hedges	15	1	-	(3)	(6)	7
Retirement benefit obligations	(78)	-	-	8	16	(54)
Share based payments	(62)	-	-	23	1	(38)
Other temporary differences	111	(11)	7	71	-	178
Net deferred tax assets	(497)	15	7	136	(2)	(341)

Deferred taxation comprises assets and liabilities as follows:

	2014			2013		
	Total	Asset	Liability	Total	Asset	Liability
	\$million	\$million	\$million	\$million	\$million	\$million
Deferred taxation comprises:						
Accelerated tax depreciation	76	(3)	79	41	(15)	56
Impairment provisions on loans and advances	(358)	(355)	(3)	(271)	(270)	(1)
Tax losses carried forward	(110)	(110)	-	(224)	(224)	-
Available-for-sale assets	41	36	5	20	16	4
Cash flow hedges	(29)	(29)	-	7	7	-
Retirement benefit obligations	(60)	(58)	(2)	(54)	(54)	-
Share based payments	(20)	(16)	(4)	(38)	(30)	(8)
Other temporary differences	173	168	5	178	170	8
	(287)	(367)	80	(341)	(400)	59

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

Standard Chartered Bank

Notes to the financial statements continued

28. Deferred tax continued

At 31 December 2014, the Group has net deferred tax assets of \$346 million (2013: \$382 million).

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

Of the group's total deferred tax asset, \$256 million relates to tax losses carried forward. These tax losses have arisen in individual legal entities and will be offset as future taxable profits arise in those entities.

\$72 million of the deferred tax asset relating to losses has arisen in the UK, where there is no expiry date for unused tax losses. There is a defined profit stream against which the losses are forecast to be fully utilised, over a period of 10 years.

\$53 million of the deferred tax asset relating to losses has arisen in Ireland, where there is no expiry date for unused tax losses. These losses relate to aircraft leasing and are expected to be fully utilised over the useful economical life of the assets being up to 25 years.

\$46 million of the deferred tax asset relating to losses has arisen in Taiwan. Management forecasts show that the losses are expected to be fully utilised over a period of 4 years. The tax losses expire after 10 years.

\$32 million of the deferred tax asset relating to losses has arisen in Australia, where there is no expiry date for unused tax losses. Management forecasts show that the losses are expected to be fully utilised over a period of 14 years.

The remaining deferred tax asset relating to losses has arisen in other jurisdictions and is expected to be recovered in less than 10 years.

	Group		Company	
	2014	2013	2014	2013
	\$million	\$million	\$million	\$million
No account has been taken of the following potential deferred taxation assets/(liabilities):				
Withholding tax on unremitted earnings from overseas subsidiaries	(344)	(328)	(171)	(165)
Foreign exchange movements on investments in branches	(140)	(85)	(140)	(85)
Tax losses	96	106	70	85
Held over gains on incorporation of overseas branches	(478)	(506)	(478)	(506)

Standard Chartered Bank

Notes to the financial statements continued

29. Debt securities in issue

Group

	2014			2013		
	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million
Debt securities in issue	28,585	24,728	53,313	21,082	24,857	45,939
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	125	8,712	8,837	141	6,682	6,823
Total debt securities in issue	28,710	33,440	62,150	21,223	31,539	52,762

Company

	2014			2013		
	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million
Debt securities in issue	25,135	19,357	44,492	18,062	18,623	36,685
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	-	4,554	4,554	-	3,664	3,664
Total debt securities in issue	25,135	23,911	49,046	18,062	22,287	40,349

30. Other liabilities

	Group		Company	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million
Financial liabilities held at amortised cost (note 15)				
Notes in circulation ¹	4,738	4,460	-	-
Acceptances and endorsements	5,212	5,501	3,259	2,826
Cash collateral	7,005	5,147	6,618	4,773
Unsettled trades and other financial liabilities	13,130	10,903	7,832	6,105
	30,085	26,011	17,709	13,704
Non-financial liabilities				
Liabilities held for sale ²	710	344	-	-
Other liabilities	440	1,006	263	357
	31,235	27,361	17,972	14,061

¹ Hong Kong currency notes in circulation of \$4,738 million (2013: \$4,460 million) which are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 22)

² Relate to liabilities in disposal groups held for sale. The businesses held for sale also have total net liabilities due to Group undertakings of \$2 billion which will be transferred to the acquirers on completion of the sale. See note 22 for the balance sheet of the disposal groups held for sale.

Standard Chartered Bank

Notes to the financial statements continued

31. Subordinated liabilities and other borrowed funds

	2014	2013
	\$million	\$million
Subordinated loan capital - issued by subsidiary undertakings		
\$750 million 5.875 per cent subordinated notes 2020	802	789
BWP 127.26 million 8.2 per cent subordinated notes 2022 (callable 2017)	13	15
BWP 70 million floating rate subordinated notes 2021 (callable 2016)	7	8
BWP 50 million floating rate notes 2022 (callable 2017)	5	6
KRW 300 billion 7.05 per cent subordinated debt 2019 (callable 2014)	-	284
KRW 270 billion 4.67 per cent subordinated debt 2021 (callable 2016)	247	256
KRW 90 billion 6.05 per cent subordinated debt 2018	92	95
PKR 2.5 billion floating rate notes 2022 (callable 2017)	25	24
SGD 750 million 4.15 per cent subordinated notes 2021 (callable 2016)	541	570
TWD 10 billion 2.9 per cent subordinated debt 2019 (callable 2014)	-	337
TZS 10 billion 11 per cent subordinated notes 2020 (callable 2015)	6	6
UGX 40 billion 13 per cent subordinated notes 2020 (callable 2015)	14	16
	1,752	2,406
Subordinated loan capital - issued by Company		
£700 million 7.75 per cent subordinated notes 2018	1,208	1,291
£675 million 5.375 per cent undated step up subordinated notes (callable 2020)	706	727
£600 million 8.103 per cent step up callable perpetual preferred securities (callable 2016)	1,013	1,128
£200 million 7.75 per cent undated step up subordinated notes (callable 2022)	400	410
€1.1 billion 5.875 per cent subordinated notes 2017	1,474	1,704
\$2 billion floating rate subordinated notes 2023	2,000	2,000
\$2 billion floating rate subordinated notes 2044 (callable 2039)	2,000	-
\$1.8 billion floating rate undated subordinated notes (callable 2014)	-	1,800
\$1.698 billion floating rate subordinated notes 2025 (callable 2020)	1,698	-
\$1.6 billion floating rate subordinated notes 2022 (callable 2017)	1,600	1,600
\$1.5 billion 9.5 per cent step up perpetual preferred securities (callable 2014)	-	1,542
\$1.3 billion floating rate subordinated notes 2021 (callable 2016)	1,300	1,300
\$1.25 billion floating rate subordinated notes 2022 (callable 2017)	1,250	1,250
\$1 billion 6.4 per cent subordinated notes 2017	1,099	1,134
\$1 billion floating rate subordinated notes 2022	1,000	1,000
\$960 million floating rate subordinated notes 2022	960	960
\$700 million 8.0 per cent subordinated notes 2031	641	592
\$500 million floating rate subordinated notes 2043	500	500
JPY 10 billion 3.35 per cent subordinated notes 2023 (callable 2018)	87	101
SGD 450 million 5.25 per cent subordinated notes 2023 (callable 2018)	355	380
Primary Capital Floating Rate Notes:		
\$400 million	57	57
\$300 million (Series 2)	80	81
\$400 million (Series 3)	83	83
\$200 million (Series 4)	51	51
£150 million	48	50
Total for Company	19,610	19,741
Total for Group	21,362	22,147

Standard Chartered Bank

Notes to the financial statements continued

31. Subordinated liabilities and other borrowed funds continued

	2014				2013			
	USD	GBP	Euro	Others	USD	GBP	Euro	Others
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Fixed rate subordinated debt	2,542	3,327	1,474	1,355	4,057	3,556	1,704	2,060
Floating rate subordinated debt	12,579	48	-	37	10,682	50	-	38
Total	15,121	3,375	1,474	1,392	14,739	3,606	1,704	2,098

All subordinated liabilities are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements.

Issuances

On 28 February 2014, Standard Chartered Bank issued \$1.698 billion floating rate notes due October 2025.

On 26 June 2014, Standard Chartered Bank issued \$2 billion floating rate notes due June 2044.

Redemptions

On 13 March 2014, Standard Chartered Bank Korea Limited exercised its right to redeem its KRW300 million 7.05 per cent subordinated debt in full on the first optional call date.

On 29 June 2014, Standard Chartered Bank exercised its right to redeem its \$1.8 billion floating rate undated subordinated notes in the first optional call date.

On 28 October 2014, Standard Chartered Bank (Taiwan) Limited exercised its right to redeem its TWD10 billion 2.9 per cent subordinated debt due 2019 in full on the first optional call date.

On 24 December 2014, Standard Chartered Bank exercised its right to redeem its \$1.5 billion 9.5 per cent step up perpetual preferred securities in full on the first optional call date.

Standard Chartered Bank

Notes to the financial statements continued

32. Provisions for liabilities and charges

Group

	2014		
	Provision for credit commitments \$million	Other provisions \$million	Total \$million
At 1 January	22	82	104
Exchange translation differences	(1)	(1)	(2)
Charge against profit	6	23	29
Provisions utilised	(7)	(32)	(39)
At 31 December	20	72	92

Provision for credit commitment comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations. Other provisions include provisions for regulatory settlement, legal claims and restructuring.

Company

	2014		
	Provision for credit commitments \$million	Other provisions \$million	Total \$million
At 1 January	119	11	130
Charge against profit	-	9	9
Provisions utilised	(10)	(9)	(19)
At 31 December	109	11	120

Provision for credit commitments for the Company comprises primarily provisions made as part of risk participation agreements with subsidiaries.

Standard Chartered Bank

Notes to the financial statements continued

33. Retirement benefit obligations

Retirement benefit obligations comprise:

	2014	2013
	\$million	\$million
Defined benefit schemes obligation	391	341
Defined contribution schemes obligation	22	24
Net obligation	413	365

Retirement benefit charge comprises:

	2014	2013
	\$million	\$million
Defined benefit schemes	105	119
Defined contribution schemes	228	217
Charge against profit (note 8)	333	336

Group

The Group operates 60 defined benefit plans across its geographies, many of which are closed to new entrants who now join defined contribution arrangements. The aim of all these plans is to give employees the opportunity to save appropriately for retirement in a way that is consistent with local regulations, taxation requirements and market conditions. The defined benefit plans expose the Group to currency risk, interest rate risk, investment risk and actuarial risks such as longevity risk. The UK Fund is the Group's largest arrangement, representing 60% of total pension liabilities.

The disclosures required under IAS 19 have been calculated by independent qualified actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2014.

UK Fund

The Standard Chartered Pension Fund (the 'Fund') is the Group's principal pension scheme and provides pensions based on 1/60th of final salary per year of service, normally payable from age 60. The Fund is set up under a Trust that is legally separate from the Bank (its formal sponsor) and as required by UK legislation, at least one third of the Trustee Directors are nominated by members; the remainder are appointed by the Bank. The Trustee Directors have a fiduciary duty to Fund members and are responsible for governing the Fund in accordance with its Trust Deed and Rules.

The financial position of the Fund is assessed by an independent qualified actuary. The most recent funding valuation was performed as at 31 December 2011 by A Zegleman, Fellow of the Faculty of Actuaries, of Towers Watson, using the projected unit method and assumptions different from those below. To repair the past service deficit identified as at 31 December 2011, a cash payment of £35 million was made into the Fund on 27 March 2013. In addition, an escrow account of £100 million exists to provide security for future contributions. Following the 31 December 2011 valuation, regular contributions to the Fund were set at 36 per cent of pensionable salary for all members. The next valuation is due as at 31 December 2014.

With effect from 1 July 1998, the Fund was closed to new entrants and new employees are offered membership of a defined contribution scheme. Over 80% of the Fund's liabilities now relate to pensioners or ex-employees who have left the Group but have not yet retired. As at 31 December 2014, the weighted-average duration of the Fund was 15 years (2013: 15 years).

Overseas Schemes

The principal overseas defined benefit arrangements operated by the Group are in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the United States (US).

The Group's expected contribution to its defined benefit pension schemes in 2015 is \$80 million.

Standard Chartered Bank

Notes to the financial statements continued

33. Retirement benefit obligations continued

The financial assumptions used at 31 December 2014 were:

	Funded schemes			
	UK Fund ¹	Overseas Schemes ²		
	2014 %	2013 %	2014 %	2013 %
Price inflation	1.90	2.40	1.30 – 5.00	1.50 – 5.00
Salary increases	1.90	2.40	1.90 – 6.50	2.40 – 6.50
Pension increases	1.90	2.40	1.10 – 3.00	1.75 – 3.40
Discount rate	3.60	4.50	1.60 – 8.20	1.70 – 9.40

¹ The assumptions for life expectancy for the UK Fund are that a male member currently aged 60 will live for 28 years (2013: 28 years) and a female member 29 years (2013: 29 years) and a male member currently aged 40 will live for 30 years (2013: 30 years) and a female member 31 years (2013: 31 years) after their 60th birthdays.

² The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the US. These comprise over 85 per cent of the total liabilities of funded overseas schemes

These assumptions are likely to change in the future and this will affect the value placed on the liabilities. For example, changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

- if the discount rate for the UK Fund increased by 25 basis points the liability would reduce by approximately \$65 million.
- if the rate of inflation and pension increases for the UK Fund increased by 25 basis points the liability would increase by approximately \$65 million.
- if the rate salaries increase compared to inflation for the UK Fund increased by 25 basis points the liability would increase by approximately \$7 million.
- if longevity expectations increased by one year for the UK Fund the liability would increase by approximately \$50 million.

Although this analysis does not take account of the full distribution of cash flows expected under the Fund, it does provide an approximation of the sensitivity to the main assumptions. While changes in other assumptions would also have an impact, the effect would not be as significant.

	Unfunded schemes			
	Post-retirement medical ³	Other ⁴		
	2014 %	2013 %	2014 %	2013 %
Price inflation	2.50	2.50	2.50 – 5.00	2.50 – 5.00
Salary increases	4.00	4.00	1.90 – 6.50	2.40 – 6.50
Pension increases	N/A	N/A	0.00 – 1.90	0.00 – 2.40
Discount rate	4.20	5.10	2.80 – 8.20	4.50 – 9.40
Post-retirement medical rate	7% in 2014 reducing by 1% per annum to 5% in 2016	8% in 2013 reducing by 1% per annum to 5% in 2016	N/A	N/A

³ The post-retirement medical plan is in the US.

⁴ The range of assumptions shown is for the main unfunded schemes in India, Indonesia, Korea, Thailand, UAE and the UK. They comprise over 85 per cent of the total liabilities of unfunded schemes.

The assets and liabilities of the schemes, attributable to defined benefit members were:

Standard Chartered Bank

Notes to the financial statements continued

33. Retirement benefit obligations continued

	2014				2013			
	Funded defined benefit schemes		Unfunded schemes		Funded defined benefit schemes		Unfunded schemes	
	UK Fund \$million	Overseas schemes \$million	Post-retirement medical \$million	Other \$million	UK Fund \$million	Overseas schemes \$million	Post-retirement medical \$million	Other \$million
At 31 December								
Equities	367	287	N/A	N/A	423	304	N/A	N/A
Government Bonds	852	169	N/A	N/A	696	155	N/A	N/A
Corporate Bonds	199	73	N/A	N/A	285	68	N/A	N/A
Hedge Funds ¹	191	-	N/A	N/A	-	-	N/A	N/A
Insurance linked funds ¹	53	-	N/A	N/A	-	-	N/A	N/A
Opportunistic credit ¹	79	-	N/A	N/A	-	-	N/A	N/A
Property	78	5	N/A	N/A	-	-	N/A	N/A
Derivatives	(5)	2	N/A	N/A	-	-	N/A	N/A
Cash and equivalents	23	218	N/A	N/A	78	11	N/A	N/A
Others ¹	12	31	N/A	N/A	350	215	N/A	N/A
Total fair value of assets ²	1,849	785	N/A	N/A	1,832	753	N/A	N/A
Present value of liabilities ³	(1,839)	(963)	(27)	(196)	(1,855)	(875)	(26)	(170)
Net pension asset/ (liability)	10	(178)	(27)	(196)	(23)	(122)	(26)	(170)

¹ Unquoted assets

² Self investment is monitored closely and is less than \$1 million of Standard Chartered equities and bonds for 2014 and 2013. Self investment is only allowed where it is not practical to exclude it – for example through investment in index-tracking funds where the Group is a constituent of the relevant index

³ Includes \$1 million (2013: \$1 million) impact as a result of unrecognisable surplus in Kenya

Standard Chartered Bank

Notes to the financial statements continued

33. Retirement benefit obligations continued

Group continued

The pension cost for defined benefit schemes was:

	Funded schemes		Unfunded schemes		Total
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
2014					
Current service cost	8	65	1	20	94
Past service cost and curtailments	-	(1)	-	-	(1)
Gains on settlements	-	(1)	-	-	(1)
Interest income on pension scheme assets	(80)	(28)	-	-	(108)
Interest on pension scheme liabilities	81	31	1	8	121
Total charge to profit before deduction of tax	9	66	2	28	105
Return on plan assets excluding interest income ¹	(138)	(15)	-	-	(153)
Loss/(gain) on liabilities	105	89	(1)	21	214
Total (gain)/loss recognised directly in other comprehensive income before tax	(33)	74	(1)	21	61
Deferred taxation	-	(13)	-	-	(13)
Total (gain)/loss after tax	(33)	61	(1)	21	48

¹ The actual return on the UK fund assets was \$218 million and on overseas scheme assets was \$43 million

	Funded defined benefit schemes		Unfunded schemes		Total
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
2013					
Current service cost	7	71	1	21	100
Past service cost and curtailments	-	1	-	3	4
Interest income on pension scheme assets	(74)	(19)	-	-	(93)
Interest on pension scheme liabilities	76	23	1	8	108
Total charge to profit before deduction of tax	9	76	2	32	119
Return on plan assets excluding interest income ²	(38)	(31)	-	-	(69)
Loss/(gain) on liabilities	24	(19)	(3)	(12)	(10)
Total (gain) recognised directly in other comprehensive income before tax	(14)	(50)	(3)	(12)	(79)
Deferred taxation	3	18	-	-	21
Total gain after tax	(11)	(32)	(3)	(12)	(58)

² The actual return on the UK fund assets was \$112 million and on overseas scheme assets was \$50 million

Standard Chartered Bank

Notes to the financial statements continued

33. Retirement benefit obligations continued

Group continued

Movement in the defined benefit schemes and post retirement medical deficit during the year comprise:

	Funded schemes		Unfunded schemes		
	UK Fund	Overseas schemes	Post-retirement medical	Other	Total
	\$million	\$million	\$million	\$million	\$million
Deficit at 1 January 2014	(23)	(122)	(26)	(170)	(341)
Contributions	9	75	-	14	98
Current service cost	(8)	(65)	(1)	(20)	(94)
Past service cost and curtailments	-	1	-	-	1
Settlement costs	-	1	-	-	1
Net interest on the net defined benefit assets/liability	(1)	(3)	(1)	(8)	(13)
Actuarial gains/(losses)	33	(74)	1	(21)	(61)
Exchange rate adjustment	-	9	-	9	18
Deficit at 31 December 2014	10	(178)	(27)	(196)	(391)

	Funded schemes		Unfunded schemes		
	UK Fund	Overseas schemes	Post-retirement medical	Other	Total
	\$million	\$million	\$million	\$million	\$million
Deficit at 1 January 2013	(93)	(190)	(28)	(159)	(470)
Contributions	63	94	1	10	168
Current service cost	(7)	(71)	(1)	(21)	(100)
Past service cost and curtailments	-	(1)	-	(3)	(4)
Net interest on the net defined benefit asset/liability	(2)	(4)	(1)	(8)	(15)
Actuarial gains	14	50	3	12	79
Exchange rate adjustment	2	-	-	(1)	1
Deficit at 31 December 2013	(23)	(122)	(26)	(170)	(341)

Standard Chartered Bank

Notes to the financial statements continued

33. Retirement benefit obligations continued

Group continued

Movement in defined benefit schemes and post-retirement medical gross assets and obligations during the year comprise:

	Assets \$million	Obligations \$million	Total \$million
Deficit at 1 January 2014	2,585	(2,926)	(341)
Contributions ¹	100	(2)	98
Current service cost ²	-	(94)	(94)
Past service cost and curtailments	-	1	1
Settlement costs	(11)	12	1
Interest cost on pension scheme liabilities	-	(121)	(121)
Interest income on pension scheme assets	108	-	108
Benefits paid out ²	(167)	167	-
Actuarial gains/(losses) ³	153	(214)	(61)
Exchange rate adjustment	(134)	152	18
Deficit at 31 December 2014	2,634	(3,025)	(391)

¹ Includes employee contributions of \$2 million

² Includes administrative expenses paid out of scheme assets of \$1 million

³ Actuarial loss on obligation comprises \$205 million loss from financial assumption changes, \$12 million loss from demographic assumption changes and \$3 million gain from experience

	Assets \$million	Obligations \$million	Total \$million
Deficit at 1 January 2013	2,366	(2,836)	(470)
Contributions ¹	170	(2)	168
Current service cost ²	-	(100)	(100)
Past service cost and curtailments	-	(4)	(4)
Settlement costs	(5)	5	-
Interest cost on pension scheme liabilities	-	(108)	(108)
Interest income on pension scheme assets	93	-	93
Benefits paid out ²	(146)	146	-
Actuarial gains ³	69	10	79
Exchange rate adjustment	38	(37)	1
Deficit at 31 December 2013	2,585	(2,926)	(341)

¹ Includes employee contributions of \$2 million

² Includes administrative expenses paid out of scheme assets of \$1 million

³ The \$10 million gain on liabilities can be broken down as a \$25 million gain from financial assumption changes, \$1 million loss from demographic assumption changes and a \$14 million loss from experience

Standard Chartered Bank

Notes to the financial statements continued

33. Retirement benefit obligations continued

Company

Retirement benefit obligations comprise:

	2014 \$million	2013 \$million
Defined benefit schemes obligation	296	260
Defined contribution schemes obligation	14	16
Net obligation	310	276

Retirement benefit charge comprises:

	2014 \$million	2013 \$million
Defined benefit schemes	54	59
Defined contribution schemes	91	99
Charge against profit	145	158

33. Retirement benefit obligations continued

UK Fund

See the Group note on the UK Fund on page 259. There are no differences between Group and Company in respect of the Fund.

Overseas Schemes

The principal overseas defined benefit arrangements operated by the Company are in Germany, India and the United States.

All Schemes

The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2014.

Employer contributions to defined benefit plans over 2014 are expected to be \$30 million.

The financial assumptions used at 31 December 2014 as shown below. Sensitivities are recorded on page 255 of the Group accounts.

	Funded schemes			
	UK Fund ¹		Overseas Schemes ²	
	2014 %	2013 %	2014 %	2013 %
Price inflation	1.90	2.40	1.30 – 5.00	2.00 – 5.00
Salary increases	1.90	2.40	1.90 – 6.50	3.50 – 6.50
Pension increases	1.90	2.40	0.00 – 3.00	0.00 – 1.75
Discount rate	3.60	4.50	1.90 – 8.20	3.50 – 9.40

¹ The assumptions for life expectancy for the UK Fund are that a male member currently aged 60 will live for 28 years (2013: 28 years) and a female member 29 years (2013: 29 years) and a male member currently aged 40 will live for 30 years (2013: 30 years) and a female member 31 years (2013: 31 years) after their 60th birthday

² The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, India, Jersey and the United States. These comprise over 85 per cent of the total liabilities of funded overseas schemes

	Unfunded schemes			
	Post-retirement medical ³		Other ⁴	
	2014 %	2013 %	2014 %	2013 %
Price inflation	2.50	2.50	1.90 – 5.00	2.40 – 5.00
Salary increases	4.00	4.00	1.90 – 6.50	2.40 – 6.50
Pension increases	N/A	N/A	0.00 – 1.90	0.00 – 2.40
Discount rate	4.20	5.10	3.60 – 8.20	4.50 – 9.40
Post-retirement medical rate ⁴	7% in 2014 reducing by 1% per annum to 5% in 2016	8% in 2013 reducing by 1% per annum to 5% in 2016		N/A

³ The Post-retirement medical plan is in the United States

⁴ The range of assumptions shown is for the main Unfunded Schemes in India, Indonesia, UAE and the UK. These comprise over 85% of the total liabilities of unfunded schemes

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Notes to the financial statements continued

33. Retirement benefit obligations continued

	2014				2013			
	Funded schemes		Unfunded schemes		Funded schemes		Unfunded schemes	
	UK Fund \$million	Overseas schemes \$million	Post-retirement medical \$million	Other \$million	UK Fund \$million	Overseas schemes \$million	Post-retirement medical \$million	Other \$million
At 31 December								
Equities	367	100	N/A	N/A	423	102	N/A	N/A
Government Bonds	852	91	N/A	N/A	696	83	N/A	N/A
Corporate Bonds	199	45	N/A	N/A	208	37	N/A	N/A
Hedge Funds ¹	191	-	N/A	N/A	183	-	N/A	N/A
Insurance linked funds ¹	53	-	N/A	N/A	49	-	N/A	N/A
Opportunistic credit ¹	79	-	N/A	N/A	77	-	N/A	N/A
Property	78	1	N/A	N/A	78	2	N/A	N/A
Derivatives	(5)	-	N/A	N/A	15	-	N/A	N/A
Cash and equivalents	23	-	N/A	N/A	85	-	N/A	N/A
Others ¹	12	40	N/A	N/A	18	36	N/A	N/A
Total fair value of assets ²	1,849	277	N/A	N/A	1,832	260	N/A	N/A
Present value of liabilities ³	(1,839)	(380)	(27)	(176)	(1,855)	(321)	(26)	(150)
Net pension asset/ (liability)	10	(103)	(27)	(176)	(23)	(61)	(26)	(150)

¹ Unquoted assets

² Self investment is monitored closely and is less than \$1 million of Standard Chartered equities and bonds for 2014 and 2013. Self investment is only allowed where it is not practical to exclude it – for example through investment in index-tracking funds where the Group is a constituent of the relevant index

³ Includes \$1 million (2013: \$1 million) impact as a result of unrecognisable surplus in Kenya

Standard Chartered Bank

Notes to the financial statements continued

33. Retirement benefit obligations continued

Company continued

The pension cost for defined benefit schemes was:

	Funded schemes		Unfunded schemes		Total \$million
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
2014					
Current service cost	8	14	1	18	41
Past service cost and curtailments	-	1	-	-	1
Interest Income on pension scheme assets	(80)	(14)	-	-	(94)
Interest expense on pension scheme liabilities	81	17	1	7	106
Total charge to profit before deduction of tax	9	18	2	25	54
Return on Plan assets excluding Interest Income ¹	(138)	(11)	-	-	(149)
Loss/(gain) on liabilities	105	59	(1)	21	184
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(33)	48	(1)	21	35
Deferred taxation	-	(9)	-	-	(9)
Total (gain)/loss after tax	(33)	39	(1)	21	26

¹ The actual return on the UK fund assets was \$218 million and on overseas scheme assets was \$25 million

	Funded schemes		Unfunded schemes		Total \$million
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
2013					
Current service cost	7	15	1	20	43
Past service cost and curtailments	-	-	-	4	4
Interest income on pension scheme assets	(74)	(9)	-	-	(83)
Interest expense on pension scheme liabilities	76	11	1	7	95
Total charge to profit before deduction of tax	9	17	2	31	59
Return on Plan assets excluding Interest Income ²	(38)	(6)	-	-	(44)
Loss/(gain) on liabilities	24	(14)	(3)	(16)	(9)
Total gain recognised directly in statement of comprehensive income before tax	(14)	(20)	(3)	(16)	(53)
Deferred taxation	3	8	-	5	16
Total gain after tax	(11)	(12)	(3)	(11)	(37)

² The actual return on the UK fund assets was \$112 million and on overseas scheme assets was \$15 million

Standard Chartered Bank

Notes to the financial statements continued

33. Retirement benefit obligations continued

Company continued

Movement in the defined benefit schemes and post retirement medical deficit during the year comprise:

	Funded schemes		Unfunded schemes		
	UK Fund	Overseas schemes	Post-retirement medical	Other	Total
	\$million	\$million	\$million	\$million	\$million
Deficit at 1 January 2014	(23)	(61)	(26)	(150)	(260)
Contributions	9	18	-	14	41
Current service cost	(8)	(14)	(1)	(18)	(41)
Past service cost and curtailments	-	(1)	-	-	(1)
Settlement costs	-	-	-	-	-
Net interest on the net defined benefit asset/liability	(1)	(3)	(1)	(7)	(12)
Actuarial (gains)/losses	33	(48)	1	(21)	(35)
Exchange rate adjustment	-	6	-	6	12
Deficit at 31 December 2014	10	(103)	(27)	(176)	(296)

	Funded schemes		Unfunded schemes		
	UK Fund	Overseas schemes	Post-retirement medical	Other	Total
	\$million	\$million	\$million	\$million	\$million
Deficit at 1 January 2013	(93)	(86)	(28)	(145)	(352)
Contributions	63	23	1	11	98
Current service cost	(7)	(15)	(1)	(20)	(43)
Past service cost and curtailments	-	-	-	(4)	(4)
Settlement costs	-	-	-	-	-
Net interest on the net defined benefit asset/liability	(2)	(2)	(1)	(7)	(12)
Actuarial gains	14	20	3	16	53
Exchange rate adjustment	2	(1)	-	(1)	-
Deficit at 31 December 2013	(23)	(61)	(26)	(150)	(260)

Movement in defined benefit schemes and post-retirement medical gross assets and obligations during the year comprise:

	2014			2013		
	Assets	Obligations	Total	Assets	Obligations	Total
	\$million	\$million	\$million	\$million	\$million	\$million
Deficit at 1 January	2,092	(2,352)	(260)	1,861	(2,213)	(352)
Contributions	41	-	41	98	-	98
Current service cost	-	(41)	(41)	-	(43)	(43)
Past service cost and curtailments	-	(1)	(1)	-	(4)	(4)
Settlement costs	-	-	-	(1)	1	-
Interest cost on pension scheme liabilities	-	(106)	(106)	-	(95)	(95)
Interest Income on pension scheme assets	94	-	94	83	-	83
Benefits paid out	(126)	126	-	(29)	29	-
Actuarial gains/(losses)	149	(184)	(35)	48	5	53
Exchange rate adjustment	(124)	136	12	32	(32)	-
Deficit at 31 December	2,126	(2,422)	(296)	2,092	(2,352)	(260)

Standard Chartered Bank

Notes to the financial statements continued

34. Share capital, reserves and own shares

Share capital

The authorised share capital of the Company at 31 December 2014 was \$21,107 million and TWD 1,225 million (2013: \$18,007 million and TWD 1,225 million) made up of 21,100 million ordinary shares of \$1 each, 2.4 million non-cumulative irredeemable preference shares of \$0.01 each, 1 million non-cumulative preference shares of \$5 each, 15,000 non-cumulative redeemable preference shares of \$5 each, 462,500 non-cumulative redeemable 8.125% preference shares of \$5 each and 50 million non cumulative redeemable preference shares of TWD24.50 each.

The issued share capital of the Company at 31 December 2014 was \$20,854 million (2013: \$17,754 million) made up of:
20,854 million ordinary shares of \$1 each;

7,500 non-cumulative redeemable preference shares issued on 8 December 2006 with a nominal value of \$5 each and 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 in whole or in part on 31 January 2017 and on any quarterly dividend payment date falling on or around ten year intervals thereafter. The amount payable on redemption will be the paid up amount of \$100,000 per preference share to be redeemed, plus an amount equal to the accrued but unpaid dividend thereon up to but excluding the redemption date; and

7,500 non-cumulative redeemable preference shares issued on 25 May 2007 with a nominal value of \$5 each and 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 on 30 July 2037 and on any quarterly dividend payment date falling on or around ten year intervals thereafter. The amount payable on redemption will be the paid up amount of \$100,000 per preference share to be redeemed, plus an amount equal to the accrued but unpaid dividend thereon up to but excluding the redemption date

Group and Company

	Number of ordinary shares (millions)	Ordinary share capital \$million	Preference share capital \$million	Total \$million
At 1 January 2013	12,054	12,054	-	12,054
Shares issued	5,700	5,700	-	5,700
At 31 December 2013	17,754	17,754	-	17,754
Shares issued	3,100	3,100	-	3,100
At 31 December 2014	20,854	20,854	-	20,854

2014

On 24 December 2014, the issued share capital of the company was increased from \$17,754 million to \$20,854 by the issue of an additional 3,100 million ordinary shares of \$1 each at nil premium to its parent company, Standard Chartered Holdings Limited.

2013

On 31 July 2013, the issued share capital of the company was increased from \$12,054 million to \$15,054 by the issue of an additional 3,000 million ordinary shares of \$1 each at nil premium to its parent company, Standard Chartered Holdings Limited; and

On 16 December 2013, the issued share capital of the company was increased from \$15,054 million to \$17,754 million by the issue of 2,700 million additional ordinary shares of \$1 each at nil premium to Standard Chartered Holdings Limited.

Reserves

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.

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 of a cash flow hedge. 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 (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.

Standard Chartered Bank

Notes to the financial statements continued

35. Non-controlling interests

	\$300m 7.267% Hybrid Tier 1 Securities \$million	Other non-controlling interests \$million	Total \$million
At 1 January 2013	320	3,261	3,581
Income in equity attributable to non-controlling interests	-	(87)	(87)
Other profits attributable to non-controlling interests	22	872	894
Comprehensive income for the year	22	785	807
Distributions	(22)	(251)	(273)
Other decreases	-	(115)	(115)
At 31 December 2013	320	3,680	4,000
Income in equity attributable to non-controlling interests	-	(11)	(11)
Other profits attributable to non-controlling interests	4	741	745
Comprehensive income for the year	4	730	734
Distributions	(11)	(284)	(295)
Other decreases	(313)	25	(288)
At 31 December 2014	-	4,151	4,151

The \$300 million 7.267% Hybrid Tier 1 securities issued by Standard Chartered Bank Korea Limited, a wholly owned subsidiary of the Group were redeemed during the year. The Group had no interest in the securities.

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Notes to the financial statements continued

36. Share based payments

The Group operates a number of share based arrangements for its executive directors and employees. Details of the share based payment charge are set out below:

	2014 ¹			2013 ¹		
	Cash \$million	Equity \$million	Total \$million	Cash \$million	Equity \$million	Total \$million
Deferred share awards	-	206	206	-	237	237
Other share awards	-	74	74	-	45	45
Total share based payments	-	280	280	-	282	282

¹ No forfeiture assumed

2011 Standard Chartered Share Plan (the 2011 Plan)

Approved by shareholders in May 2011 this is the Group's main share plan, applicable to all employees with the flexibility to provide a variety of award types. The 2011 Plan is designed to deliver performance shares, deferred awards and restricted shares, giving us sufficient flexibility to meet the challenges of the changing regulatory and competitive environment. Share awards are a key part of both executive directors' and senior management's variable compensation and their significance as a proportion of total remuneration is one of the strongest indicators of the Group's commitment to pay for sustainable performance ensuring there is an appropriate return for the risk taken and that the measure is aligned with the Group's risk appetite.

Further details regarding the 2011 Plan are included in the annual Directors' report on remuneration. The remaining life of the plan is six years.

Performance Shares

Performance shares are subject to a combination of three performance measures: relative total shareholder return (TSR), earnings per share (EPS) growth and return on risk - weighted assets (RoRWA). The weighting between the three elements is split equally, one - third of the award depending on each measure, assessed independently. Performance share awards form part of the variable compensation awarded to executive directors. In line with regulatory requirements, discretionary variable compensation for executive directors will not exceed 200 per cent of fixed pay as valued in line with the European Banking Authority rules.

Valuation

The fair value of the TSR component is derived by discounting one-third of the award by the loss of expected dividends over the vesting period together with the probability of meeting the relative TSR condition, which is calculated by the area under the TSR vesting schedule curve. The EPS growth fair value is derived by discounting one-third of the award respectively by the loss of expected dividends over the vesting period. The same approach is applied to calculate the RoRWA fair value for one-third of the award. In respect of the EPS growth and RoRWA components, the number of shares expected to vest is adjusted for actual performance when calculating the share-based payment charge for the year. The same fair value applies to all employees including executive directors.

Grant date	2014				2013		
	10 December	17 September	18 June	13 March	18 September	19 June	11 March
Share price at grant date (£)	9.34	12.28	12.83	11.92	15.14	14.62	18.22
Vesting period (years)	3	3	3	3	3	3	3
Expected dividend yield (%)	5.7	5.8	5.6	5.3	4.6	4.1	4.1
Fair value (EPS) (£)	2.64	3.45	3.63	3.40	4.43	4.32	5.38
Fair value (RoRWA) (£)	2.64	3.45	3.63	3.40	4.43	4.32	5.38
Fair value (TSR) (£)	1.07	1.41	1.48	1.38	1.80	1.76	2.19

The expected dividend yield assumption is based on a historical average over a period commensurate with this period until vesting, or over one year if the period until vesting is less than one year.

Deferred share awards / Restricted shares

Deferred awards are used to deliver the deferred portion of total variable compensation, in line with both market practice and regulatory requirements. These awards are subject to a three-year deferral period, vesting equally one-third on each of the first, second and third anniversaries. Deferred awards are not subject to any plan limit to ensure that regulatory requirements relating to deferral levels can be met and in line with market practice of our competitors. Deferred awards will not be subject to any further performance criteria, although the Group's claw-back policy will apply.

Details of deferred awards for executive directors can be found in the annual report on remuneration and these apply equally for Court directors. Restricted share awards which are made outside of the annual performance process, as additional incentive or retention mechanisms, are provided as restricted shares under the 2011 Plan. These awards typically vest in equal instalments on the second and the third anniversaries of the award date. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance conditions.

Standard Chartered Bank

Notes to the financial statements continued

36. Share based payments continued

Valuation

The fair value, for all employees including executive directors, is based 100 per cent of the face value of the share at date of grant as the share price will reflect expectations of all future dividends.

Deferred share awards

Grant date	2014		2013	
	18 June	13 March	19 June	11 March
Share price at grant date (£)	12.83	11.92	14.62	18.22
Vesting period (years)	1/2/3	1/2/3	1/2/3	1/2/3
Expected dividend yield (%)	n/a	n/a	n/a	n/a
Fair value (£)	12.83	11.92	14.62	18.22

Deferred awards accrue dividend equivalent payments during the vesting period.

Other restricted share awards

Grant date	2014				2013			
	10 December	17 September	18 June	13 March	17 December	18 September	19 June	11 March
Share price at grant date (£)	9.34	12.28	12.83	11.92	13.04	15.14	14.62	18.22
	2/3,	2/3,	2/3,					
Vesting period (years)	1/2/3/4	1/2/3/4	1/2/3/4	2/3	2/3	2/3	2/3 1/2/3/4	2/3 1/2/3/4
Expected dividend yield (%)	5.5	5.7	6.1	5.8	4.9	4.6	4.6	4.6
Fair value (£)	8.17	10.69	11.08	10.37	11.59	13.54	13.05	16.27

The expected dividend yield assumption is based on a historical average over a period commensurate with this 'average' period until vesting, or over one year if the average period until vesting is less than one year.

2000 Executive Share Option Scheme (2000 ESOS) – closed to new grants

The Group previously operated the 2000 ESOS for executive directors and selected senior managers. Executive share options to purchase ordinary shares in Standard Chartered PLC were exercisable after the third, but before the 10th, anniversary of the date of grant subject to EPS performance criteria being satisfied. The exercise price per share is the share price at the date of grant. There are no outstanding awards under this plan.

2001 Performance Share Plan (2001 PSP) – closed to new grants

The Group's previous plan for delivering performance shares was the 2001 PSP and there remain outstanding vested awards. Under the 2001 PSP half the award is dependent upon TSR performance and the balance is subject to a target of defined EPS growth. Both measures use the same three-year period and are assessed independently.

2006 Restricted Share Scheme (2006 RSS) / 2007 Supplementary Restricted Share Scheme (2007 SRSS)

The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There are vested awards outstanding under these plans. Awards were generally in the form of nil cost options and do not have any performance conditions. Generally deferred restricted share awards vest equally over three years and for non-deferred awards half vests two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

All Employee Sharesave Plan (2004 International Sharesave, 2004 UK Sharesave and 2013 Sharesave)

Under the Sharesave plans, employees have the choice of opening a savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the Sharesave plans. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent cash-based plan to its employees. The 2004 Sharesave plans are now closed and no further awards will be granted under these plans.

The Standard Chartered 2013 Sharesave Plan was approved by Shareholders in May 2013 and since then all Sharesave invitations have been made under this plan. The remaining life of the 2013 Sharesave Plan is eight years.

Standard Chartered Bank

Notes to the financial statements continued

36. Share based payments continued

Valuation

Options under the Sharesave plans are valued using a binomial option-pricing model. The same fair value is applied to all employees including executive directors. The fair value per option granted and the assumptions used in the calculation are as follows:

All Employee Sharesave Plan (Sharesave)

	2014	2013
Grant date	8 October	9 October
Share price at grant date (£)	11.12	14.36
Exercise price (£)	9.85	11.78
Vesting period (years)	3	3
Expected volatility (%)	25.1	26.8
Expected option life (years)	3.33	3.33
Risk free rate (%)	1.19	0.8
Expected dividend yield (%)	5.8	4.3
Fair value (£)	1.61	3.30

The expected volatility is based on historical volatility over the last three years, or three years prior to grant. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. The expected dividend yield is based on historical dividend for three years prior to grant.

Reconciliation of option movements for the year to 31 December 2014

	2011 Plan ¹								
	Performance shares ²	Deferred/ Restricted shares ²	PSP ^{1,2}	RSS ^{1,2}	SRSS ¹	ESOS ³	Weighted average exercise price (£)	Sharesave ²	Weighted average exercise price (£)
Outstanding at 1 January	13,249,434	15,355,254	528,134	6,943,666	980,352	36,156	7.89	14,582,033	11.62
Granted	4,834,361 ⁴	8,645,780 ⁵	-	146,954 ⁶	-	-	-	4,495,659	9.85
Lapsed	(2,910,554)	(664,974)	(1,321)	(179,307)	(4,054)	-	-	(4,733,130)	12.10
Exercised	(975,710)	(5,331,946)	(284,663)	(4,810,299)	(313,150)	(36,156)	7.89	(340,648)	10.82
Outstanding at 31 December	14,197,531	18,004,114	242,150	2,101,014	663,148	-	-	14,003,914	10.91
Exercisable at 31 December	330,824	1,423,647	242,150	2,101,014	663,148	-	-	2,983,010	10.67
Range of exercise prices (£)	-	-	-	-	-	-	-	9.85-14.63	-
Intrinsic value of vested but not exercised options (\$ million)	0.3	1.3	0.5	2.4	0.5	-	-	-	-
Weighted average contractual remaining life (years)	8.1	5.4	3.5	2.3	1.9	-	-	2.0	-
Weighted average share price for options exercised during the period (£)	12.58	12.21	12.55	12.32	12.24	12.57	-	12.74	-

¹ Employees do not contribute towards the cost of these awards

² The discrepancy between the closing balance in 2013 and the opening balance 2014 reflects the movement of some employees from Standard Chartered Bank to Standard Chartered PLC in 2014

³ The closing balance in the 2013 accounts was understated by 12,547 shares and the opening balance for 2014 has been restated

⁴ 4,665,068 granted on 13 March 2014, 128,616 granted on 18 June 2014, 33,896 granted on 17 September 2014 and 6,781 granted on 10 December 2014

⁵ 7,642,227 granted on 13 March 2014, 268,035 (notional dividend) granted on 11 March 2014, 231,006 (notional dividend) granted on 13 March 2014, 81,432 granted on 18 June 2014, 263 (notional dividend) granted on 19 June 2014, 3,101 (notional dividend) granted on 20 June 2014, 40 (notional dividend) granted on 22 June 2014, 223,209 granted on 17 September 2014, 368 (notional dividend) granted on 17 September 2014 and 196,099 granted on 10 December 2014

⁶ Granted on 10 March 2014 and relates to notional dividend applied to unvested portion of awards

Standard Chartered Bank

Notes to the financial statements continued

36. Share based payments continued

Reconciliation of option movements for the year to 31 December 2013

	2011 Plan ¹									
	Performance shares	Deferred/ Restricted shares	PSP ¹	RSS ¹	SRSS ¹	DBP ^{1,2}	ESOS	Weighted average exercise price (£)	Sharesave	Weighted average exercise price (£)
Outstanding at 1 January	9,075,667	10,598,950	2,221,257	16,685,298	2,870,847	70,255	351,044	7.46	14,076,948	11.59
Granted	4,556,119 ³	8,310,176 ⁴	-	258,870 ⁵	-	-	-	-	3,614,013	11.78
Lapsed	(316,190)	(546,529)	(179,594)	(952,300)	(280,160)	-	(36,316)	6.60	(1,824,566)	12.07
Exercised	-	(2,869,213)	(1,506,034)	(8,900,128)	(1,610,335)	(70,255)	(291,119)	7.54	(1,270,057)	11.18
Outstanding at 31 December	13,315,596	15,493,384	535,629	7,091,740	980,352	-	23,609	7.89	14,596,338	11.62
Exercisable at 31 December	-	580,225	535,629	3,056,007	895,073	-	23,609	7.89	1,688,962	13.90
Range of exercise prices (£)	-	-	-	-	-	-	7.89	-	9.80-14.63	-
Intrinsic value of vested but not exercised options (\$ million)	-	1	1	6	2	-	-	-	1	-
Weighted average contractual remaining life (years)	8.3	5.7	5.0	3.7	3.1	-	0.2	-	2.2	-
Weighted average share price for options exercised during the period (£)	-	16.91	16.52	17.17	16.99	16.12	16.59	-	16.18	-

¹ Employees do not contribute towards the cost of these awards

² The closing balance in the 2012 accounts was understated by 14,460 shares and the opening balance for 2013 has therefore been restated

³ 4,506,380 granted on 11 March 2013, 21,698 granted on 19 June 2013, 9,636 granted on 18 September 2013 and 18,405 granted on 17 December 2013

⁴ 7,478,046 granted on 11 March 2013, 301,575 (notional dividend) granted on 13 March 2013, 159,388 granted on 19 June 2013, 4,310 (notional dividend) granted on 20 June 2013, 68 (notional dividend) granted on 22 June 2013, 174,823 granted on 18 September 2013, 476 (notional dividend) granted on 20 September 2013 and 191,490 granted on 17 December 2013

⁵ Granted on 10 March 2013 and relates to notional dividend applied to unvested portion of awards

Standard Chartered Bank

Notes to the financial statements continued

37. Cash flow statement

Adjustment for non-cash items and other adjustments included within income statement

	Group		Company	
	2014	2013	2014	2013
	\$million	\$million	\$million	\$million
Amortisation of discounts and premiums of investment securities	(210)	(205)	(92)	(180)
Interest expense on subordinated liabilities	982	1,027	592	634
Interest expense on senior debt liabilities	161	146	14	17
Other non - cash income items (including own credit adjustment)	(644)	(511)	(208)	(318)
Depreciation and amortisation	598	733	204	297
Pension costs for defined benefit schemes	105	119	54	59
Share based payment costs	280	282	188	213
UK bank levy	55	55	55	55
Impairment losses on loans and advances and other credit risk provisions	2,141	1,617	855	664
Dividend income from subsidiaries	-	-	(2,240)	(990)
Other impairment	1,161	1,129	2,479	35
Loss on business classified as held for sale	15	49	-	-
Profit from associates and joint ventures	(249)	(226)	-	-
Total	4,395	4,215	1,901	486

Change in operating assets

	Group		Company	
	2014	2013	2014	2013
	\$million	\$million	\$million	\$million
Increase in derivative financial instruments	(4,755)	(13,424)	(3,593)	(13,401)
(Increase)/decrease in debt securities, treasury bills and equity shares held at fair value through profit or loss	(1,788)	5,379	(4,335)	1,975
(Increase)/decrease in loans and advances to banks and customers	(244)	(29,794)	703	(9,728)
(Increase)/decrease in pre-payments and accrued income	(175)	8	(192)	5
Increase in other assets	(5,589)	(6,695)	(3,010)	(2,534)
Total	(12,551)	(44,526)	(10,427)	(23,683)

Change in operating liabilities

	Group		Company	
	2014	2013	2014	2013
	\$million	\$million	\$million	\$million
Increase in derivative financial instruments	2,469	14,855	2,081	14,418
Increase in deposits from banks, customer accounts, debt securities in issue and short positions	51,674	27,289	42,247	3,485
Increase / (decrease) in accruals and deferred income	1,384	(154)	1,220	(42)
(Decrease) / increase in amounts due to parents/subsidiaries/other related parties	(174)	1,279	3,083	(5,513)
Increase in other liabilities	2,999	2,333	3,452	1,902
Total	58,352	45,602	52,083	14,250

Standard Chartered Bank

Notes to the financial statements continued

38. Cash and cash equivalents

The following balances with less than three months' maturity from the date of acquisition have been identified by the Group as being cash and cash equivalents.

	Group		Company	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million
Cash and balances at central banks	97,282	54,534	82,728	41,272
Less restricted balances ¹	(10,073)	(9,946)	(4,005)	(4,144)
Treasury bills and other eligible bills	7,495	6,561	1,017	1,863
Loans and advances to banks	31,204	29,509	12,992	14,472
Trading securities	3,962	3,498	2,477	2,030
Total	129,870	84,156	95,209	55,493

¹ Restricted balances comprise minimum balances required to be held at central banks.

39. Capital commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

	Group		Company	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million
Contracted	6	11	-	2

40. Operating lease commitments

Group

	2014		2013	
	Premises \$million	Equipment \$million	Premises \$million	Equipment \$million
Commitments under non-cancellable operating leases expiring:				
Within one year	317	3	327	3
Later than one year and less than five years	735	4	769	3
After five years	578	-	731	-
	1,630	7	1,827	6

During the year \$406 million (2013: \$377 million) was recognised as an expense in the income statement in respect of operating leases. The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2014 is \$144 million (2013: \$163 million).

Company

	2014		2013	
	Premises \$million	Equipment \$million	Premises \$million	Equipment \$million
Commitments under non-cancellable operating leases expiring:				
Within one year	104	-	99	-
Later than one year and less than five years	362	-	363	-
After five years	408	-	526	-
	874	-	988	-

During the year \$124 million (2013: \$126 million) was recognised as an expense in the income statement in respect of operating leases. The Company leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2014 are \$nil million (2013: \$nil million).

Standard Chartered Bank

Notes to the financial statements continued

41. Contingent liabilities and commitments

The table below shows the contract or underlying principal amounts and risk weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

Group

	2014 \$million	2013 \$million
Contingent liabilities		
Guarantees and irrevocable letters of credit	33,318	36,936
Other contingent liabilities	9,214	10,002
	42,532	46,938
Commitments		
Documentary credits and short term trade-related transactions	7,911	7,408
Forward asset purchases and forward deposits placed	78	459
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	44,629	43,294
Less than one year	20,451	22,019
Unconditionally cancellable	105,325	119,445
	178,394	192,625

Company

	2014 \$million	2013 \$million
Contingent liabilities		
Guarantees and irrevocable letters of credit	22,737	25,274
Other contingent liabilities	8,297	9,383
	31,034	34,657
Commitments		
Documentary credits and short term trade-related transactions	5,253	4,767
Forward asset purchases and forward deposits placed	1	3
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	29,428	26,391
Less than one year	6,213	6,626
Unconditionally cancellable	49,611	60,513
	90,506	98,300

The Group's share of contingent liabilities and commitments in the joint venture is \$336 million (2013: \$388 million).

Contingent liabilities

Where the Group undertakes to make a payment on behalf of its customers for guarantees issued such as for performance bonds or as irrevocable letters of credit as part of the Group's transaction banking business for which an obligation to make a payment has not arisen at the reporting date those are included in these financial statements as contingent liabilities.

Other contingent liabilities primarily include revocable letters of credit and bonds issued on behalf of customers to customs officials, for bids or offers and as shipping guarantees.

Commitments

Where the Group has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees whether cancellable or not or letters of credit and the Group has not made payments at the balance sheet date, those instruments are included in these financial statements as commitments.

42. Legal and regulatory matters

The Group receives legal claims against it in a number of jurisdictions arising in the normal course of business. The Group considers none of these matters as material either individually or in aggregate. 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 Group seeks to comply with all applicable laws and regulations, but may be subject to regulatory actions and investigations across our markets, the outcome of which are generally difficult to predict and can be material to the Group.

Further details on regulatory compliance, reviews, request for information, investigation and risk of fraud and other criminal acts are set out in page 133 to 135 of Risk and Capital Review.

43. Post balance sheet events

Tax

On 3 December 2014, the UK government announced proposed legislation for banks, effective from 1 April 2015, to restrict the proportion of profits that can be offset by carried forward tax losses. The Group has a deferred tax asset of \$72 million which could be affected by the legislation.

At 31 December 2014, this change had not been substantively enacted and accordingly has not been reflected in this annual report. If the law had been enacted at the balance sheet date, management estimates that the profits available to utilise this asset would be restricted by 80 to 90 per cent.

Business closure and disposal

On 8 January 2015, the Group announced the closure of its institutional cash equities, equity research and equity capital markets, as the Group continues to exit or reconfigure non-core and underperforming businesses.

On 19 January 2015, the Group completed the disposal of Standard Chartered Savings Bank Korea Company Limited (disclosed as held for sale in note 22) to J. Trust Co. Limited after obtaining regulatory approval from the Financial Services Commission and other relevant authorities in South Korea.

Standard Chartered Bank

Notes to the financial statements continued

44. Related party transactions

The ultimate parent company of the Group is Standard Chartered PLC, a company registered in England and Wales, and the immediate parent company is Standard Chartered Holdings Limited. The consolidated financial statements of Standard Chartered PLC are available at the registered address located at 1 Basinghall Avenue, London, EC2V 5DD, England.

Directors and officers

Details of directors' remuneration and interests in shares are disclosed in note 14 on Remuneration of Directors.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises non-executive directors of Standard Chartered PLC and the Court Directors of Standard Chartered Bank.

	2014 \$million	2013 \$million
Salaries, allowances and benefits in kind	28	25
Pension contributions	9	5
Bonuses paid or receivable	1	7
Share based payments	37	28
	75	65

Transactions with directors, officers and others

At 31 December 2014, the total amounts to be disclosed under the Companies Act 2006 (the Act) about loans to directors were as follows:

	2014		2013	
	Number	\$million	Number	\$million
Directors	3	6	4	6

Other than as disclosed in these financial statements, there were no other transactions, arrangements or agreements outstanding for any director of the Company which have to be disclosed under the Act.

Group

	2014				2013			
	Due from/to subsidiary undertakings and other related parties \$million	Derivatives \$million	Subordinated liabilities and other borrowed funds \$million	Accruals \$million	Due from/to subsidiary undertakings and other related parties \$million	Derivatives \$million	Subordinated liabilities and other borrowed funds \$million	Accruals \$million
Assets								
Ultimate parent company	-	475	-	-	-	346	-	-
Fellow subsidiaries of								
SC PLC Group	-	8	-	-	-	13	-	-
	-	483	-	-	-	359	-	-
Liabilities								
Ultimate parent company	15,079	865	12,627	132	15,789	1,053	10,733	124
Fellow subsidiaries of								
SC PLC Group	488	6	-	6	451	-	-	-
	15,567	871	12,627	138	16,240	1,053	10,733	124

	2014		2013	
	Interest expense \$million	Dividend expense \$million	Interest expense \$million	Dividend expense \$million
Ultimate parent company	639	1,208	670	1,839

Standard Chartered Bank

Notes to the financial statements continued

44. Related party transactions continued

Group continued

Several inter-company balances were settled in cash during the year. The asset due from the ultimate parent company relates to the partial rebate of the license value as explained below.

In 2006, SC PLC licensed intellectual property rights related to its main brands to a wholly owned subsidiary of the Company, Standard Chartered Strategic Brand Management ('SCSBM'). In 2009, SC PLC transferred part of the intellectual property rights to the Company for \$1. The intangible asset is held on SCSBM's and the Company's balance sheet and amortised to the income statement over the term of the licence. At 31 December 2014 \$18 million (2013: \$36 million) has been included as intangible asset in the Group's balance sheet in relation to this licence.

The Group contributes to employee pension funds and provides banking services free of charge to the UK fund. For details of the funds see note 33.

The Group's employees participate in the Standard Chartered PLC group's share based compensation plans (see note 36). The cost of the compensation is recharged from SC PLC to the Group's branches and subsidiaries.

Joint ventures

The Group has loans and advances to PT Bank Permata Tbk totalling \$118 million at 31 December 2014 (2013: \$31 million), and deposits of \$40 million (2013: \$31 million) while PT Bank Permata Tbk has deposits of \$18 million (2013: \$nil) with the Group.

The Group has an investment in subordinated debt issued by PT Bank Permata Tbk of \$120 million (2013: \$114 million).

Associates

The Group has loans and advances to China Bohai Bank of \$89 million at 31 December 2014 (2013: \$20 million) and deposit takings of \$nil (2013: \$20 million) from China Bohai Bank. The Group has loans and advances to Clifford Capital Pte Limited totalling \$30 million at 31 December 2014 with loan commitments and other guarantees of \$50 million while Clifford Capital Pte Limited has deposits of \$4 million with the Group.

Company

	2014				2013			
	Due from/to subsidiary undertakings and other related parties	Derivatives	Subordinated liabilities and other borrowed funds	Accruals	Due from/to subsidiary undertakings and other related parties	Derivatives	Subordinated liabilities and other borrowed funds	Accruals
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Assets								
Ultimate parent company	-	475	-	-	95	346	-	1
Subsidiaries and fellow subsidiaries of SC PLC Group	19,312	3,639	-	37	17,379	4,108	-	45
	19,312	4,114	-	37	17,474	4,454	-	46
Liabilities								
Ultimate parent company	13,297	865	12,627	132	15,877	1,053	10,732	124
Subsidiaries and fellow subsidiaries of SC PLC Group	24,047	2,749	-	12	17,079	3,774	-	16
	37,344	3,614	12,627	144	32,956	4,827	10,732	140

Standard Chartered Bank

Notes to the financial statements continued

44. Related party transactions continued

Company continued

	2014					
	Fees and commission income	Fees and commission expense	Interest income	Interest expense	Dividend income	Dividend expense
	\$million	\$million	\$million	\$million	\$million	\$million
Ultimate parent company	-	-	-	633	-	-
Immediate parent company	-	-	-	-	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	88	211	263	108	-	-
	88	211	263	741	-	-

	2013					
	Fees and commission income	Fees and commission expense	Interest income	Interest expense	Dividend income	Dividend expense
	\$million	\$million	\$million	\$million	\$million	\$million
Ultimate parent company	-	-	-	663	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	2	51	281	188	-	-
	2	51	281	851	-	-

As at 31 December 2014, the Company had created a charge over \$68 million (2013: \$60 million) of cash assets in favour of the independent trustee of its employer financed retirement benefit scheme.

The Company has provided a letter of support to its subsidiary undertaking Standard Chartered Overseas Holdings Limited.

The Company contributes to employee pension funds and provides banking services free of charge to the UK fund. For details of the funds see note 33.

In the normal course of business the Company has guaranteed credit risk on credit exposures to customers of certain subsidiaries of \$nil million (2013: \$nil million).

As at 31 December 2014 the Company holds debt securities issued by subsidiary undertakings of \$1,380 million (2013: \$1,299 million) and has issued debt securities to subsidiary undertakings of \$nil million (2013: \$551 million).

The Company's employees participate in the Standard Chartered PLC group's share based compensation plans (see note 36).

The Company has an agreement with Standard Chartered PLC that in the event of the Company defaulting on its debt coupon interest payments, where the terms of such debt requires it, Standard Chartered PLC shall issue shares as settlement for non-payment of the coupon interest.

Joint ventures

The Group has loans and advances to PT Bank Permata Tbk totalling \$118 million at 31 December 2014 (2013: \$31 million), and deposits of \$40 million (2013: \$31 million) while PT Bank Permata Tbk has deposits of \$18 million (2013: \$nil) with the Group.

The Group has an investment in subordinated debt issued by PT Bank Permata Tbk of \$120 million (2013: \$114 million).

Associates

The Group has loans and advances to China Bohai Bank of \$89 million at 31 December 2014 (2013: \$20 million) and deposit takings of \$nil (2013: \$20 million) from China Bohai Bank. The Group has loans and advances to Clifford Capital Pte Limited totalling \$30 million at 31 December 2014 with loan commitments and other guarantees of \$50 million while Clifford Capital Pte Limited has deposits of \$4 million with the Group.

Except as disclosed, the Group did not have any other amounts due from the associate.

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Glossary

Additional Value Adjustment	See "Prudent valuation adjustment"
Additional Tier 1 Capital	Additional Tier 1 Capital consists of Instruments issued by the bank and related share premium that meet the criteria for inclusion in Additional Tier 1 capital (and are not included in Common Equity Tier 1/(CET1), and regulatory adjustments required in the calculation of AT1 Capital.
Advances-to-deposits ratio	The ratio of total loans and advances to customers relative to total customer deposits. A low advances-to-deposits ratio demonstrates that customer deposits exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers.
Asset Backed Securities (ABS)	Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages and in the case of Collateralised Debt Obligations (CDOs) , the reference pool may be ABS.
Advanced Internal Rating Based (AIRB) approach	The AIRB approach under the Basel II framework is used to calculate credit risk capital based on the Group's own estimates of certain parameters.
ASEAN	Association of South East Asian Nations (ASEAN) which includes the Group's operation in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.
Attributable profit to ordinary shareholders	Profit for the year after non-controlling interests and the declaration of dividends on preference shares classified as equity.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel 2.5	In 2009 the European Commission proposed further changes to CRD 3 to address the lessons of the financial crisis. These changes reflected international developments and follow the agreements reached by the Basel Committee on Banking Supervision (BCBS). They included higher capital requirements for re-securitisations, upgrading disclosure standards for securitisation exposures and strengthening market risk capital requirements.
Basel III	In December 2010, the BCBS issued the Basel III rules text, which were updated in June 2011, and represents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The new requirements will be phased in and fully implemented by 1 January 2019.
Basis point (bps)	One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent. Used in quoting movements in interest rates or yields on securities.
BIPRU	The PRA's Prudential Sourcebook for Banks, Building Societies and Investment Firms.
CAD2	An amendment to Capital Adequacy Directive that gives national regulators the discretion to permit firms to use their own value at risk model for calculating capital requirements subject to certain criteria.
Capital resources	Sum of Tier 1 and Tier 2 capital after regulatory adjustments.
Collateralised Debt Obligations (CDOs)	Securities issued by a third party which reference ABS and/or certain other related assets purchased by the issuer. CDOs may feature exposure to sub-prime mortgage assets through the underlying assets.
Collateralised Loan Obligation (CLO)	A security backed by the repayments from a pool of commercial loans. The payments may be made to different classes of owners (in tranches).
Collectively assessed loan impairment provisions	Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified at the balance sheet date. Typically Retail clients are assessed on a portfolio basis.
Commercial Mortgage Backed Securities (CMBS)	Securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Commercial Paper (CP)	An unsecured promissory note issued to finance short-term credit needs. It specifies the face amount paid to investors on the maturity date.
Commercial real estate	Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multifamily housing buildings, warehouses, garages, and industrial properties. Commercial real estate loans are those backed by a package of commercial real estate assets.
Common Equity Tier 1 capital	Common Equity Tier 1 capital consists of the common shares issued by the bank and related share premium, retained earnings, accumulated other comprehensive income and other disclosed reserves, eligible non-controlling interests and regulatory adjustments required in the calculation of Common Equity Tier 1.
Constant currency	Constant currency change is derived by applying a simple translation of the previous period functional currency number in each entity using the current average and period end US dollar exchange rates to the income statement and balance sheet respectively.
Contractual maturity	Contractual maturity refers to the final payment date of a loan or other financial instrument, at which

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Glossary continued

	point all the remaining outstanding principal will be repaid and interest is due to be paid.
Core Tier 1 Capital	Core Tier 1 capital comprises called-up ordinary share capital and eligible reserves plus non-controlling interests, less goodwill and other intangible assets and deductions relating to excess expected losses over eligible provisions and securitisation positions as specified by the UK's PRA.
Core Tier 1 Capital ratio	Core Tier 1 capital as a percentage of risk weighted assets.
Counterparty credit risk	The risk that defaults before satisfying its obligations under a contract.
Cost to income ratio	Represents the proportion of total operating expenses to total operating income.
Cover ratio	Represents the extent to which non-performing loans are covered by impairment allowances .
Covered bonds	Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds.
CRD 3	See Basel 2.5
CRD IV	Represents the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) that implement the Basel III proposals in Europe.
Credit Conversion Factor (CCF)	Either prescribed by BIPRU or modelled by the bank, an estimate of the amount the Group expects a customer to have down further on a facility limit at the point of default.
Credit Default Swaps (CDSs)	A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.
Credit institutions	An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.
Credit risk mitigation (CRM)	Credit risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees.
Credit risk spread	The credit spread is the yield spread between securities with the same coupon rate and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.
Credit valuation adjustments (CVA)	An adjustment to fair value primarily in respect of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions.
Customer deposits	Money deposited by all individuals and companies which are not credit institutions including securities sold under Repo . Such funds are recorded as liabilities in the Group's balance sheet under Customer accounts.
Debt restructuring	This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction.
Debt securities	Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.
Debt securities in issue	Debt securities in issue are transferrable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.
Delinquency	A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.
Deposits by banks	Deposits by banks comprise amounts owed to other domestic or foreign credit institutions by the Group including securities sold under Repo .
Dividend per share	Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.
Effective tax rate (ETR)	The tax on profits on ordinary activities as a percentage of profit on ordinary activities before taxation.
Expected loss (EL)	The Group measure of anticipated loss for exposures captured under an internal ratings based credit risk approach for capital adequacy calculations. It is measured as the Group-modelled view of anticipated loss based on Probability of Default (PD) , Loss Given Default (LGD) and Exposure at Default (EAD) , with a one-year time horizon.
Exposures	Credit exposures represent the amount lent to a customer, together with an undrawn commitments.

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Exposure at default (EAD)	The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.
External Credit Assessment Institutions (ECAI)	For the Standardised Approach to credit risk for sovereigns, corporates and institutions, external ratings are used to assign risk-weights. These external ratings must come from PRA approved rating agencies, known as External Credit Assessment Institutions (ECAI) ; namely Moody's, Standard & Poor's and Fitch.
Eurozone	Represents the 17 European Union countries that have adopted the euro as their common currency. The 17 countries are Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain.
Forbearance	Forbearance takes place when a concession is made to the contractual terms of a loan in response to an obligor's financial liabilities.
Foundation Internal Ratings Based Approach	A method of calculating credit risk capital requirements using internal PD models but with supervisory estimates of LGD and conversion factors for the calculation of EAD .
Free Deliveries	A transaction in which securities, foreign currencies or commodities have been paid for before receiving them or where securities, foreign currencies or commodities have been delivered before receiving payment for them.
Funded/unfunded exposures	Exposures where the notional amount of the transaction is funded or unfunded. Represents exposures where there is a commitment to provide future funding is made but funds have been released / not released.
General Prudential Sourcebook (GENPRU)	The PRA's General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms.
Guaranteed mortgages	Mortgages for which there is a guarantor to provide the lender a certain level of financial security in the event of default of the borrower.
High Quality Liquid Assets (HQLA)	Assets that are unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. These include, for example, cash and claims on central governments and central banks. The Basel 3 Rules require this ratio to be at least 100% and it's expected to apply from 2015.
Impaired loans	Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.
Impairment allowances	Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).
Individual liquidity guidance	Guidance given to the Group about the amount, quality and funding profile of liquidity resources that the PRA has asked the Group to maintain.
Individually assessed loan impairment provisions	Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Corporate and Institutional client segment of the Group are assessed individually.
Innovative Tier 1 Capital	Innovative Tier 1 capital consists of instruments which incorporate certain features, the effect of which is to weaken (but only marginally) the key characteristics of Tier 1 capital (that is, fully subordinated, perpetual and non-cumulative). Innovative Tier 1 capital is subject to a limit of 15 per cent of total Tier 1 capital .
Internal Ratings Based (IRB) approach	The IRB approach is used to calculate risk weighted assets in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of certain parameters.
Internal Capital Adequacy Assessment Process (ICAAP)	A requirement on institutions under Pillar 2 of the Basel II framework to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other mitigants are not available.
Internal Model Approach (IMA)	The approach used to calculate market risk capital and RWA with an internal market risk model approved by the PRA under the terms of CRD IV/CRR . Formerly referred to as CAD2.
Interest rate risk (IRR)	Interest rate risk arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements.
Investment grade	A debt security , treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.
Jaws	The rate of income growth less the rate of expense growth, expressed as positive jaws when income growth exceeds expense growth (and vice versa for negative jaws).
Leveraged finance	Loans or other financing agreements provided to companies whose overall level of debt is high in relation to their cash flow (net debt: EBITDA (earnings before interest tax, depreciation and amortisation)) typically arising from private equity sponsor led acquisitions of the businesses concerned.
Leverage ratio	A ratio introduced under CRD IV that compares Tier 1 capital to total exposures, including certain exposures held off balance sheet as adjusted by stipulated credit conversion factors . Intended to be a simple, non-risk based backstop measure.

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Glossary continued

Liquidity and credit enhancements	Credit enhancement facilities are used to enhance the creditworthiness of financial obligations and cover losses due to asset default. Two general types of credit enhancement are third-party loan guarantees and self-enhancement through over-collateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing commercial paper .
Liquid asset buffer	These assets include high quality government or central bank securities, certain deposits with central banks and securities issued by designated multilateral development banks to meet the PRA's requirement for liquidity.
Liquid asset ratio	Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.
Liquid cover ratio (LCR)	A short-term liquidity measure that considers a 30 day period of liquidity stress
Loans and advances	This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument. An example of a loan product is a home loan.
Loans to banks	Amounts loaned to credit institutions including securities bought under Reverse repo .
Loans to individuals	Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays, and other consumer uses.
Loan-to-value ratio	The loan-to-value ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.
Loans past due	Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made.
Loss given default (LGD)	LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.
Master netting agreement	An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.
Mezzanine capital	Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.
Mortgage Backed Securities (MBS)	Securities that represent interests in a group of mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Mortgage related assets	Assets which are referenced to underlying mortgages.
Medium term notes (MTNs)	Corporate notes continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years.
Net asset value per share	Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.
Net interest income	The difference between interest received on assets and interest paid on liabilities.
Net interest margin	The margin is expressed as net interest income divided by average interest earning assets.
Net interest yield	Interest income divided by average interest earning assets less interest expense divided by average interest bearing liabilities.
Net Stable Funding Ratio (NSFR)	The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. It is a longer term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one year time horizon
Non-performing loans	A non performing loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is: – renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected; or – renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.
Normalised earnings	Profit attributable to ordinary shareholders adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.
Over the counter (OTC) derivatives	A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.

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Glossary continued

Pre-provision profit	Operating profit before impairment losses and taxation.
Private equity investments	Equity securities in operating companies <i>generally</i> not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.
Probability of default (PD)	PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.
Profit attributable to ordinary shareholders	Profit for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.
Prudent Valuation Adjustment	A deduction from common equity tier 1 capital, to reflect the difference between fair value and prudent value positions, where the application of prudent results in a lower absolute carrying value than recognised in the financial statements.
Renegotiated loans	Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. Such assets will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset and are defined as forbore loans. In other cases, renegotiation may lead to a new agreement, which would be treated as a new loan.
Repo/Reverse repo	A repurchase agreement or repo is a short term funding agreements which allow a borrower to sell a financial asset, such as ABS or Government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.
Residential mortgage	A loan to purchase a residential property which is then used as collateral to guarantee repayment of the loan. The borrower gives the lender a lien against the property, and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a Home loan.
Residential Mortgage Backed Securities (RMBS)	Securities that represent interests in a group of residential mortgages . Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Return on equity	Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.
Risks-not-in-VaR (RNIV)	A framework for identifying and quantifying marginal types of market risk that are not captured in the Value at Risk (VaR) measure for any reason, such as being a far-tail risk or the necessary historical market data not being available.
Risk weighted assets	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the FSA.
Seasoning	The emergence of credit loss patterns in portfolio over time.
Secured (fully and partially)	A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Group is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.
Securitisation	Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a special purpose entity (SPE) who then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors.
Senior debt	Senior debt, frequently issued in the form of senior notes, is debt that takes priority over other unsecured or otherwise more "junior" debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.
Sovereign exposures	Exposures to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned. Sovereign exposures as defined by the European Banking Authority includes only exposures to central governments.
Standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
Stressed value at risk	A regulatory market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.

A structured note is an investment tool which pays a return linked to the value or level of a specified

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Glossary continued

Structured finance /notes	asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.
Sub-prime	Sub-prime is defined as loans to borrowers typically having weakened credit histories that include payment delinquencies and potentially more severe problems such as court judgements and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, high debt-to-income ratios, or other criteria indicating heightened risk of default.
Tangible net asset value per share	Ratio of parent shareholders' equity less preference shares classified as equity and goodwill and intangible assets to the number of ordinary shares outstanding at the end of the reporting period.
Tier 1 capital	Tier 1 capital comprises Core Tier 1 capital plus innovative Tier 1 securities and preference shares and tax on excess expected losses less material holdings in credit or financial institutions.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provision and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.
UK bank levy	A levy that applies to certain UK banks and the UK operations of foreign banks from 1 January 2011. The levy is payable each year based on a percentage of the chargeable liabilities of the Group as at 31 December.
Value at Risk (VaR)	Value at Risk is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.
Working profit	Operating profit before impairment losses and taxation.
Write downs	After an advance has been identified as impaired and is subject to an impairment allowance , the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write downs will occur when and to the extent that, the whole or part of a debt is considered irrecoverable.